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New approaches to extending social security coverage

Overview and challenges of social security coverage: Country examples in East Asia

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Background

A very large proportion of the population in most regions of the world still does not enjoy any social protection or is covered only partially. This is the case for the vast majority of people in developing countries. Even in some of the richest industrialized countries, there are large and growing gaps in social protection.

This is especially true for informal economy workers who compose a majority of workers in most of the developing countries. In Asian developing countries, majority of the workers engage themselves in agriculture in rural areas and this poses major challenges for the extension of social security coverage.

History of extending social security coverage in developed countries¹

The development of social security schemes in most of the developed nations shows that social security systems developed in line with social and economic changes, such as changes in the industrial and employment structure, urbanization, and family and demographic structure.

The role of the family in providing income security is essential, irrespective of a country's level of development. The role of the extended family in providing income security varies considerably, but still remains very important in some Asian and African countries.

The role of the family and extended family in providing income security has been weakened in developed countries since the network has become smaller as a result of

¹ World Labour Report 2000, ILO Geneva

urbanization, or the migration of the labour force especially the young population from rural to urban areas. At the same time, a substantial number of workers started to work as salaried workers in the secondary and tertiary economic sectors.

There are several strategies to overcome the various risks in life. Saving is one of the ways to cope with financial difficulties caused by such contingencies as ill health, old age, invalidity and death of a breadwinner. However, saving has its own limitations especially when the costs involved may be more than an individual's capacity, e.g. as a result of high-cost medical care, prolonged longevity, etc. Private insurance mechanisms and mutual aid associations, which are based on the principle of voluntary participation, were developed to respond to these problems.

Civil servants have fairly generous fringe benefits, especially retirement pensions. Compulsory social security protection, including the classic social insurance mechanism, was first introduced to employees who were mainly employed in big enterprises in the urban areas. This was extended to employees of smaller enterprises or those working in rural areas and then to the rest of the population, e.g. self-employed persons, their dependents, unemployed persons, elderly population.

Social security plays an essential role in developed countries in providing universal and comprehensive coverage to major contingencies with substantial financial redistribution through the principle of solidarity, that is, high-income earners subsidize low-income earners and those with higher risks subsidize those with lower risks.

All countries will not necessarily follow the same path as that of developed countries. It is important that a specific strategy be developed in line with the social and economic context of each country.

The ILO Sub-regional Office for East Asia in Bangkok (ILO SRO-BKK) has been working on several projects to improve social security coverage, especially to the non-covered population. This paper presents several examples of the work of the ILO SRO-BKK.

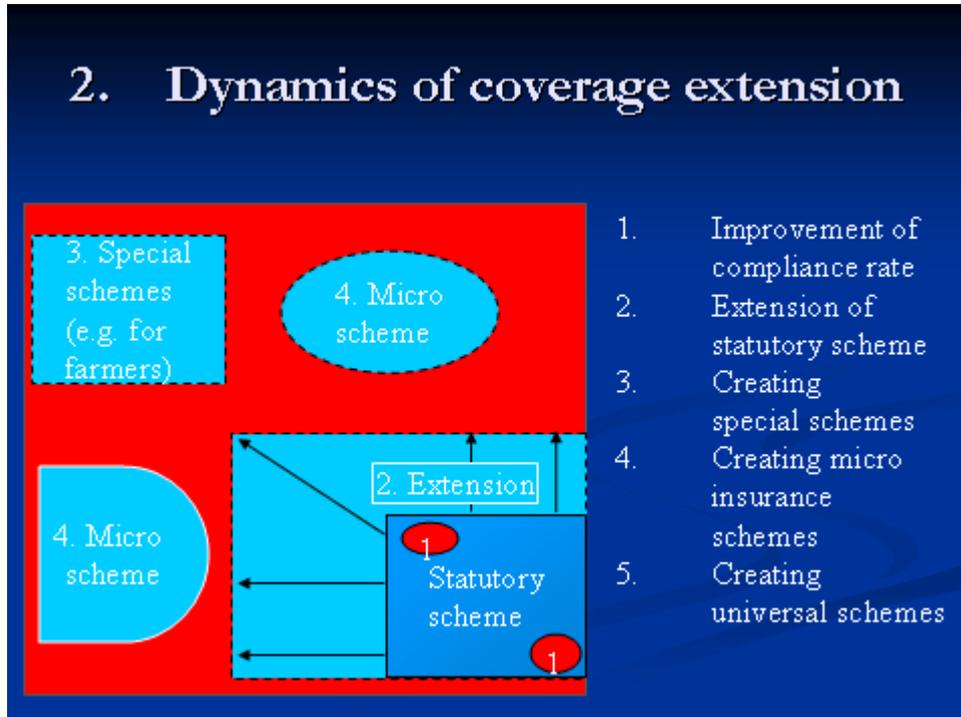
Dynamics of social security coverage extension²

There are essentially four ways to extend social security coverage, namely:

- Extending the existing social insurance scheme;
- Encouraging micro-insurance scheme;
- Introducing universal benefits or services financed from general state revenues (without means tests); and
- Establishing or extending means-tested benefits or services (social assistance), also financed from general state revenues.

² Social security: A new consensus, ILO Geneva 2001; Technical Note on the Extension of Social Security to the Informal Economy in Thailand, ILO SRO-BKK, 2004

The appropriate mix of the different mechanisms will depend on the national context and the national strategy adopted. It should be noted that the dynamics of the mix of the different mechanisms is carefully considered in order for the strategy to be realistic and for the system to be well-functioning and sustainable in the present as well as in the future.



Some ILO projects covered by the ILO SRO-BKK

Countries covered by the ILO SRO-BKK are roughly classified into several categories, taking into account their different social and economic situations, which are important factors in adopting different strategies of social security coverage extension.

The first group is composed of developed countries where full social security coverage is attained, at least in some branches of social security benefits.

This group includes the Republic of Korea, where universal coverage (97 per cent) was achieved in 2003 for the health insurance scheme. The remaining 3 per cent of the population is covered by the public assistance Mutual-Aid Programme. Pension insurance provides coverage not only to employees in enterprises on a compulsory basis but also to the self-employed on a voluntary basis.

The second group consists of middle-income countries where compulsory social insurance schemes provide several, but not all, social security benefits for formal dependent employees.

Countries such as Malaysia and Thailand belong to this group. In Malaysia, the Employees' Provident Fund (EPF) provides mainly lump-sum payments for retired persons. The Social

Security Organisation (SOCISO) provides employment injury benefits (health care, temporary and permanent disability, and survivors' benefits). In Thailand, the Social Security Office (SSO) provides fairly comprehensive benefits ranging from health care to short-term cash benefits such as sickness and maternity, to long-term cash benefits such as old age, invalidity and death benefits. Employment injury benefits are provided through the Workmen's Compensation Fund (WCF). In Thailand, it should be specially noted that health care is provided by the SSO for private sector employees, by the Civil Servants' Medical Benefit Scheme (CSMBS) for civil servants or by the newly-established Universal Health Care Scheme (UC Scheme or also called '30-Bahts Health Care Scheme).

The third group includes transition countries of varying diversity, for example, China, which is rapidly developing but suffers from wide and increasing gaps between urban and rural areas, and Vietnam whose economy is also rapidly growing but is still considered as a developing country. These countries have schemes for civil servants or State Owned Enterprises (SOEs) and have expanded their schemes to private formal economy workers. However, compliance from the private sector employees is still low. Benefit packages are, in general, fairly comprehensive.

The fourth group includes other developing economies which include Lao PDR and Cambodia, which have only direct compensation schemes for civil servants and which have established their social security schemes only recently or have never had a social security scheme for private formal economy workers.

It goes without saying that there are differences among countries in each group. At the same time, each group shares some similarities in the challenges facing them.

Although the ILO SRO-BKK does not necessarily have activities or projects in every country covered by the Office, especially in developed countries, such as the Republic of Korea which needs no assistance from the ILO but is rather in a position to provide assistance to developing countries based on its experience obtained through the improvement and the extension of social security, the ILO has contributed to the development and extension of social security and accumulated experiences in some of the member countries of the ILO.

The remaining part of this paper presents some of ILO's experiences and the future challenges facing these countries.

Thailand

Brief history of the improvement and the extension of social security coverage by the SSO

Except for employment injury benefits which have been provided by the Workmen's Compensation Fund (WCF) under the legislation of the year 1972, there was no other social security provision for private formal economy workers until the year 1990 when the Social Security Act 1990 came into force.

The scheme originally applied to workers in establishments with 20 or more workers. The SSO provides benefits for sickness (medical care and cash benefits), maternity, invalidity and death.

The SSO has since expanded its coverage to include smaller establishments and added more benefits in accordance with the Social Security Act 1990 which provides for the phased introduction of a comprehensive social security programme for private sector employees. For example, in 1995, maternity allowance was extended from 60 to 90 days, invalidity pensions became payable for life, and survivors' grants were introduced. In 1998, old-age pensions and child allowance were introduced. The most recent achievement is the introduction of unemployment insurance in January 2004.

In 1993, the SSO scheme extended its coverage to employees in establishments with ten or more employees and in 2002, to the smallest of enterprises.

The Universal Health Care Scheme³

In addition to the extension of social security coverage to private formal economy workers through the continuous efforts of the SSO, the Government has made efforts to provide health care since the early 1970s. In 1975, the Government started a medical welfare scheme to cover low-income households with earnings at and below the poverty line through the provision of tax-financed public health care. In 1983, the voluntary Health Card Scheme started to cover the non-covered (and non-poor) population. In spite of substantial subsidies from the Government (half of the cost) since 1994, the scheme suffered much from adverse selection and became financially non-viable. Moreover, it is estimated that 15 million people were left without health care coverage.

In order to overcome all the challenges, Thailand introduced the Universal Health Care Scheme or the 30-Bahts scheme in October 2001. The scheme is totally financed from general tax revenues except for a nominal copayment of 30 baht per patient's visit.

ILO activities

Since the inception of the SSO scheme, the ILO has continually provided technical assistance to the SSO on a wide range of issues, from legal framework and financial design, to administration and implementation, including further training and capacity building of Thai Government officials. The ILO has also provided technical advice on the financial management of the 30-baht scheme.

There has been a gradual improvement of the existing schemes, especially that of the SSO which covers, in theory, all formal private workers. The ILO recently conducted preliminary actuarial valuations for both long-term⁴ and short-term⁵ benefits. It has also been conducting several financial assessments to further improve the scheme, such as liberalizing the qualifying conditions for invalidity benefits and providing survivors' pension instead of the present lump-sum payment in case of death of the insured persons.

The Ninth National Economic and Social Development Plan (2002-2006) includes an objective to enhance universal social security coverage on an equitable basis and to assist the poor and under-privileged to become self-reliant through various policies, including the extension of social security coverage to both formal and informal workers.

³ Social Health Insurance, Selected Case Studies from Asia and the Pacific, WHO SEARO, March 2005

⁴ Thailand, Technical Note, Actuarial review of the old-age benefit branch of the Social Security Fund, ILO SRO-BKK, 2004

⁵ Thailand, Technical Note, Preliminary actuarial review of the sickness, maternity, invalidity, and death benefit branches of the Social Security Fund

The ILO has been working with the SSO on the development of a comprehensive strategy for the extension of social security coverage.⁶ The ILO has carried out a basic study⁷, using the Thai periodical labour force survey on overall social security coverage, needs and priorities of social security, willingness to pay contributions and the capacity to pay of the non-covered population. The ILO has also reviewed the present and future long-term financial situation of the UC Scheme to assist the Government in the development of a long-term financial strategy for the scheme⁸.

All these technical inputs were considered in the Inter-Governmental Seminar on Social Security Extension that was held in Thailand in December 2004. The main recommendations on the global strategy for the extension of social security coverage in Thailand are:

- further extension of the SSO scheme to non-covered, dependent private formal economy employees;
- extension of health care benefits to dependents of SSO insured persons; and
- introduction of a non-contributory pension scheme.

Future challenges

In spite of rapid and desirable developments in the extension of social security coverage in Thailand, it is essential for the present system to be financially and administratively sustainable in the future. Further improvements should be carried out to reach the non-covered population and provide additional benefits for other contingencies that remain uncovered.

It should be noted that a coordinated and well-planned strategy is necessary to further extend social security coverage. Therefore, it is desirable that all agencies involved in social security such as the Ministry of Labour, SSO, Ministry of Health, National Health Security Office, Ministry of Finance, National Social and Economic Development Board, and the National Statistical Office, should work together to plan an extension strategy, especially to carry out exercises to identify sustainable financing sources (e.g. tax, contributions) to improve and extend the coverage of social security in the long-term.

Lao PDR

Social and economic overview⁹

The Lao People's Democratic Republic (Lao PDR) is a developing country with an annual per capita Gross Domestic Product (GDP) of around US\$ 380. Agriculture, including forestry and fishing, is the most important economic sector. It accounted for an estimated 48.6 per cent of nominal GDP in 2003. Industry (manufacturing, mining, utilities and construction) contributed 26 per cent and services contributed 25.5 per cent of GDP in 2003.

⁶ Technical Note on the Extension of Social Security to the Informal Economy in Thailand, ILO SRO-BKK, 2004

⁷ Thailand Social Security Priority and Needs Survey, ILO SRO-BKK, SSO and National Statistical Office (SSO), November 2004

⁸ Thailand, A Technical Note to the Government, Financing Universal Health Care in Thailand, ILO Geneva, ILO Bangkok and International Health Policy Programme (IHPP) Thailand, June 2004

⁹ Country report Laos 2005, Economic Intelligence Unit

The growth of the economy in Lao PDR has been volatile in general. Between 1999 and 2003, real GDP growth averaged 6.1 per cent with industry recording the fastest pace of growth during this period. Growth in 1998 was pulled down to 4 per cent, owing to the impact of the Asian financial crisis and, specifically, a sharp fall in Thai investments and demand for Lao exports. Growth picked up in 1999 to 7.3 per cent as the regional economy recovered, and remained stable at a little less than 6 per cent in 2000-03 but was estimated to have dipped to 5 per cent in 2004.

The IMF estimates the population at nearly 5.7 million in mid-2003. The population growth rate slowed to around 2.3 per cent in 2000-01, before picking up to 2.4 per cent in 2002-03, but lower than the annual average of around 2.5 per cent recorded in the 1990s. The population is young, with 42 per cent under the age of 15 in 2002. The total fertility rate (TFR) for the year 1995 was estimated at 5.6 with a decreasing trend. The average life expectancy at birth is low. In 1995, it was estimated at only 52 years for females and 50 years for male¹⁰.

It is estimated that about 80 per cent of employed persons are engaged in agriculture. The remaining 20 per cent are comprised of self-employed persons and wage employees. Private sector wage earners are estimated at only 30 per cent of total wage earners; the remaining 70 per cent of wage earners are civil servants including the police and the military¹¹.

Brief history of the improvement and extension of social security in Lao PDR and ILO activities

The ILO provided technical assistance on social security to the Lao PDR within the framework of the first phase project on social security which was co-financed¹² and executed by the UNDP from 1997 to 2000. This project contributed to the enactment of Decree 207/PM (Decree on Social Security System for Enterprise Employees) in December 1999 and to the establishment of the Social Security Office (SSO) under the Ministry of Labour and Social Welfare. The SSO started operations in 2001. The SSO provides fairly comprehensive benefits in case of sickness (health care and sickness cash benefits), maternity, death, old age, invalidity, and employment injury.

Since the launch of the scheme in 2001, the number of insured persons has increased steadily. The total number of insured persons in 2003 is estimated at about 25,000, covering those in Vientiane Province and enterprises with more than ten employees. The coverage rate is roughly estimated at about 30 per cent of the potential target population of private wage earners. Hence, there are still challenges in terms of coverage compliance especially of private enterprises converted from State Owned Enterprises (SOEs) and other provinces.

¹⁰ Lao People's Democratic Republic, Development of Social Security, Report to the Government on the Actuarial Valuation of the Social Security Fund, ILO SRO-BKK (forthcoming)

¹¹ Lao People's Democratic Republic, Development of Social Security, Report to the Government on the Actuarial Valuation of the Social Security Fund, ILO SRO-BKK (forthcoming)

¹² Together with the Government of Belgium

The reform of the civil service social security scheme, which covers nearly 70 per cent of wage earners in Lao PDR is another challenge. The scheme is beset with problems typical of civil service schemes in transition countries. These are: very low cash benefit levels despite a high replacement ratio because of the generally low wages in the civil service sector; a higher system dependency ratio (or system ageing) than that of the general population because of the structural reform of civil service and the early retirement of civil servants; and past liabilities or transitional cost because of past period of direct compensations without any accumulated financial reserves. These all lead to questions of future financial sustainability of the civil service scheme.

In addition, health care provision using fee-for-service payments has low payment ceilings and delays in reimbursement. This has caused a feeling of frustration for the beneficiaries. The scheme may have reached a point of becoming non-functional.

The biggest challenge is to cover the remaining population, about 90 per cent of total workers. This includes agricultural workers who comprise about 80 per cent of all workers and the self-employed comprising 10 per cent of all workers at present.

Based on these further demands on social security in Lao PDR, the present ILO project financed by the Grand Duchy of Luxembourg was formulated to provide technical assistance on the comprehensive review of the Social Security Fund and the civil service scheme in order to develop a strategy for the extension of social security coverage to the non-covered population, including legislation, financing and administrative as well as technical advice.

The SSO has gradually extended the coverage of dependent children for health care and plans to extend coverage to other provinces in 2005-2006.

A new reform decree for the civil service scheme has been drafted and will be submitted for the consideration of the Prime Minister. The decree takes into consideration the actuarial study conducted by the ILO and consultations with stakeholders.

A new pilot project for health insurance using the capitation payment and the referral system from district hospitals to provincial hospitals will be implemented in the capital of Vientiane in 2005 to test the feasibility and effectiveness of a new health insurance scheme for civil servants.

To support all these measures, policy researches, including fundamental quantitative and actuarial studies, were carried out. Detailed administrative procedures for an improved payment system such as the capitation payment mechanism for civil service health insurance were also developed through the support of the project. Extensive activities have been carried out for capacity building, including seminars, training workshops, study tours and some fellowships.

Future challenges

In Lao PDR, the overall governance structure including the taxation system is still weak and the concept of compulsory insurance is not yet well understood. Hence, there is the challenge of improving compliance, especially coverage for private wage earners. It is important for existing legislation, such as labour law, to be amended, e.g. extension of

coverage of the labour law to the smallest enterprises and for labour inspections to be efficiently and effectively carried out.

Coverage of farmers is a big challenge. The Ministry of Health, in collaboration with the World Health Organization (WHO), has been carrying out several voluntary community-based health insurance schemes. The Government is presently discussing how to significantly extend the coverage of these schemes by the target year 2020. It is still too early to judge whether these schemes will be sustainable in the long-run and whether coverage can be expanded substantially. In establishing the future road map for the extension of social security coverage, links among the various schemes (civil service scheme, SSO scheme for private workers, community-based schemes for self-employed and farmers and free health care for the poor) should all be taken into consideration.

Cambodia¹³

Social and economic overview

The Cambodian economy enjoyed steady growth over the last decade, posting an average annual real growth rate of 5.6 per cent during the years 1992 and 2002. This was mainly supported by the high economic growth of 15.2 per cent in the industrial sector, especially the textile, apparel and footwear sub-sectors which recorded a 45.3 per cent annual average growth rate and accounted for about 15.8 per cent of GDP in 2002.

However, Cambodia's GDP per capita of about US\$ 320 in 2003 still remains one of the lowest in the region. It is less than one-tenth of Malaysia's and lower than Lao PDR's.

The population in Cambodia has reached 13.4 million in 2002. The demography is fairly young, 42.8 per cent under 15 years old, 51.9 per cent between 15 and 59 years old. Only 5.3 per cent accounts for those over 60 years according to the General Population Census of Cambodia 1998. The total fertility rate was 4.0 and life expectancy at birth was 52.3 years for males and 58.9 years for females according to Demographic and Health Survey 2000 in Cambodia.

According to the Labour Force Survey 2001, the total economically active population aged 10 years and over numbered 6.4 million of which 5.8 per cent reside in Phnom Penh, in other urban areas and 85.3 per cent in rural areas.

Social security and ILO activities in Cambodia

Except for direct cash compensations to civil servants, mainly retirement pensions, there is as yet no social security mechanism in Cambodia. The new Labour Law passed in 1997 stipulates the responsibility of employers to pay compensation in case of work-related accidents. However, in reality, compensation to injured employees are based on negotiations between the employers and injured employees and in most cases, paid in lump-sum.

¹³ Report to the Government on Employment Injury Insurance in Cambodia: Legislation, Financing and Administration, ILO SRO-BKK, March 2005

In 2002, the Social Security Law was passed by Parliament. The Law provides benefits for old age, invalidity, survivorship and employment injuries. It also provides for other benefits which could be stipulated through sub-decrees. The Law provides a general structure of social security but does not provide any detailed structure or parameter necessary for its implementation, e.g. benefit level or calculation formulae, contribution rates, range of industrial accidents.

The Government of Cambodia plans to introduce initially an employment injury insurance scheme and to gradually include other benefits. Based on the request of the Government, the ILO provided technical assistance¹⁴ in drafting the necessary sub-decrees for the provision of employment injury benefits, e.g. medical care, temporary and permanent disability benefits and survivors' benefits, and for the establishment of a National Social Security Fund. The strategy in implementation is to initially cover enterprises with ten or more employees in Phnom Penh and to gradually extend the coverage to other areas and smaller enterprises.

The ILO has also provided a tentative estimate of a uniform contribution rate, ranging from 1.0 – 1.8 per cent, regardless of the type of industry or the individual enterprises, according to different funding levels for long-term cash benefits i.e. permanent disability and survivors' pensions.

A tripartite seminar was held in March 2005 in collaboration with the ILO. Tripartite constituents were informed of the draft sub-decrees and the proposed financing mechanisms for the employment injury insurance scheme. Further steps to be taken for implementation were also discussed.

Future challenges

At present, the Government is in the middle of drafting the legislation with reference to the draft legislation proposed by the ILO. The employment injury insurance scheme will be the first social security scheme in Cambodia. Its implementation will pose a big challenge to Government, taking into account the long process and the capacity needed in implementation.

As seen in Lao PDR, enforcing compliance and extending social security coverage to enterprises in other areas or to smaller enterprises will most likely pose challenges.

The improvement and the expansion in benefit packages will follow after a successful implementation of the employment injury insurance. This needs additional technical expertise and capacity building.

The Ministry of Health is now considering the introduction of health insurance and there is also a proposal to reform the present direct provision of benefits. Close coordination and planning of improvements and the extension of coverage are necessary, especially taking into account the capacities to be built to administer the schemes smoothly and in a sustainable manner.

¹⁴ Financed by ILO/Korea Programme

Concluding remarks

As social and economic conditions are very different from one country to another, it is necessary to carefully plan a specific strategy for the extension and the improvement of social security applicable to a country and which will serve as a feasible road map for social security development.

The strategy should be developed based not “on a wish” but on solid research on social security needs, priority surveys and household surveys to clarify social security needs and priorities, contributing capacity, willingness to pay, Social Protection Performance and Expenditure Review (SPER) and social budgeting. This will serve as the framework for examining the real and the potential coverage and the fiscal policies essential in the provision of benefits to a wider range of population.

Classical methodologies, such as actuarial valuations for a specific scheme, administrative capacity assessments and the drafting of legislation, are fundamental to the development of national strategies.
