

***Right to social security in development:  
Facilitating National Conditions: What Action is Needed?***

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Friedrich Ebert Foundation has asked me to make a statement on three questions:

- Under what political and economic conditions have social security systems usually been developed in the South?
- To what extent is social security affordable for Southern countries?  
And: Would seeing social security as a human right make a difference to this consideration?
- What key actions are needed to improve the situation?

I will try to answer these questions and start with the first.

**1. Under what political and economic conditions have social security systems usually been developed in the South?**

We can say that it takes basically three conditions for social security schemes to be established:

First, there must be some kind of a social problem, which means that significant parts of the population suffer from unprotected risks. This condition is less trivial than it might look like at first glance. But it is not relevant for developing countries where there are unprotected risks all over. And so, I do not want to go deeper into this.

The second condition for social security systems to be set up is the ability of a country to design such schemes and to run it. This ability is restrained by the scarcity of financial means but even more so by the lack of

- managerial capacities and
- know-how on different options for state-run social security schemes.

The third condition, finally is that the respective country – citizens and the government – are ready to become active and start building up social security systems.

There are now an economic and a political dilemma.

The economic dilemma is that the larger the social problems of a country, the more limited are at the same time its capabilities to build up social security schemes. Both factors are correlated with the stage of development of a country: the first negatively, the second positively. Least developed countries would need social security systems most urgently but they have also the most limited capacities to run them.

The political dilemma is that the readiness of a government to run an effective and comprehensive social policy does not necessarily correlate with the interests of the majority of the population. This may be the case in democratic countries where elections force policy makers to respond to some degree to the will of citizens. The interests of authoritarian rulers, however, are often different from those of the population. They simply want to stay in power. And for this, they often instrumentalise social policies. As a result, social security systems often benefit only the clientele of the regime, on which their political stay in power depends.

One result from these considerations is that when large parts of the population in a country suffer from highly significant, unprotected risks, one cannot know whether this is because of the economic or the political dilemma of social security – in other words: whether policy-makers are unable or unwilling to build up adequate social security systems that serve more than a small fraction of the population.

And for future reform, we have to keep in mind how important it is that policy makers are committed – be it of true conviction or because they believe that they might benefit politically from implementing social policy reforms.

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Historically there have been four constellations that have led to the installation or further development of formal social security systems in developing countries.

The first was during the colonial era. Colonial powers have established social security systems in many of their colonies. One could say that the colonial powers have helped their colonies overcoming the economic dilemma of social security establishment. They have shared their experience with the colonies and also often invested financially into the set-up of social security systems. However, the interests of the colonial powers diverged substantially from the interests of people in the colonies with the result that most social security systems established during the colonial era cover only a small segment of the population whose contentment was particularly important for the colonial powers to stabilise their rule. Kenya's national provident fund is a good example for a social security scheme that has been set up by a colonial power and survived widely unchanged until today.

A second group of social security systems stems from the years after the end of colonialism. In many countries, after having gained independence, there was a strong feeling of “we”, i.e. of mutual belonging. Even the elites were ready to establish social security systems that benefited the entire population. However, many of the newly independent states suffered from a lack of know-how with the result that their social security systems remained fragmentary, inefficient and ineffective. Also, by time, some of these schemes – not all !! – were captured by the elites and – in contradiction to the good will of the first years – transformed into instruments for the privilegation of specific groups of society. Egypt’s social insurance schemes are an example for this phenomenon.

The third group of social security schemes results from the lobbying of specific influential groups within society: the military, the state bureaucracy, workers in firms with a high degree of unionisation and the like. Again, these systems do not serve the interests of the majority of the population but only those of the most powerful groups within society that were able to organise a strong lobbying. Many Latin American countries have made this experience.

The fourth group of social security systems has come into being over the last two decades or so, at a time when many developing countries had acquired know-how in social protection techniques that is at least at par with the knowledge of the more developed countries. The schemes of this generation fair comparatively well with regards to both, efficiency and equity. They are the products of regimes who are convinced that a good social and economic development of their countries is helpful for their own political fate.

Tunisia is a good example in this regard. There, the government rules with a degree of political repression. At the same time, it tries to legitimise its rule by economic and social policies that benefit not only its clientele in society but also – at least to some degree – the entire population. For this goal, the government has established step by step eleven distinct social insurance schemes – each well tailored to the needs of a specific group of workers in the formal or informal sector of the economy. As a result, 80–90 % of the working population are now covered by any of the schemes

Brazil is another example. There, a leftist government tries to fulfil its promise to end poverty. The well-known Bolsa Familia, which now covers almost 20 million households, is the central instrument for achieving this goal.

In both cases, the government does not benefit directly from its strong engagement in social policies. Rather, it feels obliged to engage in that field in order to safeguard the legitimacy of its rule in the population, which is based on its strong socio-revolutionary rhetoric and commitment.

## **2. To what extent is social security affordable for Southern countries?**

**And: Would seeing social security as a human right make a difference?**

Social security schemes are no more than instruments that help households manage their risks. If there is no social security scheme in a country, people nevertheless have to manage their risks. They try to make provisions for old-age on their own – save with banks or keep extra-income under the pillow. Or they count on their children to help them when they are too old to work. These strategies are not substantially different from (a) a funded or (b) a PAYG social insurance scheme. But they are much more expensive and less reliable when households take them individually instead of pooling their risks within a group.

Also, if somebody without health insurance falls ill, she or he will probably try to pay for health care anyway – and if necessary: out of pocket. If she or he cannot pay for it and therefore remains ill or even dies, the resulting costs for the individual and for society at large are even higher than the costs of a functioning health insurance.

The question is therefore not, whether developing countries can afford good social security schemes, but whether they can afford not to have them. Many could save substantial sums nationally by supporting low and medium income households in using more efficient strategies of risk management.

In addition, social protection spending is not just consumptive expenditure. Of course, the money spent for social protection cannot be used again for other, possibly “more productive”, purposes. But it is itself an important precondition for a higher rate of investment and a higher economic growth rate. This is because people who are vulnerable to risks tend to keep their extra income under the pillow or on simple banking accounts in order to have it readily available whenever a risk occurs. They do not invest their savings into more productive assets, although these bear – on average – higher rates of return. This is because higher average returns usually go along with a higher volatility in returns as well as with a reduction in liquidity.

When households are protected, however, at least against their most fundamental risks, they become more prone to accept new risks. They start investing into more productive assets and human capital as they know that when a risk occurs they enjoy at least some basic social protection. Social protection therefore raises the investment rate – especially among lower income workers in the informal sector – and thereby contributes to economic growth.

Admittedly, redistributive social protection schemes such as social assistance may constitute a problem. Low-income countries cannot afford to spend the same share of their gross domestic product on these schemes. They are normally financed by taxes, but low-income countries have a much narrower tax base and thus a smaller tax income as percent of GDP than high-income countries.

ILO projections, however, show that even low-income countries are able to sustain social assistance schemes under two conditions. First, these schemes should not provide more than a very fundamental income support. Second, the schemes should be limited to certain categories of people: the old, the work-disabled and orphans.

Whether or not a developing country establishes social security schemes is therefore a political rather than an economic question. The result depends much less on the affordability of the schemes for the respective country than on the readiness of policy makers to give priority for social security spending.

Reminding politicians in developing countries of the fact that social security is a human right may help under certain conditions to make them reconsider their decisions. However, is it really realistic to believe that an authoritarian regime, which violates every single day even the most basic civil human rights, would respect social human rights? Would they care about anybody within or outside the country pointing to the fact that the government violates against the right of every person to have social security

Convincing these regimes of the positive social, economic and political effects of social protection is certainly more effective. As we have argued before, even authoritarian regimes have under certain circumstances some interest in providing good social protection to the entire population. It might thus be very helpful to identify these areas where the interests of the government, of civil society and of foreign donors collude at least within the boundaries of the field of social policies.

### **3. What key actions are needed to improve the situation?**

I believe that we should be very careful in giving recommendations to developing countries. It was back in the 1980s that Western donors have tried to convince governments of developing countries – partly against their own conviction – to raise, for example, the user fees of basic medical services and thereby particularly reduce the social security of poor people vis-à-vis health risks. Quite some developing countries might therefore be rather resistant to donor appeals to make primary health care universal again or to establish more generous social assistance schemes. At least, donors should not tie their aid to the condition that such steps are taken. After Paris and Accra, developing countries should really sit on the driver's seat.

Rather, it is the task of citizens and civil society groups to insist on the realisation of human rights such as the right on social security as decreed by the Universal Declaration of Human Rights and specified by ILO Convention 102 as well as to criticise any violation against these rights.

External actors should rather try to convince the governments of developing countries in an atmosphere of partnership. They may recall the declarations. However, it might be much more powerful an argument to stress that it might be in the government's own interest to create social security for all everybody in the country not only for social reasons but also to spur investment and economic growth and to safeguard political stability.

Back in the 19<sup>th</sup> century Bismarck formulated the idea of a comprehensive social insurance system. Now, there is an anecdote saying that Bismarck was asked whether such a scheme was not much too expensive. And he is said to have answered that on the contrary, it was much too expensive for Germany not to have a social insurance in terms of political stability. And we would today add: also in terms of social and economic development.