Extending social security coverage

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Introduction

Societies at all levels recognize the need to face the challenge of establishing systems which will ensure that their members are protected against loss of income in the event of contingencies such as incapacity, old age, unemployment and the death of a breadwinner. They also recognize the need to ensure access to adequate and affordable health care. For many, these needs are met within the framework of their employment conditions and thus represent an important component of decent work. This is enhanced when the social and working environment also promotes social justice, human dignity and solidarity.

However, for the majority of workers in developing countries, decent work conditions are both difficult to attain and to sustain, particularly for those who work in the informal economy in countries where social, economic and political development is still at an early stage, or has been disrupted. Thus perhaps half of the world population is still excluded from any type of social security system and here, in sub-Saharan Africa, less than 10 per cent of the population in some countries is adequately covered. Africa faces a two edged sword: on one side a broad range of risks which threaten security, living conditions, incomes and health and, on the other side, a lack of resources and skills available to combat these risks. In the social security context, the same weaknesses and adverse factors which illustrate vividly the need for social protection are to be found in an analysis of what might be done to make things better. Poverty creates hardship and poor health but it also prevents effective action from being taken to improve social protection. The consequence is that social security tends to be applied within a relatively small group rather than on a national or universal basis.

In developing countries, social insurance principles are thus often limited in application (restricted in law and practice), to the public sector and to the more prosperous and organized private sector. The social risk pool created is thus small and greatly exceeded in numbers by the lower paid, the self-employed, the informal sector workers and the rural workers. And the risks covered within that pool reflect the needs and circumstances of its members. The poor majority are therefore often outside the scope of the social insurance scheme: they do not want to contribute or they cannot afford to and those who can contribute do not wish to support those who cannot.

This poor majority has, however, found ways of supporting each other often through traditional systems which at least provide some assistance in meeting their social protection needs and in promoting their income generating activities. There are many examples where these community based or trade based systems have worked to ensure access to health
care and to secure a minimum income. The International Labour Office (ILO) during the last five years has increasingly turned its attention to assisting the establishment and development of these groups through its STEP programme (Strategies and Tools against Exclusion and Poverty) which is financed primarily by Belgium but which has attracted the support of other donors. They also provide invaluable experience in lessons learned from which other countries and communities can benefit.

This does not mean that the ILO has turned away from the development of social insurance or other forms of organized and public social security. The reality of social protection needs in Africa, however, is that there is a need for different, and in particular innovative, approaches. There is also a need, in many countries, for a blend of activities which strike a balance between community based initiatives, the strengthening of public social schemes and the development of universal schemes for health care and other benefits where the circumstances permit.

This paper looks at these issues more closely and in the context of the Global Campaign for Extending Social Security and Coverage for All launched in June 2003. Annex 2 provides notes on a range of activities in different countries aimed at extension of coverage.

**Development of social security in Africa**

Inevitably, the pattern of social security provision in Africa reflects colonial preferences and considerations. During the colonial period, new systems of organized social protection emerged to support economic development. Initially, the colonial powers extended their own system to their expatriates. The extension of such provisions to African workers varied but where it was done, it was concentrated on urban and industrial workers mainly to stabilize the labour force or to satisfy the trade unions who by then had been mobilized. However, the majority of the population remained without a social security system.

Against this background, several distinct patterns developed in Africa which reflected colonial traditions. In North Africa, where proximity to Europe was a dominant factor, the oldest and most comprehensive schemes are to be found with pensions provision based on social insurance principles operating in Algeria, Egypt, the Libyan Arab Jamahiriya, Morocco and Tunisia since the 1950s. At least in law, the social security scheme in Egypt covers most of the labour force and provides a wide range of benefits mostly in accordance with social insurance principles through earnings related contributions paid by employers and workers but with special provisions for casual workers.

In the French colonies of sub-Saharan Africa, priority was given, initially, to employment injury schemes. The pattern throughout French West Africa and French Equatorial Africa tended to be standardized and family benefits and maternity benefits were introduced in the early 1950s.

A voluntary scheme - the West African Retirement Pensions Fund - was established in a number of countries but compulsory schemes were not introduced until after independence, between 1960 and 1965. Given their common heritage many of the countries of French-speaking Africa have similar schemes providing a defined benefit pension derived from length of service and average earnings and based on social insurance principles.

In the former British colonies, priority was also given to employment injury schemes but here the development of social insurance was slower. The workers' compensation schemes were generally based on employer liability principles (in Ghana, Kenya, Nigeria and Swaziland)
and only later were schemes developed which relied on the payment of contributions by employers to a public social security institution (Zambia, Zimbabwe) and, at least to some extent, on the pooling of risks. The social security schemes introduced in the British colonies were generally more modest and, except in the case of provisions for public servants, did not follow the lines of schemes operating in the United Kingdom.

It was generally considered appropriate to restrict pension schemes to permanent public servants. Although there was a growing recognition of the need to provide some form of protection to other workers in the organized sector, this led only to the establishment of national provident funds. These were seen as simple to operate and also as consistent with the future needs of African workers who were expected to return to their village on retirement where they would benefit more from a lump sum than a pension. Some countries such as Sierra Leone did not establish either pension schemes or provident funds for private sector workers and particularly in southern Africa (Zimbabwe, Malawi, Botswana and Lesotho and, to an extent, in South Africa) this development was considerably delayed and instead there was considerable reliance on occupational pension schemes and private provident funds.

Unlike French-speaking Africa, family benefits were not introduced in English-speaking Africa. Health care provision also followed a different pattern with French-speaking Africa tending to link health care to the social insurance principles of the pension scheme whereas the British preference was for a national health service financed centrally from government revenues.

The five former Portuguese colonies entered independence with only basic schemes and, in the case of Angola and Mozambique, development has been inhibited by internal conflict. The schemes are now developing on social insurance principles with broad levels of coverage. Conflict and national disaster in addition to the impact of the pandemic HIV/AIDS has adversely affected the development of social security in many countries including the Democratic Republic of Congo, Somalia, Liberia, Burundi, Eritrea and Ethiopia.

There are also four countries which have chosen to adopt a pension scheme which places greater emphasis on universality. Entitlement to a basic pension in South Africa depends on a means test and pensions are financed from taxation. A similar system is to be found in Namibia and Botswana but here the basic pension is payable from age 60 and is not means tested. The comprehensive schemes in Mauritius and Seychelles combine elements of universality and social insurance through a basic pension for all residents without a means test supplemented from earnings related contributions paid by employers and workers.

**Social security coverage in Africa**

This broad outline of the development of social security in Africa illustrates the linkage with colonial experience. It is also important to note that in many cases the structure of the schemes introduced and even the legislation were strongly influenced by European practice. Whilst this might have been appropriate in the case of public servants, it has proved rather less so, both in the design and the administration of social security in post-independence Africa.

Gaps in coverage can be compared with the contingencies set out in the ILO Minimum Standards of Social Security Convention No. 102 of 1952 which identifies a broad range of protection categorized as follows:
• Income maintenance benefits payable during a relatively short period when the person is temporarily unable to work because of sickness, employment related injury, unemployment or maternity.
• Income maintenance benefits of long duration payable where the person is unlikely to return to work because of old age, invalidity, and serious employment related disability.
• Income support to compensate a family for the death of a breadwinner.
• Access to health care.

These benefits are generally provided through social insurance schemes financed by contributions paid by employers and workers but, as has been seen above, three other types of schemes have been introduced in some African countries:

• Compulsory savings schemes (provident funds) which accumulate contributions paid by employers and workers during the full period of contributory membership and which are supplemented by interest derived from the investment of these contributions. Benefits are payable on final termination of employment (retirement) in the form of a lump sum but some schemes provide for such benefits to be paid at an earlier date for example on emigration, on marriage in the case of a woman worker, on death or invalidity and, in particular in the United Republic of Tanzania, on unemployment which has lasted at least six months.

• Special contributory or non-contributory pension schemes for specific groups such as public servants or in a few countries covering the entire population. The universal schemes in Mauritius and Namibia provide a first tier of social protection for all residents over age 60, which is supplemented by a contributory scheme based on social insurance principles.

• In some countries, obligations are still imposed on employers, by national legislation or collective agreements, to pay benefit to workers under a variety of circumstances when they would otherwise be faced with a loss of income or access to health care, A notable example are the Workers Compensation schemes established in many English-speaking countries before independence, many of which have since been converted into social insurance schemes administered by a non-profit public trust fund derived from contributions paid by employers.

In this context, gaps in coverage take different forms:

• In the range of protection provided in that some contingencies may be covered such as employment injury but not others such as pensions or unemployment benefit.

• In the level of benefit provided in that it may be too low to provide adequate protection: a universal pension set at the minimum wage level may be available to all residents but an additional source of income support would be needed through a contributory pension.

• In the categories of persons covered: some may be covered but others not, thus there may be exclusion from coverage by law applicable to those who work for small employers, the self-employed, temporary and casual workers, domestic and family workers or there may be exclusion by choice through evasion or lack of access.

Clive Bailey
Approaches to the extension of coverage

Low levels of social security coverage are a major development problem in many developing countries and policies should complement economic and social objectives such as those of the Millennium Development Goals. This fundamental weakness in social security is a longstanding problem but the focus of attention has instead been the development and strengthening of schemes aimed at the formal sector whose needs were more easily publicized and addressed.

The trends in personal coverage in sub-Saharan Africa and also elsewhere are inconsistent with classical development theory which assumes that as economies grow most workers will eventually be employed in regular wage employment in the formal sector. In some countries, the reverse has been the case with trends to the informalization of the labour force gathering strength. Many categories of persons have been excluded from coverage because their employment conditions differ from those of the formal sector. This has been done either at the initiative of their employer who may seek to reduce labour costs or at the initiative of the worker who is anxious to maximize his/her take-home pay.

Furthermore, development has not always improved the position of the most vulnerable groups outside the labour force such as the disabled and the elderly who cannot count on family support and who have not been able to make their own provision. Many workers outside the formal sector such as the lower paid, the self-employed and casual and agricultural workers are likely to be obliged by the irregularity of their incomes and the uncertainty of their circumstances, to live on a day-to-day basis. They tend to give priority to short term risks which threaten their earning capacity such as health rather than to pensions. But this is not true of all the self-employed, many of whom have a significant regular income and the need for a wide range of social protection.

Most developed countries have chosen to include the self-employed in the national social security scheme on a similar basis as employed workers. In other countries such as Turkey, France and Poland special schemes have been devised for some of the self-employed such as farmers, and in Egypt special arrangements have been made to provide benefit coverage for the self-employed in the general social insurance scheme and also for casual workers and small farmers. In general, the choice is based on administrative and political considerations. These may include:

- If coverage is compulsory can it be enforced? If it is voluntary what would be the consequences as regards compliance in respect of employed persons and what would be the risk of the voluntary participants practising adverse selection to the financial disadvantage of the scheme.

- Do the self-employed have the same range of social protection needs?

- Are there seasonal fluctuations in their work?

- How can contributions be collected and on what basis? Thus if the scheme requires an earnings related contribution how can this be determined?

Where participation is voluntary, the number of participants are likely to be low unless there are recognizable and significant benefit advantages as was the case in South Korea where the health care and pension scheme contributions for the self-employed are subsidized by the government. Thus, in relation to the Social Security and National Insurance Trust

Clive Bailey
(SSNIT), in Ghana, coverage of employed persons is compulsory but voluntary for the self-employed. At the end of 2002, there were 942,000 active members (10 per cent of the working population) but of these there were only 5,400 voluntary contributors although the self-employed make up 71 per cent of the working population.

**ILO developments**

During the last five years the ILO has given much greater priority to the needs of the excluded and as to how they might be provided with not only more effective social protection, but better opportunities for escaping from poverty and also for avoiding the consequences of disease and disability.

Discussion at the International Labour Conference (ILC) in Geneva in 2001 focussed on the issue of how to extend coverage for social security. A strong consensus emerged among member states and representatives of employers and workers, and this was set out in a detailed statement since published - *Social security: A new consensus*. Member states were called upon to seek the support of the ILO and donor organizations to launch a global campaign that would take up the challenge of promoting the extension of coverage of social security. It was also decided that the ILO should:

- encourage governments to give social security coverage a higher priority and support its development through technical assistance;
- advise governments on the formulation of a national social security strategy and on ways to implement it;
- collect and disseminate examples of best practice;
- seek opportunities to limit and progressively remove the consequences of inequality attributable to gender or disability.

Technical cooperation activities were seen as a very important component in extending and improving social security coverage, in particular through:

- developing innovative approaches to help people in the informal economy to be brought within the reach of social protection;
- improving the governance, financing and administration of social security schemes;
- supporting and strengthening the participation of social partners in the development and management of social security schemes;
- reviewing the structure and financing of social security schemes to ensure that they correspond more closely to the needs and circumstances of excluded persons and in particular those who work in the informal economy.

The New Consensus on Social Security based on the ILC discussion of 2001 was taken up by the Social Protection Sector of the ILO under its Executive Director, Assane Diop, and developed in a meeting of all ILO social security specialists in December 2001 into the nucleus of a global campaign The Global Campaign on the Extension of Social Security and Coverage for All was endorsed by the Director General, Juan Somavia, who launched the global campaign in Geneva in June 2003 with three complementary components:

- **Improve overall understanding of social security through** conducting research on extension efforts, documenting best practices worldwide, increasing understanding of social security needs, developing new mechanisms to reach out to workers in the informal economy and creating guidelines for extension.
- **Achieve concrete improvements in social security coverage** through technical assistance projects focusing on a diagnosis of unfulfilled needs and ways to meet them. Training and policy discussion with stakeholders, strengthening institutions and social dialogue, formulating action plans, establishing networks of support institutions and individuals and monitoring and evaluating results.

- **Raise awareness and mobilize key actors.**

**How can social security coverage be extended?**

The New Consensus recognized that the best way to provide income security is through decent work, and priority should be accorded to creating opportunities for those in the informal economy to find work in the formal sector. Here training and education are key factors and where circumstances permit, unemployment benefit schemes supported by employment services and training are an important component in social protection development. Linkages between employment generation, skill development and training and social security provide a basis for decent work and social protection. But for the majority of the labour force in sub-Saharan Africa the movement from the informal to the formal sector remains a slow, and in some countries a reverse process, both with regard to access to formal sector employment in a decent work environment and with regard to the income security and access to health care provided through coverage in a public social security scheme.

Social security development strategies must therefore be formulated in the current development context. This involves making realistic choices as to what can be done and what can be achieved. Those choices need to take into account the national economic, social and political environment. They also need to take into account the existing social security provisions and the needs and circumstances and wishes of the stakeholders of these existing institutions. These stakeholders will be representatives of government, existing social security institutions, the social partners, civil society including Non Governmental Organizations (NGO), who play an important role in the current system, and also community based schemes. Provision needs to be made for these stakeholders to talk together and to reach common conclusions and proposals as to what might and could be done to extend coverage for social security and how this can be reconciled with other social and economic goals.

This approach which owes its origin not only to ILO principles of social dialogue but also to the spirit of the New Consensus discussions in 2001 provides the basis for the formulation of a national consensus. And it is already being tested in three countries (Honduras, Mali and Sri Lanka) in a technical cooperation project financed by the Government of the Netherlands which commenced in early 2002 and will continue - at least in its first phase - until December 2003. Each country is responsible for executing its own project through a national coordinating committee including representatives of the stakeholders and ILO specialists. There is a fourth project based in Geneva which monitors and evaluates the process. Training was provided for national stakeholders to facilitate their participation in the key outputs of the project which are, firstly, a national diagnosis of social security provisions and needs with particular reference to extension of coverage of the excluded and, secondly, based on the diagnosis, the formulation of a national action plan which will focus on priority issues for implementation. In each country the national diagnosis has now been completed and preparations are being made to formulate the national action plan. Proposals have been prepared to seek support for implementation and also to repeat the process for another group of countries or possibly a sub-region.

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*Clive Bailey*
Factors which influence coverage

The experience of the ILO in pursuing objectives relating to the extension of coverage has found that many factors are relevant, of which the following are particularly significant:

- Universal or social assistance schemes are financed from general taxes and provided that the tax base is broad and yields sufficient resources, levels of coverage may be extensive.

- Protection against some contingencies may be more attractive than others. Thus among the poor in developing countries, access to affordable health care may be seen as more important than the future entitlement to a pension.

- There is a close link between the level of coverage and the level of economic development in the country.

- It is easier to collect contributions and taxes from the formal sector.

- The perceived credibility and capability of the public social security scheme has implications for ensuring compliance and expanding coverage. Good governance is necessary both for the scheme to be effective and for its credibility.

- The support given by employers’ and workers’ associations and the priorities determined by the government will encourage the development of social security.

Most countries operate social security schemes which were designed to meet the needs and circumstances of formal sector workers and their employers. On the other hand, difficulties are invariably experienced in identifying, registering and ensuring the compliance of the self-employed, workers in the informal economy or in agriculture, and domestic and casual workers. This applies whether the scheme is financed by contributions or from taxes.

In principle, the most effective way of ensuring general coverage under a social security programme for the elderly and the disabled is through a universal pension scheme which provides entitlement subject to satisfaction of a basic contingency test such as attainment of age 60 or 65 supplemented by a residency test. But because such schemes are universal and uniform, the level of individual social protection is low and the overall cost tends to be high. They do, however, assist in providing more general family support with the direct beneficiaries being able to make a significant contribution to the household budget. The application of a means test would reduce the overall cost but would bring an increase in administrative expenditure and some risk of uncertainty and disparity of treatment.

Beyond universal coverage, efforts to extend coverage in developing countries have been limited and generally elements of the following approaches have been adopted:

- Concentrate on coverage of formal sector workers with voluntary participation of the self-employed (generally at a low level).

- Presume that economic development will gradually facilitate coverage of those who work for small excluded employers.

- Gradually extend coverage to the self-employed and devise special arrangements where appropriate, within the limits of administrative capacity.

Clive Bailey
The self-employed, however, have the opportunity to limit the level of their participation in the scheme - and to under declare their earnings levels. This may result in a cross subsidy between employees and the self-employed and indeed some countries have sought to encourage participation of the self-employed by subsidizing the liability of the self-employed (South Korea, Sri Lanka).

- **Provide universal coverage under the law on a social insurance base but recognize that future compliance levels will be low** (China and India have adopted policies which take into account the specific circumstances of workers outside the formal sector and support schemes adopted to the special needs of such workers).

- Foster the development of community based social protection schemes such as mutual associations: where possible with the development of linkages with public social security systems under which, for example, community schemes might operate as agents on behalf of public schemes.

**Possible steps to extend coverage**

It is apparent from the global experience in the implementation of projects to extend coverage for social security that a wide range of issues need to be considered in addressing the problem of extending coverage. The relevance of any approach depends on the characteristics of the group or contingency excluded but is also likely to include the following:

Where a public scheme is operating which covers some of those in formal sector employment, it may be possible to extend the scheme either:

- For persons presently excluded under the law for example because they work for small employers based on administrative convenience: **consideration could be given to amending the law to provide for their inclusion.**

- For persons covered under the law but excluded in practice: this may be on account of a desire to evade liability by either the employer or the worker or it may be due to unawareness or misunderstanding: **consideration could be given to improving key administrative systems such as registration, collection and enforcement or strengthening the legislation.**

- For those persons who are unaware of the scheme or how it works or who are suspicious about its objectives or its efficiency: **priority could be given to publicity to promote greater understanding and acceptance of social security principles and practice and confidence with the national scheme.**

- Where the benefit provided does not seem to correspond to the needs of many of those covered or where they have no capacity to contribute: **consideration could be given to reviewing the structure of the scheme and contemplating alternative ways of providing social security.**

- Where the scheme is clearly beyond the financial reach of the group: **give consideration to modifying the scheme or to encouraging the development of an alternative scheme or mechanisms such as a community based scheme for those in the informal economy or working on the land or where resources permit consider a public tax financed scheme either means tested or universal.**

*Clive Bailey*
It may therefore be appropriate to contemplate a range of proposals which reflect the need, the structure and coverage of the scheme. Thus in a developing sub-Saharan country one approach might be:

- **For the formal sector public and private employees with regular employment and average earnings:**
  Develop a social insurance earnings related scheme covering both public and private sectors including social health insurance.

- **Professional and business self-employed (such as tradesmen, artisans, taxi drivers, white collar, self-employed):**
  Consider compulsory coverage.

- **Lower income self-employed:**
  Contribution could be linked to the minimum wage to provide the basis for entitlement to minimum pension and employment injury social protection. Alternatively, the feasibility of financing, from taxes, health care and minimum pension for the poor.

In Brazil, there is a reliance on tax based social pensions targeted primarily on rural areas to persons who do not participate in more traditional contributory schemes. They are a lifeline and the poverty rate would quadruple without them. Elderly people may be only a section of the community with a regular income.

In Tunisia, coverage rates for health care, pensions, maternity and employment injury are 84 per cent (up from 60 per cent). The scheme involves efforts to tighten up on under-declaration of income with income scales for different occupational groups. Improve compliance among employers. Those excluded are casual and seasonal workers, some construction workers, and domestic workers.

Before contemplating reforms or restructuring of the social security system, it is advisable to diagnose the needs of those excluded and determine how those needs can best be met. It should not be assumed, for example, that priority should be given to extending a social insurance pension scheme for employees to the self-employed. Research and consultation should be undertaken as a base for planning. It may be found that protection against loss of income due to invalidity or disability or death is a priority or access to health care.

In summary, there are three principal ways to extend social security.

- **Through efforts to extend statutory social insurance.** This has met with varied success. Some middle-income countries have schemes which are performing well with well organized public institutions and these have shown the capacity to extend coverage both as regards the range of benefits and the number of people. In many middle income countries, however, these favourable conditions do not exist. In lower income developing countries extension of coverage through social insurance is even more difficult to achieve.

- **Through community based schemes** by harnessing the resources of the majority of the labour force who do not participate in social insurance but who have some capacity to contribute to their social protection provided that the protection is consistent with their needs.

Clive Bailey
• Through promoting cost effective tax financed social benefits aimed at the poor and the vulnerable. The effectiveness depends on their design and on their administration and also on the general willingness of society to pay taxes and to show solidarity with those who are not part of the active labour market.

Issues regarding unemployment benefit

Difficulty in reconciling the social security needs with the structure and benefit programmes of existing schemes has also arisen in relation to the need for income support for the unemployed. Unemployment insurance schemes have not yet been introduced in a significant number of developing and middle income countries but in recent years, as a response to both the Asian financial crisis and the broader impact of globalization there has been an increased demand for such schemes to be introduced, or at least considered through a feasibility study. These include Philippines, Indonesia, Sri Lanka, Thailand, and Bahrain and in Africa: Nigeria and South Africa. Such schemes are commonly seen and described as among the most difficult of social insurance schemes to administer, since they require a range of issues to be addressed in their administration such as:

• Benefit entitlement ordinarily depends not only on contributions having been paid for a prescribed period but also on the insured person being involuntarily unemployed, being available for work and being prepared to accept work identified as suitable.

• These conditions are difficult to meet and to monitor in many developing countries where the opportunities for informal sector activities may be plentiful.

• The establishment of employment services which can monitor entitlement and also find employment opportunities for the beneficiaries are not well established in many countries.

Other countries have chosen to modify their provident funds in order to provide financial assistance to members who have lost their employment during an economic crisis (Indonesia, the United Republic of Tanzania) or are facing a different social risk. Such schemes designate part of an individual member’s individual account as available to meet social security needs in respect of specific needs such as unemployment, housing or health care but subject to a minimum being designated as accessible only on retirement.

Conclusions

There is an increasing recognition among governments, employers and workers that the absence of adequate social security is not only undesirable for those who are excluded but also for the national economy and for labour relations and unemployment. The strong reliance, in many countries, on informal sector labour rather than on regular employees may cut costs but it also leads to lower levels of social protection entitlement and to fewer jobs in the labour market. Social security systems cannot themselves solve these problems. National macroeconomic policies are needed to achieve the appropriate balance in the labour market through minimum wage legislation and progressive income tax policies. International strategies are necessary to secure agreement on strategic approaches to extension of coverage in key areas. Commitments in this direction can be encouraged through focus on the Millennium Development Goals and through the ILO Global Campaign Social Security and Coverage for All.

Clive Bailey
Consistency with national macro-economic policy and with global objectives are important prerequisites but it is unlikely that, in any country, one option will provide the right solution. Furthermore, the nature of the problem is such that the extension of social security to the excluded of the world is going to take a long time. There are essentially four public options for extending social protection.

- Extending compulsory coverage of membership of contributory schemes.

  Extend and adapt statutory social insurance schemes. Some countries have been successful but important factors are political commitment, public resources and a mobilized labour force. Other countries have tried to adapt the social security benefit and contribution structure to the priority needs and the contributory capacity of workers in the informal economy. In some countries, this has been achieved within the context of statutory social insurance schemes; in others through special public schemes for workers such as the self-employed, domestic workers and workers in agriculture or construction.

- Encouraging voluntary coverage through contributory schemes.

  Foster contributory schemes for workers in the informal economy particularly in low income developing countries. Such countries have weak statutory schemes that often do not provide a strong base for a significant extension of coverage in the foreseeable future. It is here that micro insurance and community based schemes have emerged. Coverage of these schemes have remained low but with technical and institutional support could achieve significant improvement in coverage.

- Introducing universal benefits or services (such as health care) financed from taxes.

  Promote tax financed schemes for vulnerable groups who may not be able to benefit from contributory schemes. Public resources for such schemes may be limited and priority vulnerable groups may have to be identified.

- Establishing or extending means-tested benefits or services (social assistance) also with financing from taxes.

Many countries in the process of developing a national social security system will adopt a blend of these options. They also will have found that in this process it is no longer sufficient to rely on economic development as a source of momentum for the extension of coverage. Equally they will have found that it is no longer sufficient to rely on existing established schemes as administrators of the mechanism to extend coverage since such schemes may have been designed at another time to meet a different need. It may thus be inappropriate to use their benefit and administrative structure as a template for extension to those still excluded.

In many countries when establishing social security schemes, policy makers chose to exclude on a temporary basis, sections of the labour force who were seen as difficult to include such as those who work for small employers or the self-employed. The inference was that it would be easier to include these later when the scheme was fully operational but too often they have been forgotten or at least left on one side, either because of an absence of political support, or because of a reluctance to assume new and perhaps costly obligations.

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*Clive Bailey*
When a scheme is voluntary it is difficult for it to incorporate significant elements of solidarity. Those who perceive themselves as financing this solidarity will look for a better deal elsewhere while the scheme will attract those who expect more than they put in. This can be a problem with micro-insurance schemes although where such schemes are based on a close knit community, there may be a bond between members of the community which results in a form of social control and obligation to participate.

The four public options identified above as possible components in an extension of social security strategy will often need to be supplemented by separate voluntary inputs provided through micro-insurance schemes which rely on social solidarity between members of the community and which focus on meeting priority needs often in health care. Micro-insurance depends significantly on the development of innovative methods and the spread of experience. The following activities might be relevant in this context:

- develop and test methods to assess and monitor unmet needs and various options to address them;
- identify, document, analyze and share information on good practices;
- develop and test new mechanisms on the linkages between the extension message and other international development goals;
- carry out and support research.

A final word on the future. In recognition of the priority that it gives to the global objective of extending social security coverage to the excluded, and the specific significance that this issue has for the development of the Decent Work Concept in Africa and for the attainment of the Millennium Development Goals, the ILO proposes to launch a Special Initiative for Africa on the extension of coverage. This Initiative will take as its starting point the following:

- 50 per cent of Africans are living on less than USD1.00 a day;
- less than 10 per cent of Africans in sub-Saharan countries are covered by social security;
- existing social security schemes display many weaknesses in their governance, their benefit programme and their structure as well as their coverage.

and in response to the belief that existing schemes and, in particular those based on social insurance principles have experienced considerable difficulty in meeting social protection needs.

Key activities of the Initiative are likely to include some of the following:

- Reappraisal of existing social security programmes and the policies on which they are based with specific reference to issues of governance and the extension of coverage.
- Identification of priority social security needs and sources of financing.
- Review of the respective roles of government, the private sector, employers, workers and civil society in providing social protection.
- Devising relevant social protection schemes for the informal economy and those living in rural areas.
• The identification of countries for pilot studies and national diagnoses of social security needs and provisions and the development of action plans.

• Gathering and disseminating best practices and models of innovative and effective strategies used to reach out and organize workers in the informal economy.

• Setting up mechanisms for the effective participation of trade union organizations in the informal economy in the process of social dialogue relating to social security.

• Developing programmes which link social protection extension with employment creation in collaboration with other programmes such as Skills, Coop, and SME and in the Social Protection sector with HIV/AIDS and SAFEWORK to develop integrated programmes and decent work principles for workers in the informal economy throughout Africa.

Partnerships will be sought with other international organizations and with donor agencies. It is anticipated that the Initiative will be launched before the end of the year.
ANNEXES
Extending Social Security and Fighting Poverty: A Complex Challenge

Experiences from Around the World

1. Introduction
2. Social Security and the Asian Financial Crisis
4. Central and Eastern Europe: Coping with Economic Transition
5. Tunisia: Striving for Universal Coverage in Social Security
6. West Africa: Building Health Care Coverage at the Community Level
7. Namibia: A Case-Study in Progress on the African Continent
8. India: Self-Employed Women Organizing for Economic Security
9. Micro-Insurance: How It Works in One Bangladesh Community
Extending Social Security and Fighting Poverty: A Complex Challenge Experiences from Around the World

1. Introduction

Despite wide recognition that social security is a basic human right, fewer that 10 per cent of people in the poorest countries have social security coverage. This has an enormous impact on their lives and on work itself. What little earning power the impoverished have is further suppressed by marginalization and lack of support systems - particularly when they are unable to work because of age, illness or disability.

Social security - the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security - is an essential element of the safety net that keeps working people and their families from falling into poverty. In some cases, extending social security coverage to the unprotected can actually lift families out of poverty.

In 2001, the International Labour Conference defined some basic principles and approaches that should guide the process of extension of social security. It considered that there is no single right model of social security, and that priority should be given to policies and initiatives that can bring social security to those who are not covered by existing systems. Social security should also promote and be based on the principle of gender equality. Finally, each country should determine a national strategy for working towards social security for all.

The ILO is testing new approaches to open up access and monitoring initiatives by its member states to extend coverage. Moreover, it is seeking to apply its long experience in promoting social dialogue and tripartite involvement to address the special challenges of expanding social security in countries where coverage is weak and participation in the informal economy is high. An experimental ILO project is underway in three countries - Honduras, Mali and Sri Lanka - where the tripartite approach is being applied to each country’s particular challenges.

Below are just a few examples of how the challenge is being addressed in some of the world’s developing and transition countries….

2. Social Security and the Asian Financial Crisis

When much of East and Southeast Asia was hit by a severe financial crisis in 1997, some countries learned that their limitations in their social security systems - which relied on traditional family support to fill the gaps - simply aggravated an already
grave economic situation. Unemployment soared and millions fell through the safety net and into poverty. However, once the crisis abated, countries in the region recognized the need for improved social security systems covering more risks and more people - and they began to take action. The International Labour Organization has been working with several of these countries in designing and improving their social security systems. Some examples, representing different stages of development, follow…

**Thailand** was one of the worst affected countries, with more than 6.7 million people falling into poverty. The country had a new social security system, but it provided few benefits and covered only 17 per cent of the labour force and only 9 per cent of the total population. In response to the financial crisis, Thailand has taken a number of important steps to strengthen social security. For example, old age pensions and limited child allowances were introduced, and coverage was extended to all public and private employees and to the self-employed, who comprise 45 per cent of the labour force. A universal health care system was introduced giving nearly three-quarters of the labour force access to medical care at a nominal fee. Thailand is also planning to introduce an unemployment insurance system that will provide jobless benefits for up to six months.

**Indonesia**, with most of its workers in the informal economy, experienced a major increase in joblessness and, lacking unemployment insurance and social assistance, a substantial increase in poverty. The country’s largest retirement savings plan allowed members to take small lump sum benefits to survive, leaving them with nothing for their retirement. More recently, the government, with the ILO’s assistance and participation from the country’s trade unions and employer organizations, has established a National Task Force to develop plans to extend basic social security coverage to informal economy workers, to improve health care coverage, to introduce pensions for private sector workers and to provide social assistance and unemployment benefits.

The **Lao People's Democratic Republic** is one of the least developed countries in Asia, with half its population of 5 million living below the poverty line and 85 per cent of its workforce in the agricultural sector. The ILO helped the government design a national social security plan that is currently being implemented in the capital city, Vientiane. The scheme currently covers 70 per cent of private sector workers in Vientiane and will provide pensions (retirement, invalidity and death benefits) and short-term payouts for maternity, employment injury and sickness. The scheme also includes health coverage based on contributions from employers and workers. The country is currently trying to find ways to expand the programme to agricultural and informal economy workers.

3. **Brazil: Using “Social Pensions” to Fight Poverty**

Over the past 30 years, Brazil has been steadily improving its pension system, with the goal of reducing poverty among the country’s elderly population. A key initiative has been the enhancement of tax-financed “social pensions,” targeted primarily to rural areas, to provide coverage to people who do not participate in the more traditional contributory plans that cover many of the country’s salaried workers in both the private and public sectors.
These social pensions, which essentially provide the equivalent of the minimum wage to elderly beneficiaries, have been broadly effective in fighting poverty in the country. Today, nearly 80 per cent of Brazilians over age 60 live in families that receive pension benefits, and the 10 per cent poverty rate among that age group is only a third of the rate for the under-60 population.

Social pensions are a lifeline for those who receive them. It is estimated that, without them, the poverty rate among the beneficiaries would quadruple. Moreover, the benefits have a strong impact on local economies and family welfare, particularly in rural areas, where retired people are often among the few people in the community who can count on a regular income. For example, the electronic banking card that each beneficiary receives is often used as proof of creditworthiness, which in many cases goes a long way toward improving a family’s economic situation.

The effectiveness of the social pensions has been enhanced in recent years by a number of initiatives, including the lowering of the minimum age to receive benefits in rural areas from 65 to 60 years of age for men, and to 55 years for women. Further, women obtained independent access to the pensions - a major victory for the rural women’s movement in Brazil. Social pensions are also becoming more widely available in urban areas, where the age to receive benefits was recently lowered from 70 to 67 years and a new programme to assist disabled persons was added.


4.  Central and Eastern Europe: Coping with Economic Transition

The first decade of economic transition in Central and Eastern Europe put public pension plans in the region under a great deal of stress. As high unemployment initially shrank the contribution base, governments responded to social pressures by liberalizing rules for early retirement, which caused plan expenditures to soar. Later, as countries in the region regained a measure of stability, their governments began to restructure their pension schemes in an attempt to strengthen their financing while responding to the needs of workers in the emerging market economies.

Several governments have opted to scale back their public pension schemes in favour of new systems featuring commercially managed individual savings accounts. Others are strengthening the financing of their existing pay-as-you-go systems while changing their parameters and supplementing them with voluntary retirement savings plans.

Meanwhile, in many countries in the region, the contributor base has continued to shrink - in some cases by as much as 25 per cent - amid the growth of self-employment and the informal economy. In addition, underreporting of wages has become widespread. The resulting drop in revenues is placing great pressure on national pension schemes, requiring state subsidies which are fiscally burdensome or cuts in benefits that pose hardships for the elderly.
Efforts to improve the collection of contributions have focused mainly on the adoption of so-called unified collection systems, whereby a single enforcement agency collects contributions to fund multiple social insurance schemes (e.g., pensions, health care, unemployment, sickness, employment injury) and may collect income taxes as well. While this approach can improve efficiency in improving revenues among workers in formal employment, it has not proven effective in reaching the self-employed workers and those in the informal economy for whom no government agency has identifying records. Nevertheless, unified collection systems have been established in Latvia (1996), Slovenia (1996), Estonia (1999), Hungary (1999), and Bulgaria (2002). Romania has adopted a law requiring unified collections, effective in 2004. In the Slovak Republic, a proposal for unified collections has been under consideration for several years.


5. Tunisia: Striving for Universal Coverage in Social Security

Using a variety of initiatives, Tunisia succeeded in raising social security coverage - for health care, old age pensions, maternity and employment injury - from 60 to 84 per cent of its workers and their families in just 10 years. Nearly all Tunisians who work in the public and private non-agricultural sectors are now covered. And, while coverage rates are still below 50 per cent in the agricultural sector and among the self-employed, the government hopes that all workers will be covered in the years to come.

How is this being done so rapidly? First, Tunisia took measures to limit the under-declaration of income from the self-employed by developing income scales for various occupational groups, and then using them to calculate contributions. This was followed by an extensive informational campaign, in collaboration with employers’ and workers’ organizations, that brought a large number of new contributors into the system.

Secondly, as the government took vigorous steps to improve compliance among employers and the system was able to improve benefits, working people in Tunisia began to have more confidence in social security as an institution. In increasing numbers, they saw it as an effective tool to protect themselves against rapidly rising health care costs, as well as a guarantee of income security in old age. This change in attitude was furthered by public awareness campaigns and educational outreach by the country’s trade unions.

The remaining, uncovered population will undoubtedly be the most difficult to bring into the system. They include casual and seasonal agricultural workers, construction workers in labour-intensive public works programmes, domestic workers and the unemployed.

6. **West Africa: Building Health Care Coverage at the Community Level**

In Sub-Saharan African countries, where up to 90 per cent of working people are engaged in informal employment lacking even the most basic social protection, communities of poor people have been banding together to create micro health insurance schemes to address basic needs for health security.

One example of this phenomenon is the “Wer Werlé” micro-insurance plan, which was launched in Dakar, Senegal, in 1998 and now offers health insurance services to more than 1,000 beneficiaries. Sponsored by an amalgamation of women-led anti-poverty organizations, Wer Werlé collects the monthly equivalent of US$0.25 from its members and, in cases of sickness, reimburses 100 per cent of consultation and delivery costs and 50 per cent of medical costs. The plan has signed contracts with several health care providers, resulting in price reductions and better quality care for the group. In addition, it organizes awareness raising campaigns on the prevention of hepatitis B, HIV/AIDS and malaria, and it has acquired a limited stock of generic drugs to make treatment more affordable for its members.

In order to support micro health insurance plans in the West African region - and to further the mutual health movement - the ILO has worked with partner organizations to link them together into a broad network, enabling them to exchange practical knowledge and to deal more effectively with health providers, support organizations, public services and donors. Now spanning 11 countries, this “concertation” also helps create synergies between the various mutual health insurance plans, various partner organizations and their communities through concrete activities such as training programmes and information exchange meetings, as well as communications tools such as newsletters and a website.

The “concertation” also organizes a biennial international forum for member organizations to compare experiences and to develop joint activities. The most recent forum, held in Dakar in 2002, drew 190 participants from 24 African countries.

“West Africa: Building health care coverage at the community level” [http://www.concertation.org](http://www.concertation.org)

7. **Namibia: A Case-Study in Progress on the African Continent**

Thirteen years after its independence from South Africa’s apartheid government, Namibia still faces enormous development challenges, including one of the world’s highest rates of HIV infection and a poverty-rate that encompasses one-third of its population. However, Namibia also inherited an established social security system, which is now gradually being strengthened through social insurance schemes and improved governance.

The backbone of the present system consists of tax-financed benefits, administered by the Ministry of Health and Social Services and paid universally to people over age 60, as well as invalids and disabled people who are younger. Additionally, the ILO has worked with Namibia’s Social Security Commission to create a national social insurance scheme, financed by contributions from employers and workers and providing income security in the event of sickness, maternity or death of a
breadwinner. Within this system, a pension scheme is being planned to supplement the tax-financed universal pension.

In the meantime, the universal pension of about US$25 a month has proven to be a major source of economic support to Namibia’s impoverished communities - particularly since the government took steps to make sure that pensions and other grants are paid on time and reliably and conveniently to eligible beneficiaries. To accomplish this aim, the Ministry issued “smart cards” with the beneficiary’s photograph and a fingerprint that can be immediately verified by a machine. Crews headed by a paymaster travel regularly to thousands of “pay points” around the country, carrying with them automated teller machines similar to those found in many banks. Beneficiaries bring their smart cards, have their identification checked, and receive their benefits on the spot.

These pensions are the only regular cash income in many rural households. Often, they provide the source of financing for basic items like school fees and medicines. Namibia’s new method for distributing benefits, in addition to bolstering the security and credibility of the pension system, has also greatly improved access to pensions among many elderly Namibians who, for many reasons, previously found it difficult to receive their payouts.


8. India: Self-Employed Women Organizing for Economic Security

Founded 30 years ago in Gujarat state in India, the Self-Employed Women’s Association (SEWA) is a labour union that now represents 700,000 informal economy workers in five states. Its membership consists primarily of home-based workers, vendors, manual labourers, service providers and producers.

Economic security and self-reliance have always been the central focus of SEWA’s strategy to organize women. In 1992, recognizing the important role that social insurance plays in supporting these goals - and, in particular, helping self-employed women protect themselves financially in case of unforeseen events - SEWA designed and developed its own insurance plan, known as VimoSEWA. The plan provides a series of packages offering life, health and casualty insurance at premiums ranging from US$1.77 to 8.33 per year. VimoSEWA functions as a cooperative where services are managed by a team of 120 grassroots women leaders who promote and explain the plans, process claims, develop new products and negotiate with government and private insurers.

Now serving more than 100,000 people, VimoSEWA has become one of the world’s biggest social security organization for the informal economy. It recently introduced health insurance for children and plans to introduce maternity insurance.

9. **Micro-Insurance: How It Works in One Bangladesh Community**

In Bangladesh - where affordable, quality health care services are rare in rural areas - the ILO has supported a micro health insurance plan administered by the Grameen Bank, development association that has long pioneered financial services for the working poor. The experience of one rural villager demonstrates the impact that even a modest health plan can have on the lives of rural women in developing countries.

Married and with three children, Shefa became a member of the Grameen Bank and received a small loan that she used to purchase a sewing machine for her home-based tailoring business. Shortly after her husband left the family for a job in Saudi Arabia, Shefa fell sick with a sexually transmitted disease that she had contracted from him. Given the social stigma associated with this type of illness in their country, many rural women would be hesitant to seek treatment, especially if it required asking for money from relatives and friends. But, as a member of the Grameen Kalyan, the micro health insurance plan, Shefa was able to afford to visit a nearby health center, where she was diagnosed and treated until cured. With her health card, for which she pays the equivalent of about US$2.00 a year, she was able receive medical care for a little more than one-tenth the market price.

Shefa is now healthy and continues to support her family. And Grameen Kalyan continues to provide affordable health security to more than 45,000 people in Bangladesh, with plans to increase that figure to 60,000 by the end of 2003.
Annex 2

Global Campaign on Social Security and Coverage for All

Details of Upcoming Activities ...............................................................2

1. Extending Social Security Through Social Dialogue........................................2
2. Extending Social Security to the Excluded in Five Portuguese-Speaking
   African Countries..........................................................................................3
3. The Global Social Trust Pilot Project ..........................................................3
4. Strengthening Community-based Social Security Schemes.............................4
5. Extending Health Care Coverage in Latin America and the Caribbean............5
Global Campaign on Social Security and Coverage for All

Details of Upcoming Activities

In an effort to help Member States extend social security coverage to more of their citizens, the ILO will intensify efforts already underway in more than 30 countries. Activities will initially concentrate on five key areas:

I. Extending Social Security Through Social Dialogue

An initiative focusing on three countries - Honduras, Mali and Sri Lanka – where the ILO will promote approaches based on social dialogue between governments, workers’ and employers’ groups to develop plans for implementing social security reforms aimed at extending social security coverage.

For the time being, this experimental process, financed by the Government of the Netherlands, is limited to three developing countries - Honduras, Mali and Sri Lanka; if found successful, this process can be replicated in many other developing countries. In each country, a national diagnosis is to be developed through the concerted efforts of government ministries, representatives of employers and workers, as well as civil society organizations and social security institutions. The national diagnosis will examine the social security needs of workers in the formal and informal economy, as well as assesses the effectiveness of statutory and community-based schemes to cover these workers.

In all three countries, the draft diagnosis has now been discussed in national seminars, with full participation of all interested parties. In Sri Lanka for example, the national seminar concluded that a new health care strategy will have to be developed, and it identified weaknesses in the administration of employment security plans and the need to gather more information on community-based schemes and their potential. In Mali, the national diagnosis has led to the recommendation to set up a compulsory social health insurance scheme for workers in the public and private sector as well as a social assistance medical care scheme for the poor.

The diagnosis provides the basis for national action plans that are currently being prepared in all three countries. It is expected that these plans will be carried by broad social and political support. The process followed in these countries assures the enduring commitment of governments, social partners and civil society, and it creates an open and democratic space to find solutions through dialogue. These national action
plans will also form the basis for the launch of national campaigns on social security and coverage for all.

2. **Extending Social Security to the Excluded in Five Portuguese-Speaking African Countries**

A project aimed at Portuguese speaking countries in Africa - Angola, Cape Verde, Guinea-Bissau, Mozambique and Sao Tome & Principe - which is designed to help them better understand which groups of people are excluded from their social security systems and devise ways to bring them under full coverage....

In these five countries, only a small percentage of the labour force, most of which is in the informal economy, is covered by statutory social security. This project, financed by the Portuguese government, will seek to increase the number of salaried workers who are covered by existing social security systems, while creating special statutory schemes for non-salaried workers that take into account their needs and ability to contribute. In addition, increased coverage will be attained through the development of community- and occupation-based schemes specially designed for the excluded in the informal economy. The latter two activities of the project will be developed over the next four to five years.

For the project on the fight against social exclusion to be successful, it is first of all necessary to better understand the process of social exclusion. To this end, a study on the impact of the informal economy on poverty and exclusion will be completed at the beginning of 2004. Secondly, it will develop and maintain a website that will improve its visibility and will encourage exchanges between various participants. A specific tool included in this website will be the “Learning and Resources Electronic Centre for Social Inclusion” to improve the project’s intervention capacity at the local level. This second activity will be undertaken during the full project duration, and will be continued after completion of the project. Governments, the social partners and civil society organizations will be closely associated with the conception and implementation of the project’s activities.

3. **The Global Social Trust Pilot Project**

A programme aimed at extending social security by enabling people in industrialized countries to help finance the strengthening of social security systems in developing countries...

Under this programme, developed countries would be partnered with least developed nations, with individual contributors in the developed countries being offered the opportunity to make regular, voluntary contributions of a few euros a month to the Trust. The money collected would then be used to kick-start basic social protection schemes in least developed countries - and support them until they can become self-supporting. It is envisioned that the benefits under the programme would go a long way toward reducing poverty in developing countries.
The core benefits supported by the Trust would consist of basic income security, basic education and essential health services provided to the family unit. On the financing side, there is evidence of considerable support among people in developed countries. A survey in Germany indicated that as many as 25 per cent of adults would be willing to contribute on a regular basis. However, even with a modest participation rate of only five per cent of all employees in the richer OECD countries, the annual volume of contributions collected would still be sufficient to make a major contribution towards poverty alleviation in developing countries.

With the help of the social partners in a European country, the ILO is preparing to launch a Global Social Trust pilot project to provide income support to HIV/AIDS affected families in Southern Africa.

4. **Strengthening Community-based Social Security Schemes**

A project aimed at developing a better understanding of community-based social security plans that have emerged in developing countries, to devise ways to support them and enable them to grow, and to determine their potential for becoming part of wider, integrated national plans....

This initiative will target poor and excluded groups in the informal economy, as well as low-income formal economy workers whose social security coverage does not meet their needs. In many countries the rapid proliferation of community-based social security schemes has demonstrated their important potential to contribute to the extension of social security services answering the priority needs of the excluded segments of the population, mainly with regard to health care. While some of these schemes have succeeded in developing efficient services to the benefit of their members, many are still found in dire need of more technical support in order to attain their full potential and to become sustainable. At the same time, there is a need for broader awareness and understanding of these schemes and their potential for helping countries expand social security coverage.

The ILO-STEP (Strategies and Tools against social Exclusion and Poverty) Programme has already carried out 35 technical cooperation projects on community-based schemes in 38 countries of Africa, Asia, Latin America and the Caribbean. In total, these projects provided direct technical support to more than 100 community-based schemes, covering about 400,000 members. These projects have also supported the design and development of policies and legislation to strengthen community-based schemes.

Beginning this year, the STEP Programme will undertake a worldwide survey on existing community-based social security schemes, in an effort to gain more knowledge on their experience and potential to improve access to health care. This information collected will lay the foundation for further technical assistance activities, while encouraging the development of communication networks among the various schemes and other interested groups. Further, the initiative will focus on strengthening the technical
capacities of the schemes in the areas of financial and risk management (prevention and reparation mechanisms), while developing a better articulation with all concerned parties such as social security institutions, technical ministries, policy-makers, health providers, national and local support organizations, the donor community.

5. **Extending Health Care Coverage in Latin America and the Caribbean**

An initiative, in cooperation with the Panamerican Health Organization (PAHO), to better understand and attempt to reverse the decline in health care coverage in Latin American and Caribbean countries, where about 140 million people do not have access to health services....

The ILO and PAHO will cooperate in helping countries define national action plans to extend health care coverage through a variety of mechanisms, such as social health insurance, community-based approaches and opening up access through public health care facilities.

The exclusion from health care coverage can take many forms, varying from a total lack of access to health care facilities, to excessive financial burden to the household, to a lack of dignity and/or quality in the delivery of health care services. Exclusion is determined by a number of factors, including the unsuitability or lack of health care provision, as well as the financial, geographical or cultural barriers that prevent the access to health care. The complexity of this problem is exacerbated by the self-excluding behaviour of individuals who choose not to use the available services because they are afraid of discrimination or because they think that their particular condition cannot be treated through the available health care facilities.

Together with PAHO, the ILO has taken the initiative to help countries to reverse this trend, with the ultimate aim to ensure health care coverage for all. During the first two years of the initiative, all participating countries will define national action plans as how health care coverage will be extended through a variety of mechanisms, such as social health insurance, community-based schemes and free access through public health care facilities. During the last three years, a first start will be made with the implementation of the action plans.

The number of participating countries will depend on the availability of resources. To raise funds, a Donors Meeting on the ILO/PAHO Initiative will be held in Stockholm, Sweden, probably on the second half of November 2003. The meeting will be co-sponsored by the Swedish International Development Cooperation Office (SIDA), the ILO and the World Health Organization/PAHO.