

Can Low-Income Countries Afford Basic Social Security?*

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- Provision of basic social security is an investment in country's development giving in return not only reduced poverty but also increased demand and expanded domestic markets, healthier, better educated, empowered and more productive workforce as well as peace, stability and social cohesion, less conflicts and politically more stable societies.
- To achieve sustainable development countries thus have to start building their social security systems starting with introducing a basic social protection package consisting of mechanism providing affordable access to basic health care, minimum income support to elderly, disabled and children and employment guarantees and social assistance to unemployed and working poor.
- The cost of such benefit package is within a reach of even poorest countries while making it affordable requires political will followed by rationalization of current spending programmes, reallocations of domestic resources and donor aid as well as policies and measures creating the new fiscal space.

Introduction

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

Social security has recurrently been perceived as a luxury that only rich countries can afford. This view has recently been challenged from different angles. From an economic perspective, it is increasingly recognized that pro-growth and pro-poor policies are inseparable and mutually reinforcing also in developing countries (*e.g.* OECD, 2006; ILO, 2006). The lack of social security mechanisms in many developing countries exacerbates the vulnerability of the population against economic shocks and the vicissitudes of the life course, such as sickness, old age, disability or maternity. This is again strongly reconfirmed during the times of economic crisis like the one started in 2008. If no protection mechanisms exist, these contingencies create poverty traps from which poor households are unlikely to escape quickly. Lack of basic income security prevents men and women from engaging in productive economic activity (always associated with risk) and forces them to focus just on survival. The alleged trade-off

* The opinions expressed and arguments employed in this paper are the sole responsibility of the authors, and do not necessarily reflect those of the OECD or the governments of its member countries.

between social security and productivity or growth is not supported by systematic empirical evidence. Today's developed countries have pursued their economic growth in parallel with the expansion of social security. Social security has helped to bolster and sustain economic and social change, and has had enormous positive effects on poverty reduction and living standards as well as on the quality of human capital and social cohesion. Rapidly growing countries, such as the Republic of Korea in the aftermath of the Asian crisis and more recently China, have acknowledged that sustainable growth and economic development require a solid underpinning by social security and have taken bold measures to improve their social security systems (Kwon, 2004; Shin, 2000; Lin and Kangas, 2006). There is more and more evidence coming from emerging social security schemes in low-income countries on positive economic impacts of such measures on the level of economic activity and on productivity.

The question of affordability has to be considered in the context of the fiscal and broader economic environment on the national level (Cichon, *et al.*, 2004). In addition, it is important to consider national institutional capacities and governance aspects. However, one has to consider also 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 provision of minimum basic social security in low income countries during the transitory period until these countries have the necessary domestic fiscal capacity to do so themselves.

Evidence from costing studies

The ILO has undertaken two costing studies in Africa and Asia that 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 this costing model so far:

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

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 studies are 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 wage to GDP *per capita* ratio, limiting child benefits to only two children per woman, etc. The assumptions take into account suggestions emanating from discussions on the basic social protection benefits package.

Basic old age and disability pensions

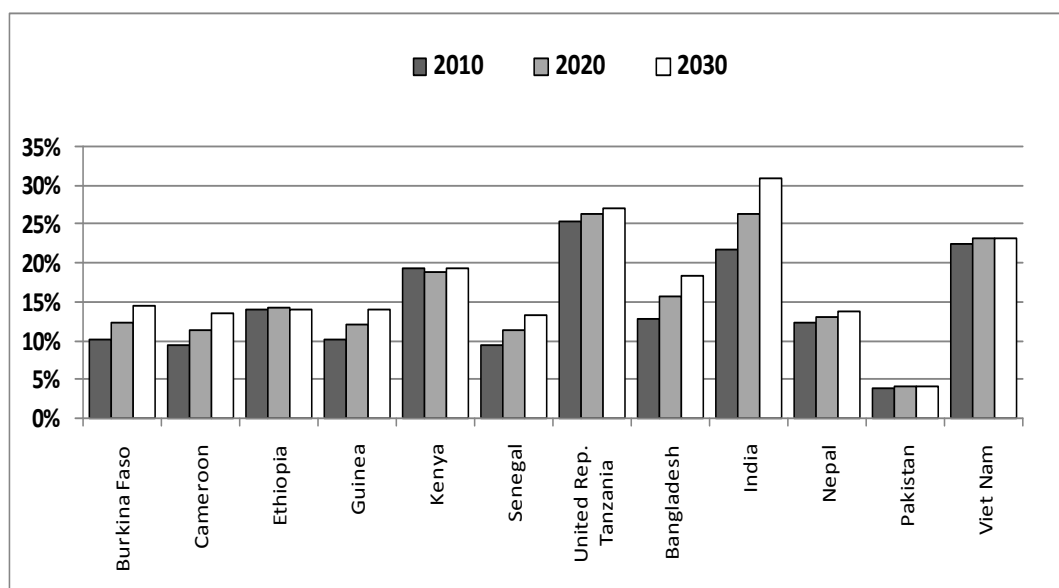
A number of middle and low-income countries have introduced non-contributory old age pensions for their elderly population. Countries with social pension schemes include Brazil, Botswana, India, Mauritius, Lesotho, Namibia, Nepal and South Africa. Some of the schemes cover only targeted groups of the population, others, for example, Mauritius or Namibia, have developed schemes widely applied to all elderly residents in their populations. Evidence from those 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; Barrientos, 2004; Charlton and McKinnon, 2001; Save the Children United Kingdom *et al.*, 2005). This experience also shows that social pensions are feasible and accessible for low-income countries.

The basic pension was assumed at the level of 30% 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 USD per day Purchasing Power Parity (PPP) and the Basic needs poverty line of Tanzanian Shilling 7253 (equivalent to approximately 0.59 USD per day PPP).¹ In terms of GDP *per capita* these represented respectively 27.6% and 37.8%.

It was assumed that the simulated universal old age and disability pension would be set at 30% of GDP *per capita*, with a maximum of one US dollar (PPP) per day (increased with inflation) and would be paid to all men and women aged 65 or older; and to persons with serious disabilities in working age (the eligibility ratio was assumed to be 1% of the working-age population, which reflects a very conservative estimate of the rate of disability). The level of the benefit is equivalent in 2010 to USD 1.13 (PPP) per day in Burkina Faso, USD 0.73 (PPP) in Ethiopia, USD 1.01 (PPP) in Kenya, USD 0.73 (PPP) in Tanzania, USD 1.36 (PPP) in Bangladesh and USD 1.52 Pakistan (PPP).

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% of yearly GDP in the countries considered (Figure 1). Projected costs for 2010 remain at or below 1.0% of GDP in six of the twelve countries, while Burkina Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania find themselves between 1.1 and 1.5% of GDP.

Figure 1: Costs for basic universal old age and disability pensions
as a percentage of GDP for selected countries in Africa and Asia (selected years)



Source : ILO (2008b). These figures include assumed administration costs of 15% of benefit expenditure

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 such an impact, 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 transfers (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).

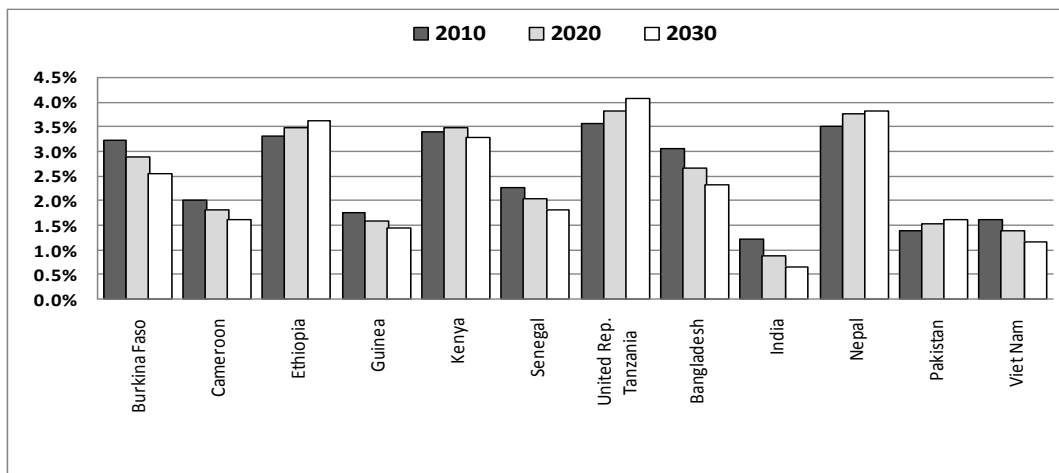
However, there are some concerns about the transferability of conditional cash transfer programmes into countries with an insufficient infrastructure in the education and health sector (Kakwani *et al.*, 2005).

The level of the child benefit is assumed very modestly to be equal to half of the universal pension amount that is 15% of GDP *per capita* with a maximum of half of one US dollar (PPP) per day (increased with inflation) and paid to up to two children under the age of 14 per woman who has given birth. The rationale 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% and for Bangladesh 57.6% 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 number of women in 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. For the year 2010, the cost estimations remain below 3.6% of GDP in all the countries of the study with expenditure in Tanzania reaching 3.6% of GDP and as low as 1.2% of GDP in India (Figure 2).

Figure 2: Costs for basic universal child benefits
as a percentage of GDP for selected countries in Africa and Asia (selected years)



Source : ILO (2008b). These figures include assumed administration costs of 15% 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 drive them into severe poverty from which many cannot recover for many years. This is of acute relevance in countries with 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 equitable health insurance mechanisms, therefore are an important contribution to eradicating poverty and vulnerability (ILO, 2008a; 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, impacts on school attendance, employment and human capital can be expected, which will contribute to sustainable economic growth and social development.

The cost projections used in this paper reflect the calculations 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

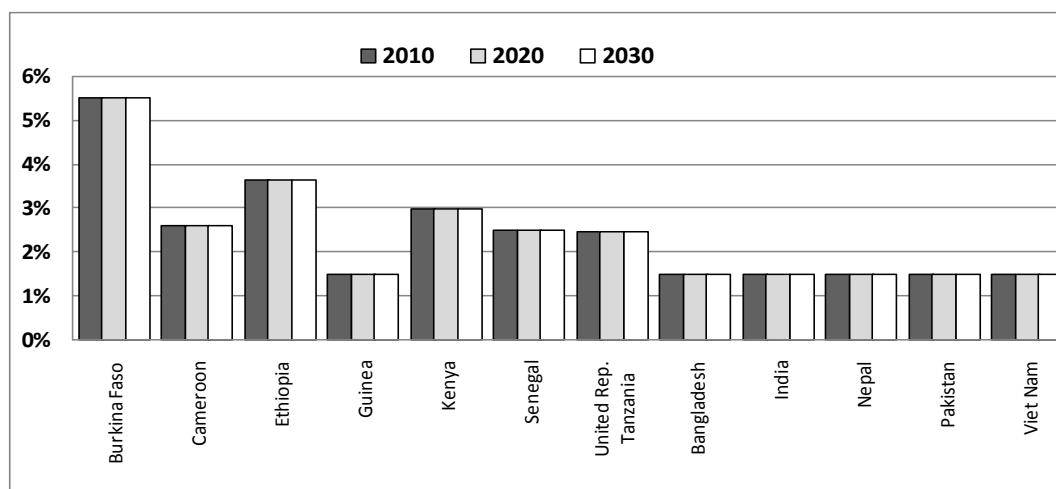
to approximately the estimates of health personnel in Namibia in 1997² (which represents approximately 40% of the level in the United Kingdom). The level of Namibia was chosen as since 1990, the Namibian government has set-out a policy framework *Towards Achieving Health for All Namibians* and the government committed itself to providing access to health services to all Namibians by the year 2000.³ 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 equal 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 are assumed to be 67% of wage cost.⁴

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 USD 34 per year on average in low-income countries by 2007, and USD 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 World Health Organisation (WHO) statistics⁵, *per capita* government expenditure on health at average exchange rate (USD) in 2004 oscillated between USD 3 in Ethiopia, Guinea and Pakistan to USD 16 in Senegal. The ILO model calculations for 2010 estimate *per capita* health care costs to oscillate between USD 4.43 *per capita* in Nepal and USD 24.23 in Cameroon.

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 is 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% 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 percentage of GDP for selected countries in Africa and Asia (selected years)



Source : ILO (2008b)

Social assistance/employment scheme

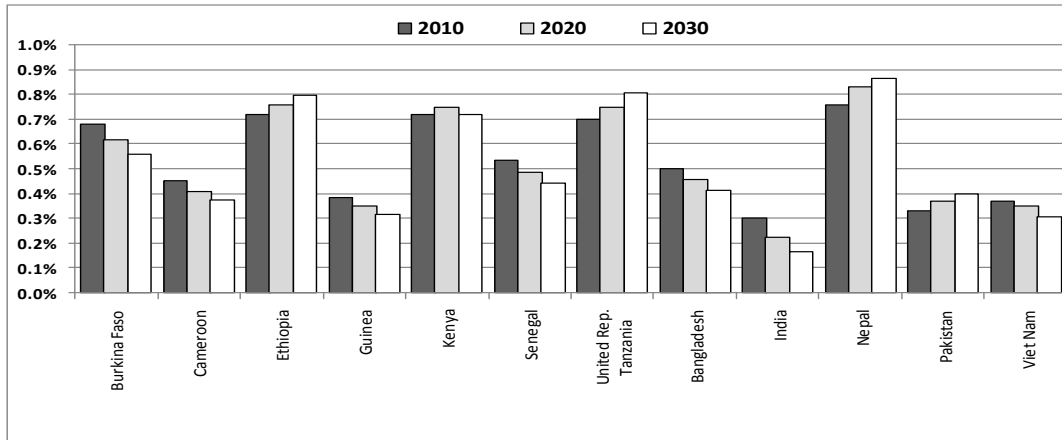
Providing income security to the vulnerable category of the working age persons who are either unable to find employment or are underemployed should also form part of a comprehensive social security floor. The recent programme launched in India with the Indian Guarantee of Employment Act which provides 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 % of the working age population in each country which would benefit from the scheme and it would be only available to those in 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% of GDP *per capita*, with a maximum of one US dollar (PPP) per day (increased 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% of yearly GDP in the countries considered in 2010 (see Figure 4). Projected costs for 2010 (including administrative costs associated with providing the benefit) remain well at or below 0.5% of GDP in seven of the twelve countries, while Burkina Faso, Ethiopia, Kenya, Nepal and Tanzania find themselves between 0.7 and 0.8% of GDP.

Figure 4: Costs for employment scheme benefits
as a percentage of GDP for selected countries in Africa and Asia (selected years)

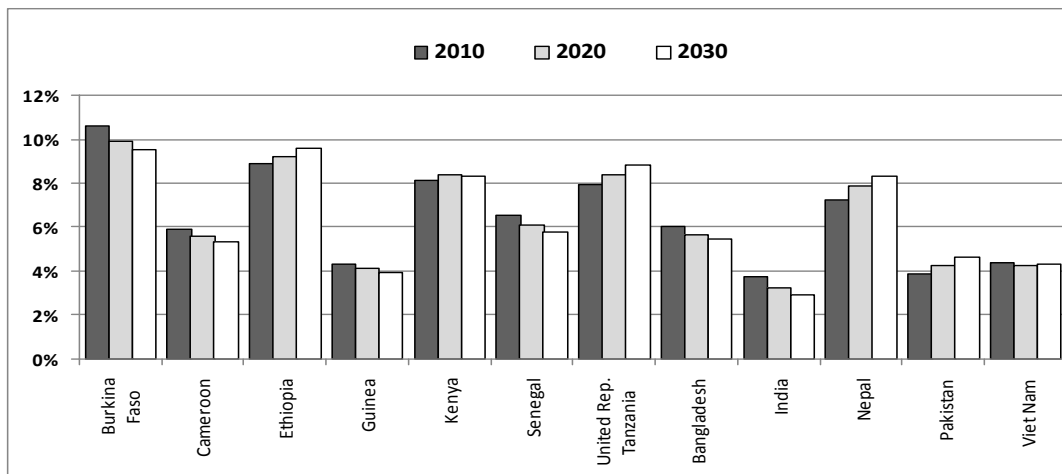


Source : ILO (2008b). These figures include assumed administration costs of 15% of benefit expenditure

Overall basic social security package

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

Figure 5: Costs for basic social security package
as a percentage of GDP for selected countries in Africa and Asia (selected years)

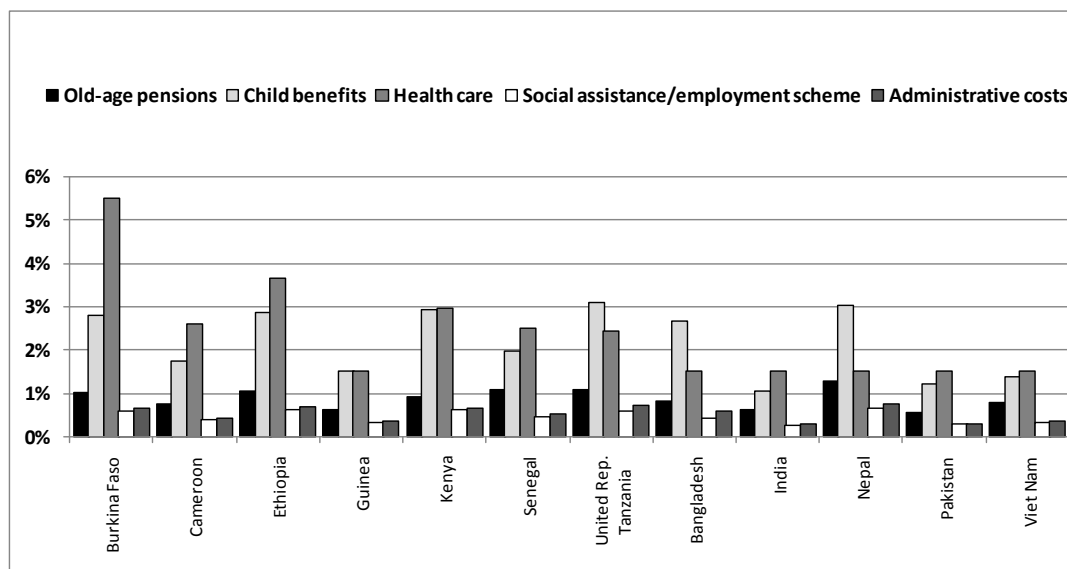


Source : ILO (2008b)

The cost of essential health care constitutes in most 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% of GDP by 2010. Six countries – Burkina

Faso, Ethiopia, Kenya, Nepal, Senegal and Tanzania – would spend more than 6% of GDP.

Figure 6: Costs for components of a basic social security package
as a percentage of GDP for selected countries in Africa and Asia



Source : ILO (2008b)

The projections show that fully 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 (that rarely spend more than 3% of GDP on health care and rarely more than 1% 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.

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 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 which would be still well below prevailing proportions of public budget spent on social protection in many middle and high income countries (usually between one third and one half of government expenditure).

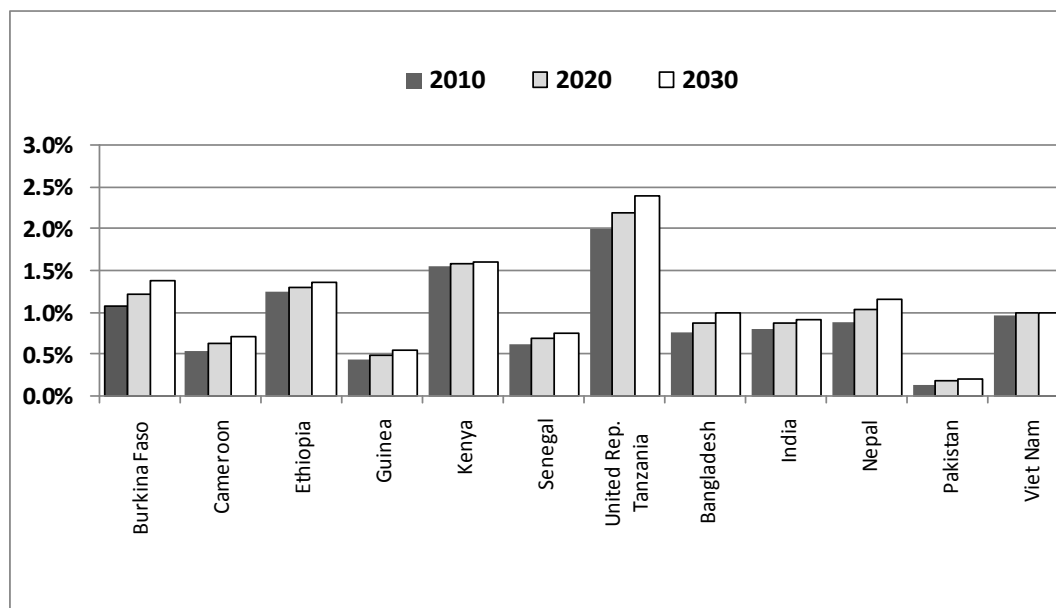
Our results are presented for each of these two alternative spending options, as applied in the model calculations developed by Pal *et al.* (2005), Mizunoya *et al.* (2006) and own calculations.

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% in Pakistan and 8.4% 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 levels, Pakistan would spend only up to 0.2% of GDP on basic social protection in 2010, slightly rising over time. Countries like Cameroon, Guinea and Senegal could reach spending levels around 0.4-0.6% of GDP. A third cluster of countries is found with spending levels around 1% of GDP: Bangladesh, India, Nepal and Viet Nam joined by Burkina Faso, Ethiopia and Kenya at 1.0-1.6% of GDP. Tanzania stands out with spending levels of 2% of GDP, which reflects high current expenditure levels on basic social protection. The outcome would be 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 security
as a percentage of GDP (status quo: 2003 spending level held constant over time)
for selected countries in Africa and Asia (selected years)

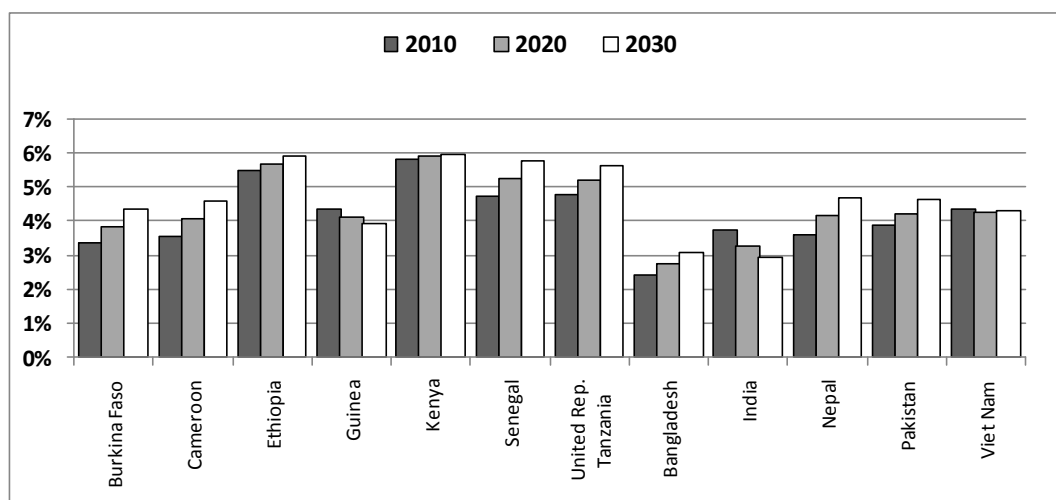


Source : ILO (2008b)

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 what share of government expenditure is covered by the basic social protection package under the above spending policy assumptions. While Pakistan would cover in 2010 less than 4% of the total estimated costs, countries such as Burkina Faso, Cameroon, Guinea and Senegal would shoulder approximately 10% of the total estimated costs. Countries like Ethiopia, Kenya, Bangladesh and Nepal would cover between 10-20% 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 total cost of basic social security package to be covered by domestic resources
(status quo: 2003 spending level held constant over time) for selected countries
in Africa and Asia (selected years)

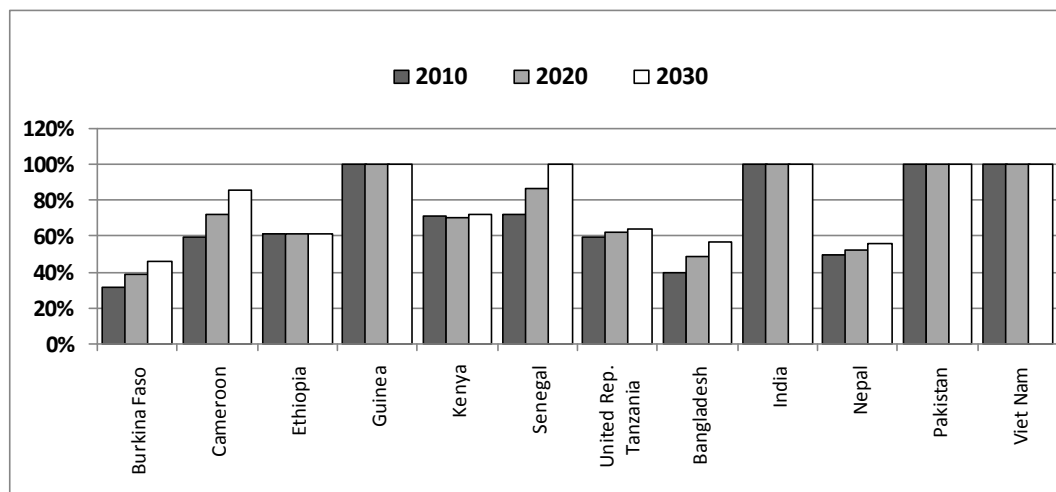


Source : ILO (2008b)

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 security to one fifth of their total budget.

Figure 9: Projected domestically financed expenditure on basic social security
as a percentage of GDP (simulating policy exchange spending on basic social security reaching 20% of government expenditure) for selected countries in Africa and Asia (selected years)

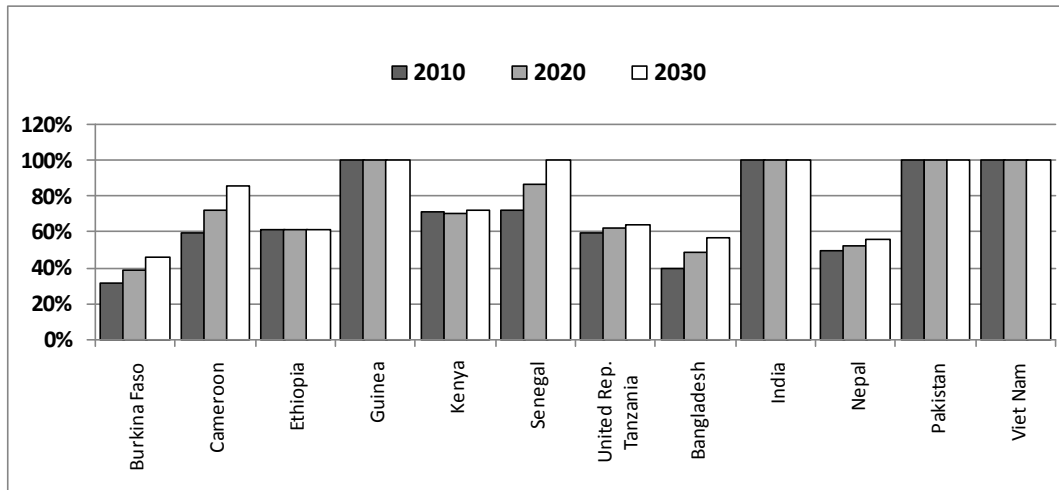


Source : ILO (2008b)

When this alternative model is applied (Figure 9), domestically financed expenditure on basic social protection reaches levels of between 2.4 to 5.8% of GDP in 2010. The lowest level is projected for Bangladesh, due to the relatively small Volume of the government budget; yet the domestically financed social protection spending would rise from 2.4 to 3.1% of GDP between 2010 and 2030. In Burkina Faso, Cameroon, India, Nepal and Pakistan the governments would be able to allocate from 3.4 to 3.9% of their GDP to basic social protection in 2010, increasing these figures to between 4.3 and 5.0% of GDP by 2030. In Guinea, Senegal, Tanzania and Viet Nam governments could allocate 4.4 to 4.8% in 2010, with spending levels projected to reach between 3.9 to 5.8% of GDP by 2030. The governments of Ethiopia and Kenya could invest 5.5 and 5.8% respectively of GDP into basic social protection in 2010, increasing to 5.9 and 6.0% of GDP by 2030. Guinea's relative level of domestic financing is assumed to decrease over time from 4.3% in 2010 to 3.9% of GDP in 2030 and India's relative level of domestic financing is assumed to decrease over time from 3.7% in 2010 to 2.9% of GDP in 2030. Guinea and India's results are related to the fact that the cost of the basic social protection package remains below the limit of 20% of total government spending starting from 2013 for India.

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 over 100% of the universal basic social protection package domestically while for Senegal this would be possible by 2030. For other countries, even after such 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% 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 off from the ability to cover 59% of its financing needs domestically but is expected to increase its ability to finance basic social transfers domestically to 64% by 2030.

Figure 10: Share of total cost of basic social security package that can be covered by domestic resources
(simulating policy change: spending on basic social security to reach 20% of government expenditure)
for selected countries in Africa and Asia (selected years)



Source : ILO (2008b)

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% of the total costs of the package by 2010 (*i.e.* if they were to devote one fifth of domestic resources to basic social protection). By 2030, 72% (Kenya) and 100% (Senegal) of basic social protection would be covered.

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

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 finance required towards 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 upon anti-poverty priorities.

Existing potential to redirect and increase current external financing should be analysed of course in the context of a specific situation of each country⁶. Increase in domestic and foreign borrowing should be examined notably with regards to its potential impact on growth and to the capacity of servicing the debt in the future. Potential increase in foreign grants depends in particular on the will of donors but also on the current level of such grants and the recipient country governments' policies assessment what is seen as a reasonable level of grants, taking into account longer-term sustainability, dependency

and vulnerability considerations. Initiatives to reduce indebtedness of low-income countries in the context of Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) and the *Club de Paris* along with initiatives aimed at enhancing predictability of aid such as the “Paris Declaration on aid effectiveness” together may create new opportunities to increase external support to build basic social security in the poorest regions of the world.

Second, all the countries were assumed to cap their overall public expenditure at the level not higher than 20% 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 globalisation processes may prevent them from doing so. This however may change if global governance of the globalisation processes is strengthened and agreement on a global social floor (which would include a guarantee of universal access to basic social security) is reached.

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 modelling exercises (see for example Gassman, F.; Behrendt, C., 2006) is very helpful.

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 families with children and social assistance to a proportion of the unemployed. Even if a basic social protection package cannot be implemented at once, a sequential approach can generate immediate benefits in terms of poverty reduction, pro-poor growth and social development. 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.

Notes

- 1 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% of the population” and the Basic poverty line takes into account also the costs for non-food items.
- 2 World Health Organisation Statistical Information System (WHOSIS).
- 3 Ministry of Health and Social Services, Namibia.
- 4 Estimated from figures from the Ghana Medium-term Expenditure Framework (Government of Ghana).
- 5 World Health Organisation Statistical Information System (WHOSIS).
- 6 For examples of such detailed country analysis, see ILO reports reviewing social protection expenditure and performance and national social budgets in Tanzania and Zambia (ILO, 2008c; and ILO, 2008d).

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Annex 1

Costing assumptions

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

- 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% of their current level by the year 2034, with a maximum of 30% 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 at 30% of GDP per capita (capped at USD 1 (PPP)² a day indexed with inflation) for all 65 years of age and above and the disabled (i.e. 1% of working age population);
- basic health care costs based on 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% of staff costs;
- child benefit at 15% of GDP per capita (capped at USD 0.50 (PPP) a day indexed 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% of GDP *per capita* (capped at USD 1 (PPP) a day indexed with inflation) for 10% of the working age population for 100 days per year only available to those in households not benefiting from any other form of cash transfer (i.e. child benefit, pensions);
- administration costs of delivering cash benefits equal to 15% 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 levels are allocated to the financing of basic social protection.

² PPP USD exchange rates were taken from the IMF *World Economic Outlook* database (2004).