# Can low-income countries afford basic social security?

The Social Security Department of the International Labour Office (ILO) is the unit through which the ILO provides technical assistance and advice to its member countries in the area of social security policy and governance; develops policies to support the extension of social security to all and social inclusion; promotes international social security standards and develops and disseminates tools to support the effective governance of social security schemes.

In 2001, the International Labour Conference (ILC) reached a consensus that high priority should be given to policies and initiatives to extend social security to those who are not presently covered. Accordingly, the ILC directed the ILO to launch a major campaign to promote the extension of social security coverage. The Social Security Policy Briefings series is produced in the framework of the Campaign; it aims to set out the views of the Social Security Department in areas of particular importance, and so provide guidance to ILO member countries in the formulation of their social security policies.

It thus complements the existing Issues in Social Protection Discussion papers series and the Extension of Social Security series published by the Social Security Department by making available a comprehensive set of information tools.

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**SOCIAL SECURITY POLICY BRIEFINGS**

**Paper 3**

# Can low-income countries afford basic social security?

**Global Campaign on Social Security and Coverage for All**

**Social Security Department**
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## Abbreviations

| | |
|---|---|
| GDP | Gross Domestic Product |
| ILO | International Labour Office |
| IMF | International Monetary Fund |
| OECD | Organization for Economic Co-operation and Development |
| PPP | Purchasing Power Parity |
| UN | United Nations |
| WHO | World Health Organization |

# 1. Introduction

## The case for a basic social security floor

### *Social security is a human right*

Article 22 of the Universal Declaration of Human Rights states: "Everyone, as a member of society, has the right to social security" and Article 25 formulates it in a more precise way as "…the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control". But almost 60 years after its adoption, this right remains a dream for 80 per cent of the global population, who are still without access to social security.[1] We know that to many, even a basic set of benefits could make the difference between a liveable and a miserable life, often between life and premature death. Millions of children under five die every year because they have no access to adequate health care and there is no income to secure their food.

### *Current levels of poverty and inequality are unacceptable*

At the beginning of the 21st century, half of the world lives below the two-dollar-a-day poverty line. According to the United Nations (UN), the richest 10 per cent of the world's adult population receives 85 per cent of global wealth; in contrast, the poorest 50 per cent barely receives 1 per cent of it. Given that the benefits of global economic growth do not automatically reach all, a Global Social Floor is indispensable to ensure a social dimension to globalization.

### *Basic social security reduces poverty faster*

We know very well that social protection is a powerful tool to prevent and alleviate poverty and inequality. Social security systems in many developed market economies reduce poverty and inequality by half or more. There are also a growing number of successful examples concerning the role of social transfers in combating poverty in Africa, Latin America and Asia, and which deliver much faster results than the ones expected from a trickle-down effect from economic policies. For a low-income country, even a basic social security system can make the difference between achieving or not achieving the Millennium Development Goal (MDG) 1 of halving poverty by 2015. It can enhance the achievement of other MDGs and would contribute to the Decent Work Agenda.

### *It generates growth*

Social security transfers serve as cash injections to local economies and have a positive impact on their development. By raising the income of the poor they increase domestic demand and, in turn, encourage growth by expanding domestic markets. At the macroeconomic level, a growing amount of evidence shows that redistribution has a

[1] The term "social security" and "social protection" have been used interchangeably within the present document. In the literature and public debate on social issues, the term "social security" which widely used for decades, is often understood as the set of transfers that originate from formal sector employment. "Social protection" is considered to be a wider concept (Cichon et al., 2004).

positive effect on growth in particular in countries where inequalities are high (AFD, 2004). The net costs of early investments in a basic set of social security benefits may even become zero or negative, because the fiscal costs might be offset by positive economic returns and the enhanced productivity of a better educated, healthier and better nourished workforce.

### *It promotes peace, stability and social cohesion through social justice*

Poverty and gross inequities, and their associated intense social tensions, are more likely to result in violent conflict, ultimately destabilizing governments and regions, causing waves of irregular migration, and may make people more susceptible to terrorist appeals and acts and other forms of criminality. Social security measures by preventing and alleviating poverty and by making the outcomes of economic forces more equitable enhance peace, stability and social cohesion. Providing social security is one of the most effective policies that a state can implement to gain legitimacy and to provide stability in post conflict situations.

### *It is an indispensable part of the institutional tissue of an efficient market economy*

Development experience of all now developed market economies has proved this to be true. There is no successful market economy that does not have a fairly extensive social security system. Social security systems have been there as part of the societal fabric supporting the national development process. Market economies with missing or weak institutions, including institutions of social protection/security, are not able to ensure sustainable economic growth and social development in the globalizing world.

### *The costs of keeping people excluded will be higher and higher*

Maintaining 80 per cent of the world's population without basic social protection translates into continuing poverty, increasing inequality and the growing likelihood of conflicts. Among children, poverty and malnutrition damage health, reduce body weight and intelligence, resulting in lower productivity in adulthood, a high tax for a country to pay. At the international level, globalization will find further resistance, as this unprecedented creation of wealth does not benefit all people. For globalization to be accepted, it needs to deal with its social aspects: it needs a global social contract. Part of such a contract would be a new, internationally accepted, Basic Social Security Floor.

### *The Basic Social Security Floor*

The Basic Social Security Floor is a part of the concept of a Global Social Floor or Global Socio-economic Floor that was promoted *inter alia* by the World Commission on the Social Dimension of Globalization in 2004 (World Commission on the Social Dimension of Globalization, 2004, pp 110). These concepts also contain a base of social and economic rights that are outside the realm of social security.

The Basic Social Security Floor, as defined here, consists 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:

- 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 social assistance rather than social security benefits. It is assumed here that most likely the basic/low 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. Social security benefits on the other hand usually are the result of rights acquired on the basis of payment of contributions or taxes and usually of a high level of income replacement.

All countries have some form of social security but few, outside of the members of the European Union (EU) or other high-income members of the Organization for Economic Co-operation and Development (OECD), provide a basic social security floor for all. Typical reasons for this severe undersupply of social protection include the lack of understanding of the benefits of investing in people, limited technical capacity, lack of resources and low political will. These need to be urgently addressed. The idea of a Basic Social Security Floor has to be gradually translated into an internationally agreed standard and then into national legislative provisions.

In particular, results of research and experience of the International Labour Office (ILO) and that of other development institutions show that the crucial prerequisite for the implementation of the Basic Social Security Floor in developing countries is to ensure that governments and other stakeholders understand that it can be fiscally affordable and does not have a substantial economic opportunity cost.

## *It is affordable*

We know that the world can afford to make the right to social security a reality not just a dream. According to ILO calculations, less than 2 per cent of the global Gross Domestic Product (GDP) would be necessary to provide a basic set of social security benefits to all of the world's poor (ILO, 2006). Six per cent of global GDP would be needed to provide a basic set of benefits to all who have no access to social security. That investment in people is less than 10 per cent respectively 30 per cent of the total global investment in tangible assets. Most of the resources needed will obviously have to come from national resources. The analysis in this document shows that this should be possible.

Proposals to accelerate the establishment of social protection systems in low-income countries have gathered strength in the early years of the millennium. These proposals are the subject of searching questions. One major question concerns "affordability" – with which the rest of this paper seeks to deal.

The question of affordability has to be considered in the context of the fiscal and broader economic environment at the national level (Cichon et al., 2004). In addition, it is important to consider national institutional capacities and governance aspects. However,

one has also to consider the international context with respect to the need to ensure that global competition does not drive countries and their populations below agreed minimum labour and social standards, and to obtain international support in financing provisions of minimum basic social protection in low-income countries during the transitory period until these countries have the necessary domestic fiscal capacity to do so themselves.

## 2. It is affordable: Evidence from costing studies[2]

The ILO has undertaken two costing studies, one in Africa and the other in Asia which provide a first estimation of the costs of a basic social protection package in low-income countries now and over the coming decades. Twelve countries have been covered by the costing models so far:

- seven counties in Africa: Burkina Faso, Cameroon, Ethiopia, Guinea, Kenya, Senegal and the United Republic of Tanzania (Pal et al., 2005); and
- five countries in Asia: Bangladesh, India, Nepal, Pakistan and Viet Nam (Mizunoya et al., 2006).

A similar study on Latin America will be completed soon and will be the subject of another policy brief.

### 2.1. Costing the package

In the following sections, the rationale and results of the ILO's cost estimations are summarized for the following elements of a basic social protection package separately in different variants:

(1) universal basic old-age and disability pensions;

(2) basic child benefits;

(3) universal access to essential health care;

(4) social assistance/100 day employment scheme.

It should be noted that while the model used for the present costing study is based on Mizunoya et al. (2006) and Pal et al. (2005), for the present study a new benefit from a social assistance/employment scheme has been included. Furthermore, some of the data and assumptions have also been updated such as population projections, medical staff wages, child benefits which have been limited to only two children per woman, etc. The assumptions take into account suggestions emanating from discussions on the basic social protection benefits package. The assumptions are presented in Annex 1.

#### *Basic old-age and disability pensions*

A number of middle and low-income countries have introduced non-contributory old-age pensions for their elderly population. Countries with social pension schemes include Brazil, Botswana, India, Mauritius, Lesotho, Namibia, Nepal and South Africa. Some countries have schemes that cover only targeted groups of the population, while others such as for example, Mauritius or Namibia, have developed schemes which are widely applied to all elderly residents in their populations. Evidence from these countries shows that such social pensions have a remarkable impact on the living standards of elderly persons and their families, namely on children (cf. Barrientos and Lloyd-Sherlock, 2003;

[2] Based on: C. Behrendt, K. Hagemejer: Can low-income countries afford social security? in Peter Townsend ed.: *Social Security - Building Decent Societies*, forthcoming.

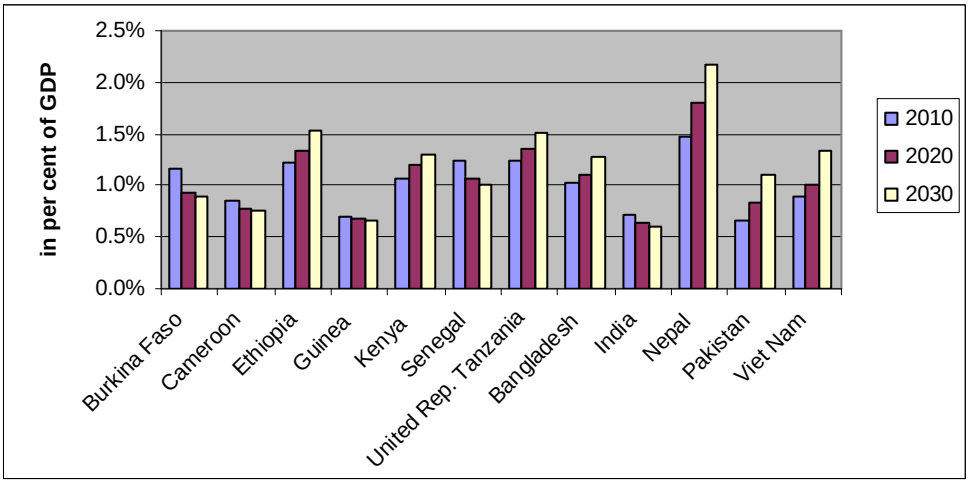
Barrientos, 2004; Charlton and McKinnon, 2001; Save the Children United Kingdom et al., 2005). Experience also shows that social pensions are feasible and accessible for low-income countries.

The basic pension was assumed at the level of 30 per cent of GDP per capita in order to align the benefit level with national circumstances. This was ascertained by data which was available for Tanzania (National Bureau of Statistics Tanzania, 2002) which formed part of the study. In effect, in the case of Tanzania the 2000/01 Household Budget Survey was based on two poverty line thresholds (per adult equivalent for 28 days) for mainland Tanzania: the Food poverty line of Tanzanian Shilling 5295 (equivalent to approximately 0.43 US$ per day (Purchasing Power Parity PPP)) and the Basic needs poverty line of Tanzanian Shilling 7253 (equivalent to approximately 0.59 US$ per day (PPP)).[3] In terms of GDP per capita these represented respectively 27.6 per cent and 37.8 per cent.

It was assumed that the simulated universal old-age and disability pension would be set at 30 per cent of GDP per capita, with a maximum of one US dollar (PPP) per day (increased in line with inflation) and would be paid to all men and women aged 65 and older; and to persons with serious disabilities in working age (the eligibility ratio was assumed to be 1 per cent of the working-age population, which reflects a very conservative estimate of the rate of disability).

Based on these assumptions, the annual cost of providing universal basic old-age and disability pensions is estimated in 2010 at between 0.6 and 1.5 per cent of annual GDP in the countries considered (see Figure 1). Projected costs for 2010 remain at or below 1.0 per cent of GDP in six of the twelve countries, while Burkina Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania find themselves with costs between 1.1 and 1.5 per cent of GDP.

**Figure 1. Costs for basic universal old-age and disability pensions as a per cent of GDP for selected countries in Africa and Asia** (selected years)




*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations. These figures include assumed administration costs of 15 per cent of benefit expenditure.

[3] From the Household Budget Survey 2000/01, the food poverty line was calculated as "the cost of meeting the minimum adult calorific requirement with a food consumption pattern typical of the poorest 50 per cent of the population". The Basic poverty line takes into account also the costs for non-food items.

### *Basic child benefits*

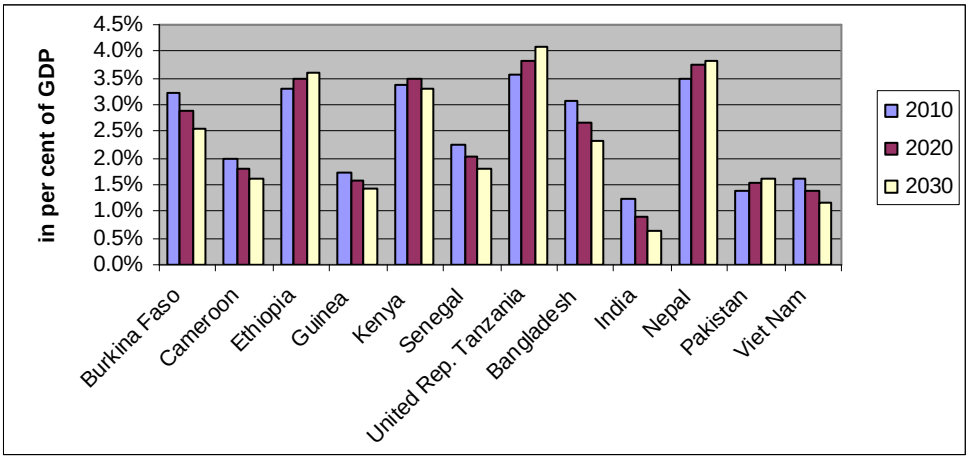
Old-age and disability pensions can certainly have a major impact on the livelihoods of households with an elderly person, but more widely spread benefits would be needed to have a substantial impact on the reduction of poverty for the entire population. Benefits for families with children can have an important impact on the reduction of poverty, as shown by some cash child benefit programmes in a development context (Save the Children UK et al., 2005). Most of these programmes are found in Latin America and have been set up as conditional cash transfer programmes (see e.g. Rawlings, 2005; de la Brière and Rawlings, 2006). Many of these programmes have had a marked impact on poverty reduction as well as on school attendance. Although evidence of their effects on the reduction of the worst forms of child labour are not conclusive, evaluations suggest a positive effect in some countries, particularly when cash benefits are combined with after-school activities (Tabatabai, 2006).

However, there are some concerns about the transferability of conditional cash transfer programmes into countries with an insufficient infrastructure in the education and health sector (Kakwani et al., 2005).

The level of the child benefit is assumed very modestly to be equal to half of the universal pension amount, that is 15 per cent of GDP per capita with a maximum of half of one US dollar (PPP) per day (increased in line with inflation) and paid for up to two children under the age of 14 per woman who has given birth. The rational behind this assumption is to tackle claims that universal child benefits would provide an incentive to increase fertility. The Demographic Health Survey for some of the countries of the study provided the proportion of children within the covered age group who would qualify for the benefit. For example for Cameroon 46.4 per cent and for Bangladesh 57.6 per cent of children in the age group 0-14 would qualify for the child benefit. The number of children qualifying for the benefit was projected in line with growth in the number of women of fertile age.

The projected costs for a basic universal child benefit vary greatly between countries, yet there is a common trend in most countries towards lower costs in the longer run (Figure 2). For the year 2010, the cost estimations remain below 3.6 per cent of GDP in all the countries of the study with expenditure in Tanzania reaching 3.6 per cent of GDP and as low as 1.2 per cent of GDP in India.

**Figure 2. Costs for basic universal child benefits as a per cent of GDP for selected countries in Africa and Asia** (selected years)




*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations. These figures include assumed administration costs of 15 per cent of benefit expenditure.

## *Essential health care*

A basic social protection package would not be complete without universal access to essential health care. It is well known that ill health is a major poverty risk and that high health expenditure can be financially catastrophic for individuals and their families and can drive them into severe poverty from which many cannot recover for numerous years. This is of acute relevance in countries with a high prevalence of HIV/AIDS, but it should not be forgotten that the effects of less prominent diseases, such as malaria, are much more dramatic on morbidity and mortality in many countries.

Providing access to health care, including to equitable health insurance mechanisms, therefore are important contributions to eradicating poverty and vulnerability (ILO, 2007; Lamiraud et al., 2005; Scheil-Adlung et al., 2006). Such mechanisms address poverty and vulnerability on several levels. By facilitating access to medical care they improve health and restore earning capacities more quickly, and thus ensure that health problems of a family member do not entail unbearable costs for the family as a whole. In addition, positive impact on school attendance, employment and human capital can be expected, which would contribute to sustainable economic growth and social development.

The cost projections used in this paper reflect the calculation on a country specific cost base. This calculation takes into account the following individual parameters: medical staff ratio to population; wages of medical staff and overhead non-staff costs. It is assumed that 300 medical staff are available per 100,000 population. This corresponds to approximately the estimate of health personnel in Namibia in 1997[4] (which represents approximately 40 per cent of the level in the United Kingdom). The level of Namibia was chosen as since 1990, the Namibian government has set out a policy framework *Towards Achieving Health for All Namibians* and the government committed itself to providing access to health services to all Namibians by the year 2000 (Government of Namibia, 1998). Thailand has a similar staff-to-population ratio and achieves even better health outcomes as measured for example in under-5 mortality. Thus the staffing benchmarks achieved by Namibia and Thailand should be indicative of regional possibilities and minimum requirements for universal basic health care provision. Where no separate data on wages in the health sector was available, it was assumed that health staff average wage equals teachers' average wage. The health staff wages were assumed at a minimum of three times GDP per capita indexed in line with per capita GDP growth. Other non-staff health costs were assumed to be 67 per cent of wage cost.[5]

While the Commission on Macroeconomics and Health (Commission on Macroeconomics and Health, 2001) has provided estimates of the per capita costs of scaling up selected priority health interventions in low-income countries to reach universal coverage for the population in need, these levels at US $34 per year on average in low-income countries by 2007, and US$38 in 2015 are very high compared to current levels of spending. Current health spending in many low-income countries remains well below this level at present. According to WHO statistics,[6] per capita government expenditure on health at average exchange rate (US$) in 2004 oscillated between US$ 3 in Ethiopia, Guinea and Pakistan to US$ 16 in Senegal. The ILO model calculations for 2010 estimated per capita health care costs between US$ 4.43 per capita in Nepal and US$ 24.23 in Cameroon.

[4] World Health Organization Statistical Information System (WHOSIS).

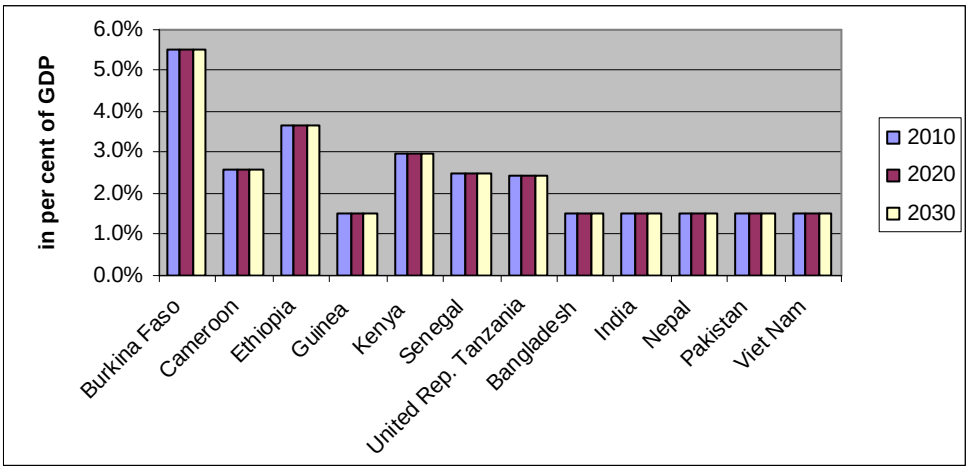
[5] Estimated from figures from the Government of Ghana (1999).

[6] World Health Organization Statistical Information System (WHOSIS).

Extending access to health care to larger parts of the population is more than just a cost issue. One of the major difficulties in many countries is that qualified medical staff are not available to a sufficient degree so as to provide the necessary health care services.

Based on the cost assumptions made, the costs of a minimum package of essential health care would require in 2010 between 1.5 and 5.5 per cent of GDP (see Figure 3). For countries in Asia as available data showed low levels of medical staff wages, the minimum of three times GDP per capita was applied and thus the relative cost level remains constant over time.

**Figure 3. Costs for essential health care as a per cent of GDP for selected countries in Africa and Asia** (selected years)




*Source:* Based Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

## *Social assistance / employment scheme*

Providing income security to the vulnerable category of working-age persons who are either unable to find employment or are underemployed should also form part of a comprehensive Basic Social Security Floor. The recent programme launched in India through the Indian Guarantee of Employment Act, which provides guaranteed 100 days of unskilled work per rural household to only adults or an unemployment allowance if no work can be offered, while not a permanent solution for beneficiaries should provide temporary income support to assist households. Providing income support through public works programmes according to an ILO report (Devereux, 2002) "…are attractive to policy-makers concerned with poverty reduction because, unlike most anti-poverty interventions, the beneficiaries select themselves…" as the non-poor would not participate in the programme due to the nature of the work involved and the low wages.

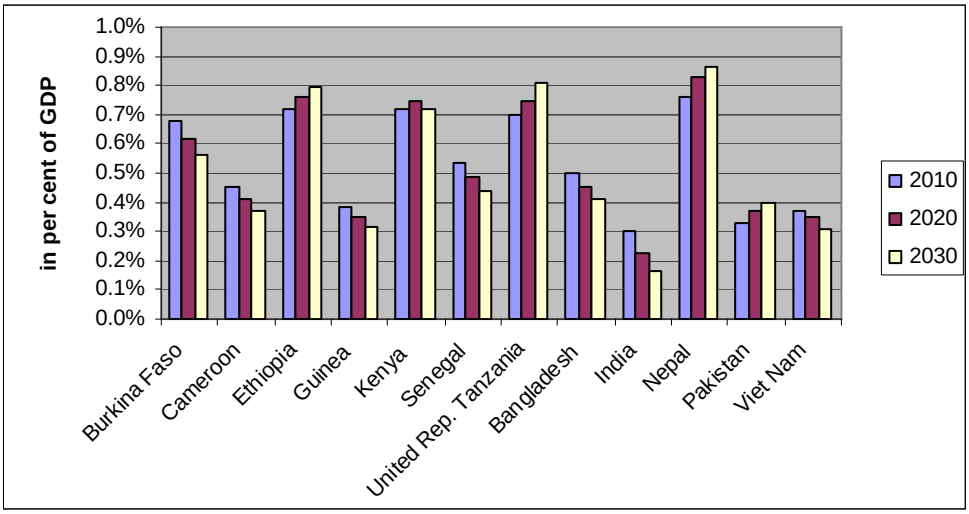
The costing model incorporates income support for an assumed beneficiary group of 10 per cent of the working-age population in each country which would benefit from the scheme. The benefit is only available to households not benefiting from any other form of cash transfer (i.e. child benefit, pensions).

It was assumed that the simulated employment scheme would provide a benefit set at 30 per cent of GDP per capita, with a maximum of one US dollar (PPP) per day (increased in line with inflation). The benefit would be paid for a total of 100 days in the year.

Based on these assumptions, the annual cost of providing this benefit is estimated at between 0.3 and 0.8 per cent of annual GDP in the countries considered in 2010 (see Figure 4). Projected costs for 2010 (including administrative costs associated with providing the benefit) remain at or below 0.5 per cent of GDP in seven of the twelve

countries, while for Burkina Faso, Ethiopia, Kenya, Nepal and Tanzania the costs vary between 0.7 and 0.8 per cent of GDP.

**Figure 4. Costs for employment scheme benefits as a per cent of GDP for selected countries in Africa and Asia** (selected years)

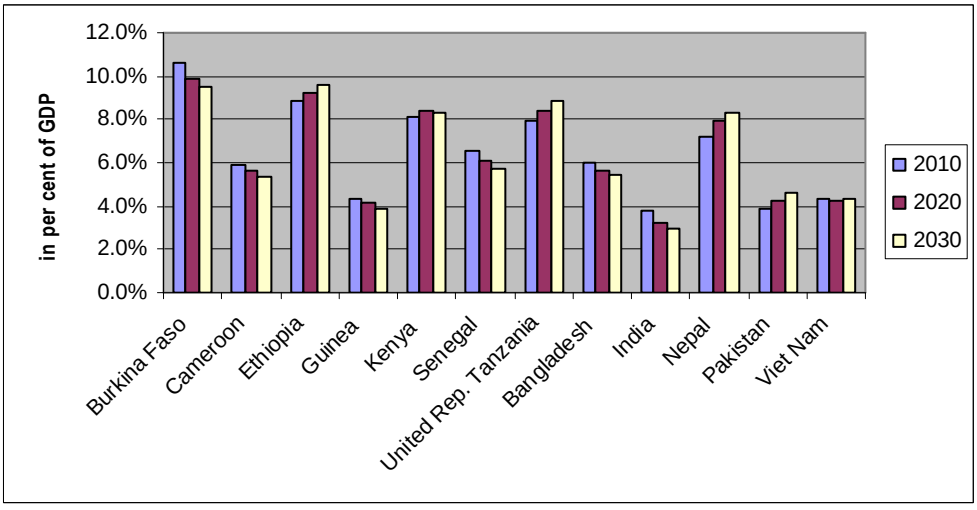



*Source:* Own calculations. These figures include assumed administration costs of 15 per cent of benefit expenditure.

## *Overall basic social protection package*

Taken together, universal cash benefits and access to health care would provide a basic social protection package that would meet the most basic needs of the population (figure 5).

**Figure 5. Costs for a basic social protection package as a per cent of GDP for selected countries in Africa and Asia** (selected years)

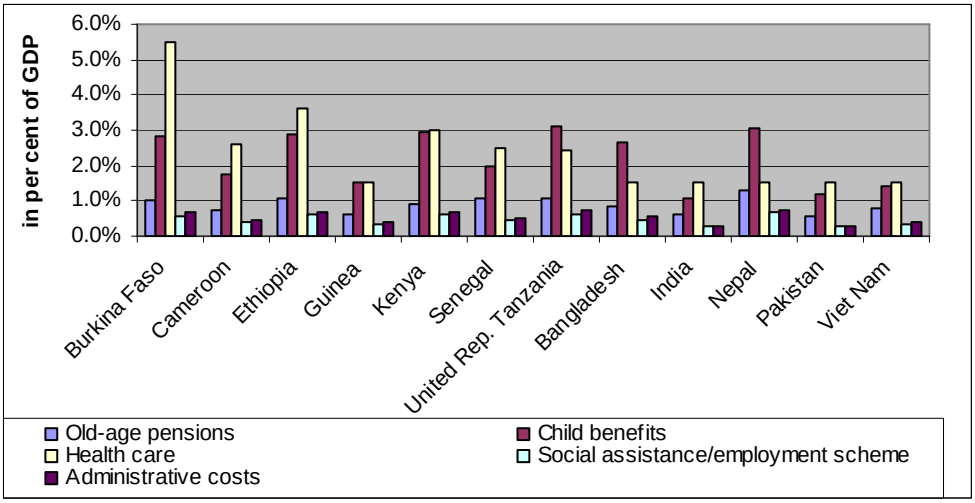



*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

The cost of essential health care constitutes in most of the countries in the study the largest cost component in the total package (see Figure 6). In 2010, especially in the case of Burkina Faso, which stands out with by far the highest costs for basic social protection, health care is the main cost driver according to the underlying assumptions. In all of the twelve countries considered, the initial annual cost of a basic social protection package is projected 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.

**Figure 6. Costs for components of a basic social protection package as a per cent of GDP for selected countries in Africa and Asia, 2010**




*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

The projections show that introducing a complete package of basic social security benefits requires a level of resources that is higher than current 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 considerable joint domestic and international effort is needed to invest in basic social protection to bring about significant social development and a sharp reduction of poverty. Possible sources of financing of such an effort are discussed in the next section.

## 2.2. Possible financing

The costing simulations provide two contrasting alternative options. The first assumes that governments would not increase the proportion of resources allocated to social protection, keeping unchanged the level of spending on social protection in 2003. With respect to policy development this is a status quo variant, i.e. there is no assumed change in government policies with respect to social security financing. Available resources are assumed to increase only proportionally, in line with increases in government revenues resulting from economic growth and a widening of the tax base. The second option assumes a policy change: it assumes that the governments of the countries in question will increase the proportion of available resources allocated to basic social protection to reach one fifth of their total expenditure. This would still be well below prevailing proportions of public budget spent on social protection in many middle and high-income countries (which is usually between one third and one half of government expenditure).

Our results are presented for each of these two alternative spending options, as applied in the model calculations developed by Pal et al. (2005) and Mizunoya et al. (2006).

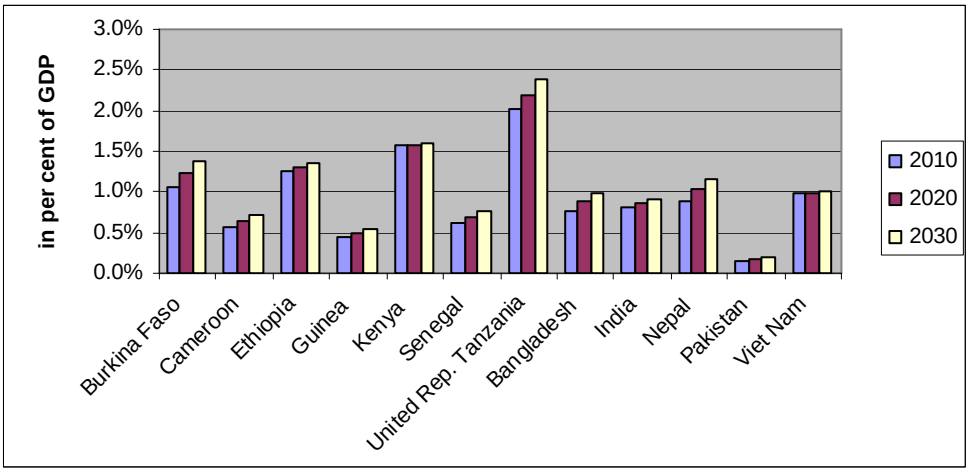
### *2.2.1. Status quo: Constant share of public expenditure devoted to basic social protection*

Under the first spending policy option, it is assumed that governments would not increase the relative size of their allocations to basic social protection. They would keep the current share of total government expenditure unchanged. The estimated current shares are rather

low but differ substantially among countries: for example, 0.8 per cent in Pakistan and 8.4 per cent in Tanzania.

Under such spending policy, governments would be able to finance from available domestic resources the modelled basic social protection package only up to the given amounts expressed as percentages of GDP in Figure 7. Due to its low current expenditure level, Pakistan would spend only up to 0.2 per cent of GDP on basic social protection in 2010, slightly rising over time. Countries like Cameroon, Guinea and Senegal could reach spending levels of approximately 0.4-0.6 per cent of GDP. A third cluster of countries is found with spending levels around 1 per cent of GDP: Bangladesh, India, Nepal and Viet Nam joined by Burkina Faso, Ethiopia and Kenya at 1.0-1.6 per cent of GDP. Tanzania stands out with a spending level of 2.0 per cent of GDP, which reflects high current expenditure levels on basic social protection. The outcome is as varied and as unrelated to national needs and international standards as government expenditure is today.

**Figure 7. Projected domestically financed expenditure on basic social protection as a per cent of GDP, (Status quo: 2003 spending level held constant over time) for selected countries in Africa and Asia** (selected years)

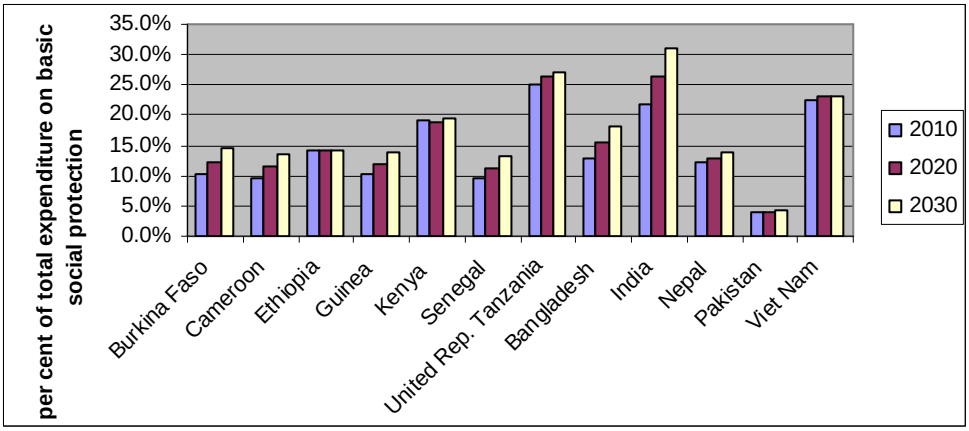



*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

However, the total cost of the basic social security package that we have constructed (Figure 5) is much higher than the estimates of future resources that are likely to be available – shown by projecting current levels of spending in line with economic growth (Figure 7). Therefore, if countries are not in a position to break out of the low levels of social protection expenditure within their available domestic resources, they will need to draw heavily on external sources of funding to implement basic social protection.

Figure 8 shows the share of the basic social protection package which is covered by government expenditure under the above spending policy assumptions. While Pakistan would cover in 2010 less than 4 per cent of the total estimated costs, countries such as Burkina Faso, Cameroon, Guinea and Senegal would shoulder approximately 10 per cent of the total estimated costs. Countries like Ethiopia, Kenya, Bangladesh and Nepal would cover between 10-20 per cent while India, Tanzania and Viet Nam could shoulder more than a fifth of the estimated costs in 2010, quickly increasing in the case of India to one third by 2030. In all countries, the capacity to increase the share of domestic financing increases over time, but remains insufficient to cover the basic social protection package modelled above.

**Figure 8.** **Share of the total cost of the basic social protection package covered by domestic resources (Status quo: 2003 spending level held constant over time) for selected countries in Africa and Asia** (selected years)

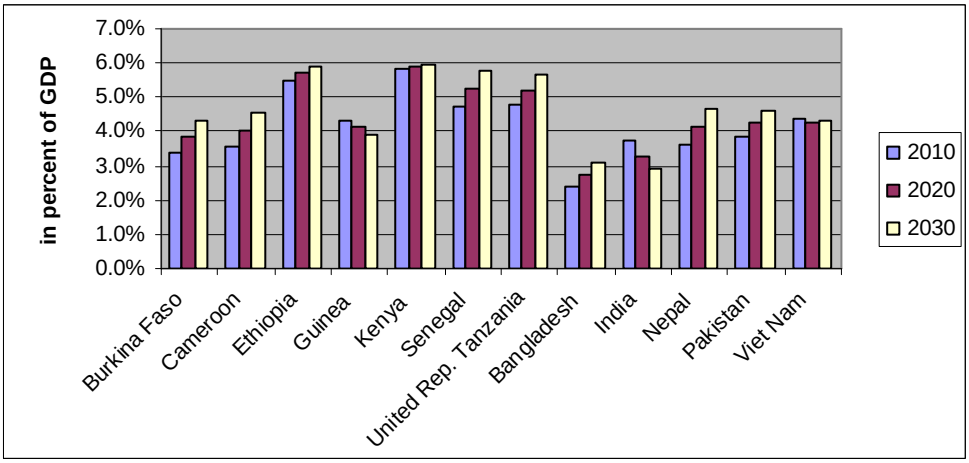



*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

### *2.2.2. Simulating policy change: Spending levels increased to one fifth of government expenditure*

Under the second spending policy option, it is assumed that governments increase their allocations to social protection to one fifth of their total budget.

**Figure 9.** **Projected domestically financed expenditure on basic social protection in per cent of GDP (Simulating policy change: spending on basic social protection reaching 20 per cent of government expenditure) for selected countries in Africa and Asia** (selected years)



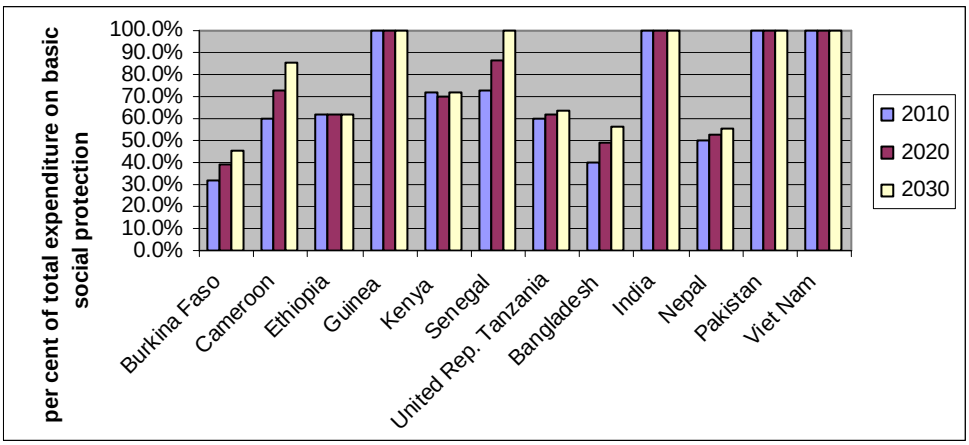

*Source:* Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

When this alternative model is applied, domestically financed expenditure on basic social protection reaches levels of between 2.4 to 5.8 per cent of GDP in 2010 (see Figure 9). The lowest level is projected for Bangladesh, due to the relatively small volume of government budget; yet domestically financed social protection spending would rise from 2.4 to 3.1 per cent of GDP between 2010 and 2030. In Burkina Faso, Cameroon, India, Nepal and Pakistan governments would be able to allocate between 3.4 to 3.9 per cent of their GDP to basic social protection in 2010, increasing these figures to between 4.3 and 5.0 per cent of GDP by 2030. In Guinea, Senegal, Tanzania and Viet Nam governments could allocate between 4.4 to 4.8 per cent in 2010, with spending levels projected to reach up to 5.8 per cent of GDP in Tanzania by 2030. The governments of Ethiopia and Kenya could invest respectively 5.5 and 5.8 per cent of GDP in basic social protection in 2010, increasing to

5.9 and 6.0 per cent of GDP by 2030. Guinea's relative level of domestic financing is assumed to decrease over time from 4.3 per cent in 2010 to 3.9 per cent of GDP in 2030 and India's relative level of domestic financing is assumed to decrease over time from 3.7 per cent in 2010 to 2.9 per cent of GDP in 2030. India's results are related to the fact that the cost of the basic social protection package remains below the limit of 20 per cent of total government spending starting from 2013.

Figure 10 shows that if Guinea, India and Viet Nam would increase the share of social protection spending in their total budget, by 2010 they would already be able to finance 100 per cent of the universal basic social protection package domestically while for Senegal this would be possible by 2030. For other countries, even after such a reallocation of domestic resources, there would still be a need to fill the substantial financing gap by international transfers. Countries like Bangladesh, Burkina Faso and Nepal could cover less than 50 per cent of the total financing needs by 2010. While their capacity to finance a basic social protection package is expected to increase over the following two decades, the share of domestic funding remains below the total needed, which implies that substantial external support would be necessary for some time. Tanzania starts with the ability to cover 59 per cent of its financing needs domestically but is expected to increase its ability to finance basic social transfers domestically to 64 per cent by 2030.

**Figure 10. Share of the total cost of the basic social protection package that can be covered by domestic resources (Simulating policy change: spending on basic social protection to reach 20 per cent of government expenditure) for selected countries in Africa and Asia** (selected years)




Source: Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.

For a second cluster of countries, including Cameroon, Ethiopia, Kenya and Senegal the projections sketch a more optimistic picture. These countries would be in a position to cover 60-73 per cent of the total cost of the package by 2010 (i.e. if they were to devote one fifth of domestic resources to basic social protection). By 2030, 72 per cent in Kenya and 100 per cent in Senegal of the basic social protection package would be covered.

However, there is an interesting further option. If countries are able to finance about 50 per cent of all their health care by introducing a national health insurance system (like for example Ghana did in 2003), then with the exception of Burkina Faso, Cameroon, Tanzania, Bangladesh and Nepal, all the other countries would be able to shoulder at least 80 per cent of the cost of the basic social security floor by 2010.

# 3. The possible effects of social cash transfers on poverty reduction[7]

The ILO micro-simulation results presented in Gassman and Behrendt (2006) for Tanzania and Senegal show that a set of basic social protection cash benefits (old-age pensions and child benefits) can have an important effect on poverty alleviation and thus be an important component of poverty reduction strategies in low-income countries. The benefit levels were fixed in relation to the poverty line in each country and represented for the old-age (60 years and over) and the disability pension a level of 70 per cent of the food poverty line per eligible individual (0.35 and 1.1 US$ PPP per day respectively for Tanzania and Senegal); and for child benefits a level of 35 per cent of the food poverty line per eligible child (0.17 and 0.53 US$ PPP per day respectively for Tanzania and Senegal). Furthermore, a benefit level equivalent to one benefit of 70 per cent of the food poverty line per household was assumed for vulnerable households, i.e. households without able-bodied household members (i.e. either under the age of 20 or above the age of 59, or sick or injured or handicapped).

Under such assumptions, the model demonstrated that in Tanzania a universal old-age pension would cut poverty rates by 9 per cent, with a considerably stronger effect – 36 per cent – for older men and women and 24 per cent for individuals living in households with elderly family members. A more balanced effect would be achieved by a child benefit for school-age children, which would result in a cut in poverty rates by around 30 per cent. The combination of these two benefits would achieve a reduction in poverty rates of 35 per cent, with even more substantial effects for individuals living in households with children and elderly members (a drop of 46 per cent), which face the highest poverty risk. The targeted cash transfers achieve an overall reduction of poverty of 7 per cent, yet with a much stronger effect on older persons (minus 12 per cent and 18 per cent, respectively, for older women and men) and individuals living in households without able-bodied members (minus 46 per cent).

With respect to the poverty gap reduction achieved, the old-age pensions would reduce the poverty gap by 77 per cent for older women and by 65 per cent for older men while compressing the overall poverty gap for the total population by 17 per cent. Child benefits would reduce the poverty gap by about one-half across the board.

In Senegal the combination of a basic old-age and disability benefit and a child benefit for school-age children would reduce food poverty rates by 40 per cent and reduce the poverty gap by more than half. While child benefits affect all groups of individuals to a somewhat similar extent, old-age and disability pensions have a more pronounced effect on older persons, especially on elderly women, and their family members. Targeted cash benefits show a major effect on households without able-bodied members, but only a minor effect on the overall poverty rate.

Thus, scarce national resources if used to provide cash benefits to vulnerable segments of the population can have a major effect on poverty alleviation and the achievement of the 2015 Millennium Development Goal of poverty reduction.

[7] Section taken from Gassman, F.; Behrendt, C. (2006).

# 4. Conclusion

The above projections were developed under rather conservative assumptions with regard to policy change and rigorous assumptions with respect to the fiscal policies of the countries in question. First, they were all assumed to depend only on revenue raised domestically (thus phasing out current external grants). Therefore the scale of transitional external financing required for the basic social protection package is net of the projected deduction of such external flows. The idea is to either re-direct and/or increase current external support - to focus it on providing the very basic social protection package. This is intended to concentrate national attention on anti-poverty priorities.

However, increasing national debt should be examined notably with regard to its potential impact on growth and to national capacity for servicing of the debt in the future. Grants depend in particular on the will of donors. They also depend on the current level of such grants and the general policy of governments such as for example the level of grants considered to be reasonable taking into account issues of sustainability, dependency and vulnerability. Initiatives to alleviate debt in the context of the Heavily Indebted Poor Countries Initiative (HIPC)/Multilateral Debt Relief Initiative (MDRI) and the Paris Club initiatives together with those to ensure predictability of aid such as the "Paris Declaration on Aid Effectiveness" constitute in that sense positive opportunities to increase external support to basic social security.

Increasing domestic revenues allocated to basic social security is determined by both the fiscal space and the political will to increase the share of public expenditure dedicated to this policy field. Capacity to create fiscal space should be considered in the context of a comprehensive medium term government expenditure framework. Key factors for creating fiscal space in low-income countries are determined by national capacity to mobilize additional revenue through increasing the tax base, by ensuring efficient use of resources as a result of strengthening public institutions and by promoting adequate policies to sustain productivity. Decisions to increase the share of public expenditure dedicated to basic social security will depend on political will and on the level of government budget already committed. To support the decision making process, overall feasibility, both financial and administrative, should be assessed and the projected outcomes of providing basic social security should be estimated. For the latter, evidence gained from existing programmes and from modeling exercises (see for example Gassman, F.; Behrendt, C. 2006) is very helpful.

Second, all the countries were assumed to cap their overall public expenditure at the level not higher than 20 per cent of government spending. Such an assumption was made to show what is possible within the framework of a relatively "small state" (as measured by the size of public finances). As countries develop and widen their tax base they may wish to go beyond "small state" and rather follow relative levels of government revenues and expenditure prevailing in the OECD countries. For the time being pressures of "tax competition" developing as part of the spontaneous globalization processes may prevent them from doing so. This however may change if global governance of the globalization processes is strengthened and agreement on a global social floor (which would include a guarantee of universal access to basic social security) is reached.

The evidence presented 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 cash benefits to the elderly and 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.

A basic social protection package is demonstrably affordable, as the costing exercise in this document shows. But this is on condition that the package is implemented through the joint efforts of the low-income countries themselves (reallocating existing resources and raising new resources, i.e. through health insurance or other earmarked sources of financing for social security) and 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.

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# Annex 1

## Costing assumptions

A modest approach was used to calculate the costs of providing a basic social security benefits package based on country-specific data. The main assumptions for this scenario were:

- real GDP growth is assumed as working-age population growth plus 1 percentage point. For Ethiopia, Tanzania and Viet Nam it is assumed as working-age population growth plus 2 percentage points while for India it is assumed as working-age population growth plus 3 percentage points;
- projected levels of total government expenditure increase by 50 per cent of their current level by the year 2034, with a maximum of 30 per cent of GDP;
- government revenue (excluding grants) is assumed to reach the projected expenditure level by 2014 in order to reach a balanced budget;
- universal pension benefit of 30 per cent of GDP per capita (capped at US$ 1 (PPP)[8] a day indexed in line with inflation) provided to all individuals 65 years of age and above and the disabled (i.e. 1 per cent of working-age population);
- basic health care costs based on a ratio of 300 medical staff to 100,000 population; medical staff wages indexed in line with GDP per capita growth (health staff wages were assumed at a minimum of three times GDP per capita); overhead costs of 67 per cent of staff costs;
- child benefit of 15 per cent of GDP per capita (capped at US$ 0.50 (PPP) a day indexed in line with inflation) provided to two children in the age bracket 0-14 per woman;
- income support to targeted poor and unemployed in active age group at 30 per cent of GDP per capita (capped at US$ 1 (PPP) a day indexed in line with inflation). Benefit provided to 10 per cent of the working-age population for 100 days per year. Available to households not benefiting from any other form of cash transfer (i.e. child benefit, pensions);
- administration costs for delivering cash benefits equal to 15 per cent of cash benefit expenditure;
- the model simulates two hypothetical options for the financing of the estimated cost of the future benefit package. Under Option 1, a status quo situation is maintained wherein governments would not increase the proportion of resources allocated to social protection, keeping unchanged the level of spending on social protection in 2003. Under Option 2, a policy change is simulated whereby it is assumed that one fifth of government expenditure is allocated to the financing of basic social protection.

[8] PPP US$ exchange rates were taken from the IMF World Economic Outlook database (2004).

# Annex 2

## Basic social protection expenditure projections

Table A2.1 provides a summary of total basic social protection expenditure and by social protection function in relation to GDP between 2008 and 2034 for the twelve countries forming part of the study.

**Table A2.1. Cost of a basic social protection package and cost by function in per cent of GDP for selected countries in Africa and Asia, 2008-2034**

| Results | 2008 | 2009 | 2010 | 2015 | 2020 | 2025 | 2030 | 2034 |
|---|---|---|---|---|---|---|---|---|
| Total expenditure in per cent of GDP | | | | | | | | |
| Burkina Faso | 10.6 | 10.6 | 10.6 | 10.2 | 9.9 | 9.7 | 9.5 | 9.4 |
| Cameroon | 6.0 | 5.9 | 5.9 | 5.7 | 5.6 | 5.5 | 5.3 | 5.2 |
| Ethiopia | 8.8 | 8.9 | 8.9 | 9.1 | 9.2 | 9.4 | 9.6 | 9.2 |
| Guinea | 4.4 | 4.4 | 4.3 | 4.2 | 4.1 | 4.0 | 3.9 | 3.8 |
| Kenya | 8.2 | 8.2 | 8.2 | 8.2 | 8.4 | 8.5 | 8.3 | 8.1 |
| Senegal | 6.6 | 6.6 | 6.5 | 6.3 | 6.1 | 5.9 | 5.8 | 5.7 |
| United Rep. Tanzania | 7.9 | 7.9 | 8.0 | 8.1 | 8.4 | 8.6 | 8.8 | 8.5 |
| Bangladesh | 6.1 | 6.1 | 6.0 | 5.8 | 5.6 | 5.5 | 5.4 | 5.4 |
| India | 3.9 | 3.8 | 3.7 | 3.5 | 3.3 | 3.1 | 2.9 | 2.8 |
| Nepal | 7.0 | 7.1 | 7.2 | 7.7 | 7.9 | 8.1 | 8.3 | 8.5 |
| Pakistan | 3.8 | 3.8 | 3.9 | 4.1 | 4.2 | 4.4 | 4.6 | 4.8 |
| Viet Nam | 4.4 | 4.4 | 4.4 | 4.3 | 4.3 | 4.3 | 4.3 | 4.3 |
| Universal pensions in per cent of GDP | | | | | | | | |
| Burkina Faso | 1.1 | 1.0 | 1.0 | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 |
| Cameroon | 0.8 | 0.8 | 0.7 | 0.7 | 0.7 | 0.7 | 0.6 | 0.7 |
| Ethiopia | 1.0 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Guinea | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 |
| Kenya | 0.9 | 0.9 | 0.9 | 1.0 | 1.1 | 1.1 | 1.1 | 1.1 |
| Senegal | 1.1 | 1.1 | 1.1 | 1.0 | 0.9 | 0.9 | 0.9 | 0.9 |
| United Rep. Tanzania | 1.1 | 1.1 | 1.1 | 1.1 | 1.2 | 1.2 | 1.3 | 1.3 |
| Bangladesh | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 | 1.0 | 1.1 |
| India | 0.7 | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Nepal | 1.2 | 1.3 | 1.3 | 1.4 | 1.6 | 1.7 | 1.9 | 2.0 |
| Pakistan | 0.5 | 0.6 | 0.6 | 0.6 | 0.7 | 0.8 | 1.0 | 1.1 |
| Viet Nam | 0.8 | 0.8 | 0.8 | 0.8 | 0.9 | 1.0 | 1.2 | 1.3 |
| Basic health care in per cent of GDP | | | | | | | | |
| Burkina Faso | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 | 5.5 |
| Cameroon | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Ethiopia | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 | 3.6 |
| Guinea | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Kenya | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Senegal | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| United Rep. Tanzania | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 | 2.4 |
| Bangladesh | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| India | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Nepal | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Pakistan | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Viet Nam | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 | 1.5 |
| Child benefit in per cent of GDP | | | | | | | | |
| Burkina Faso | 2.8 | 2.8 | 2.8 | 2.6 | 2.5 | 2.4 | 2.2 | 2.1 |
| Cameroon | 1.8 | 1.8 | 1.7 | 1.7 | 1.6 | 1.5 | 1.4 | 1.3 |
| Ethiopia | 2.8 | 2.9 | 2.9 | 3.0 | 3.0 | 3.1 | 3.1 | 2.9 |

| Results | 2008 | 2009 | 2010 | 2015 | 2020 | 2025 | 2030 | 2034 |
|---|---|---|---|---|---|---|---|---|
| Guinea | 1.5 | 1.5 | 1.5 | 1.4 | 1.4 | 1.3 | 1.2 | 1.2 |
| Kenya | 3.0 | 3.0 | 2.9 | 2.9 | 3.0 | 3.0 | 2.9 | 2.7 |
| Senegal | 2.0 | 2.0 | 2.0 | 1.9 | 1.8 | 1.7 | 1.6 | 1.5 |
| United Rep. Tanzania | 3.1 | 3.1 | 3.1 | 3.2 | 3.3 | 3.5 | 3.5 | 3.3 |
| Bangladesh | 2.7 | 2.7 | 2.7 | 2.5 | 2.3 | 2.2 | 2.0 | 1.9 |
| India | 1.1 | 1.1 | 1.1 | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 |
| Nepal | 3.0 | 3.0 | 3.0 | 3.3 | 3.3 | 3.3 | 3.3 | 3.3 |
| Pakistan | 1.2 | 1.2 | 1.2 | 1.3 | 1.3 | 1.4 | 1.4 | 1.4 |
| Viet Nam | 1.4 | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 | 1.0 | 0.9 |
| Social assistance/employment scheme benefits in per cent of GDP | | | | | | | | |
| Burkina Faso | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| Cameroon | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 |
| Ethiopia | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.6 |
| Guinea | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 |
| Kenya | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.6 | 0.6 |
| Senegal | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |
| United Rep. Tanzania | 0.6 | 0.6 | 0.6 | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 |
| Bangladesh | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| India | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 |
| Nepal | 0.6 | 0.6 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 |
| Pakistan | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 |
| Viet Nam | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 |
| Administrative costs in per cent of GDP | | | | | | | | |
| Burkina Faso | 0.7 | 0.7 | 0.7 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 |
| Cameroon | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 |
| Ethiopia | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.7 |
| Guinea | 0.4 | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 | 0.3 | 0.3 |
| Kenya | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Senegal | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.4 | 0.4 | 0.4 |
| United Rep. Tanzania | 0.7 | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.8 | 0.8 |
| Bangladesh | 0.6 | 0.6 | 0.6 | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 |
| India | 0.3 | 0.3 | 0.3 | 0.3 | 0.2 | 0.2 | 0.2 | 0.2 |
| Nepal | 0.7 | 0.7 | 0.7 | 0.8 | 0.8 | 0.9 | 0.9 | 0.9 |
| Pakistan | 0.3 | 0.3 | 0.3 | 0.3 | 0.4 | 0.4 | 0.4 | 0.4 |
| Viet Nam | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 |

Source: Based on Pal et al., 2005; Mizunoya et al., 2006; and updated calculations.