Bringing Social Protection to All: Support to Micro-Health Insurance

Coverage: 30 LDCs in Africa, Asia and the Caribbean

Executing Agency: International Labour Office (ILO) and partners

Brief summary: One of the main problems facing LDCs is their populations’ vulnerability to risk. Insurance remains the most effective instrument for protection against risk. However, insurance is also one of the sectors to which access is least democratic. Promoting equal access to insurance should therefore be a priority in the area of social justice and the fight against poverty.

The present proposal concerns a major initiative to support the efforts made by communities and Member States in the field of micro-health insurance. It consists of a series of interdependent actions to be carried out at the local, national and international level.

Budget: US$ 6 million
Justification

One of the main problems confronting the Least Developed Countries (LDCs) is their populations’ vulnerability to risk. Insurance remains the most effective instrument offering protection against risk. However, insurance is also one of the sectors to which access is least democratic. Although insurance would appear to be one of the most fundamental needs of the poor it is, at the same time, one of those most neglected so far. Promoting equal access to insurance should therefore be a priority in social justice and the fight against poverty.

No doubt the most significant risk facing the poor is that of disease. Illness affects not only the well-being of individuals but also their income-generating activities and hence, more generally, national economies. It is in the LDCs that the effects of disease on both personal health and the economy are most serious. It is likewise in these countries that the difficulties in providing the poor with health insurance are greatest, given the weakened institutional and financial capacities of social security systems and other national social protection mechanisms.

To address this situation, new local initiatives aimed at setting up insurance systems for the poor are emerging in LDCs. These systems, which are collectively referred to as ‘micro-insurance schemes’, are highly diverse. Although to date few of them exist on a global scale, their number is growing rapidly. They are likely to have several other functions in addition to offering insurance. For example, they can help create demand for health services, stimulate improvements in the quality of care and ensure that health budgets are spent more efficiently. They can also play an important role in prevention, health education and good governance in the social protection and health sectors.

In the medium term, micro-insurance systems may become a new component of the social protection system in LDCs, complementing contributory schemes and standard social security systems. To meet value-related standards (in particular equality) and to ensure the efficiency of general social protection mechanisms, micro-insurance schemes have to mesh closely with other protection systems. If these different systems are to interact adequately, States will have to take appropriate policy decisions and regulatory action.

The future development of micro-insurance schemes depends on whether three main needs, each relating to the novelty of this system, are met: 1) although significant methodologies have already been established as regards the support and operation of these systems, their technical frame of reference must be completed and expanded to take into account the diverse settings in which these schemes operate; 2) local skills in the field of micro-health insurance remain underdeveloped. Unless local skills are developed the vast majority of micro-health insurance initiatives is likely to end in failure; 3) many national decision-makers still underestimate micro-health insurance systems and the role they can play in strategic measures to expand social protection. Ways in which these systems mesh with other efforts at social protection are also poorly understood.

Deliverable

We propose to set up a major initiative to support the efforts made by communities and States in the field of micro-health insurance. The initiative will have a direct impact on poor people’s access to health care. It will consist of a series of interdependent activities to be carried out at three levels:

- At the local level. Actions to support micro-insurance systems will be carried in a defined number of countries (5 to 6). Apart from having a direct impact on the target populations, these actions will permit the expansion of the technical frame of reference for micro-insurance and the development of local expertise. They will also
demonstrate the concrete effects of micro-health insurance, which will in turn enhance their impact.

• At the national level. States will be offered technical assistance to create a political, institutional and legislative environment conducive to the development of micro-insurance schemes and ensure adequate interaction between the different social protection mechanisms. Efforts will also be made to facilitate consultation and dialogue between the different actors required to take part in the definition and implementation of these measures.

• At the international level. A long-term platform to facilitate training, the exchange of experiences and the promotion of innovation will be established. This platform will enable promoters and managers of micro-insurance system to develop their skills, by providing a venue in which to access information, communicate this information to others, consult colleagues on specific subjects, participate in working groups and receive training. The content of training sessions will be based on activities carried out at the local and national level as part of the Initiative, as well as on the experiences of other actors. The platform will rely on the use of new communication technologies (primarily the Internet).

This will be an interregional initiative (Africa, Asia, America [Haiti]), involving most LDCs (at least 30 in the case of inter-regional actions) and lasting for a period of four years.

Project activities will be carried out in partnership with different actors:

• Direct beneficiaries (users, i.e. local communities, NGOs, trade unions, employers organizations, micro-financing systems, associations, cooperatives, etc.);

• States. Although States are not the primary users, they are concerned by the promotion of micro-insurance systems, which should be integrated as much as possible into national policies and programmes relating to the sector in question;

• International agencies and cooperation agencies, following the example of the current Partnership for Dialogue (Concertation);

• International non-governmental organizations (for example, the International Association for Mutual Assistance);

• Universities and Training Centres in LDCs, and any such institutions which are internationally recognized capacities in the field.

ILO Contribution

The expansion of social protection is one of the four strategic objectives of the ILO. For some years now, the ILO has been playing a leading role internationally in the field of micro-health insurance. It has given concrete support to viable and equitable approaches to micro-health insurance systems in LDCs. It has also carried out research and studies in this area, published books and articles, produced didactic tools and organized several international meetings.

The ILO has carried out these activities in collaboration with a number of international agencies (WHO, World Bank, UNFPA, UNICEF and others), universities, international associations, and national and local actors. These partners will be included in the Initiative.

Budget

The budget for actions at the above three levels amounts to approximately US $ 6 million.
Social Re: Re-insurance for Community-funded Health Insurance Schemes

Coverage: Selected LDCs

Executing Agency: International Labour Office (ILO) with partner organizations for the different components

Brief summary: This initiative aims at piloting a reinsurance facility for community-funded health insurance schemes

Budget: US$ 450,000 (Working capital: US$ 10,000,000)

Rationale

In most poor countries, especially the Least Developed Countries (LDCs,) the majority of the population is unable to access health insurance or other forms of financial protection against the cost of illness. Governments have a variety of policy levers that can be used to strengthen the health system, the financing of services, and the regulatory environment. Equity and the improvement in financial protection for the poor are powerfully influenced by policies pursued by governments. In all LDCs, weak government capacity can be compensated for partly by the similar role that civil society and donors can be encouraged to play. The actions that can be achieved through local communities include information, regulation, contracting, subsidies, monitoring, evaluation, and enforcement. And the international donor community can influence this process through the loans, grants and policy dialogue.

The achievement of this financial protection at the level of the community is influenced by a complex interplay between household assets (human, physical, financial and social assets), household behaviour (risk factors, needs and expectation for services), ability and willingness to pay and the availability of insurance or subsidies/arrangements that reduce exposure to the financial sting of illness. The challenge at low-income levels is to identify the causes and effects of poor financial protection, and to enhance the ability to evaluate and improve public policies that have a large impact on financial protection.

The social desirability of community-funded health insurance schemes hinges on their ability, limited as it may be, to pool resources to offer basic health insurance. However, such schemes often fail despite their social desirability, due to financial instability. A solution for the financial stabilization of community-funded health insurance scheme is thus needed. This requires innovative approaches to deal with insurance techniques in an environment that differs from the tried-and-tested market in many ways, not least of which is to deal with complex monetary instruments (such as insurance and reinsurance) in an environment where barter and swap transactions are prevalent, and where cultural and societal traditions rather than economic reasoning, shape the attitudes toward risk aversion.

The Deliverable

The objective is to pilot a reinsurance facility for community-funded health insurance schemes. This is the first attempt to tailor reinsurance risk-management to community-based health schemes. Governments, international organizations, NGOs or private reinsurers do not provide this at present. SOCIAL RE is innovative in that:
- It plans to operate a financial instrument to pool risks and resources, to manage health risks and to integrate the component of knowledge-transfer with the intrinsic development of the micro-insurance scheme;
- Being directly linked to members’ contributions, this instrument enhances contributory effort in the informal sector, as well as community empowerment to improve compliance;
- Subsidy components that have covered extraordinary exposure to risk would gradually reduce, as larger groups and unrelated risks are pooled;
- Social Re will impose professional standards for accounting and operation, these are a prerequisite for ceding risks from micro-insurance to reinsurance. Hence, improved governance of micro-insurance schemes can be expected.

By pooling risks across heterogeneous benefit packages, Social Re would empower groups to be responsive to local priorities. At the same time, financially stabilized micro-insurance schemes can attract local supply of services, and can regularize the demand both for insurance and for the services the health insurance will pay for.

1) The initial phase of the project would start from December 2001 to November 2002. Four key issues would have to be dealt with exhaustively:

   (a) Regulatory Domicile of operations;
   (b) Capital;
   (c) Organizational structure; and
   (d) Legal issues.

The following activities would also be implemented: development of a standard accounting and statistics framework; development of the computer application to go; development of the didactic material; and establishment of the consulting support for hands-on problem solving at the level of micro-insurance schemes participating in the pilot;

In terms of building the infrastructure for operations, four key areas would need to be put in place:

- Technical support (Underwriting, actuarial- Product development, actuarial-Pricing, actuarial-Reserving, data Analysis, and clinical/medical);
- Claims administration (confirming that claims are covered by the terms of the agreement, determining that claims management protocols were followed, verifying documentation to support claim payments);
- Audit; and
- Operational administration (billing and collection, Account Management, Policy Administration, Contract development, Rate Filings, Finance and Accounting, and Legal/General Counsel).

2) The second phase (2-year period) would start in January 2003 and end in December 2004. One of the first keys would be to begin to build a healthcare data warehouse to handle all of the financial and utilization reporting. It will need to handle different data formats, “non-traditional” data elements, multiple currencies, and various measures of utilizations to start. This would allow Social Re to meet its objectives. Ongoing operations would focus on the following four lines of activity:

   - Actuarial Analysis;
   - Regulatory Reporting;
   - Claims Management;
   - Reinsurance;
   - An Consultative Team to support micro-insurance units.

Seeing that this is a pilot, it would be necessary to assess the experience, report to donors and stakeholders, and plan follow-up research, outreach and expansion activities. The pilot
would therefore include one or two assessment meetings, lasting about one week each, composed of around 20-30 experts, donors and stakeholders.

The expected results of the project would be the following:

At end of year 1: Start-up phase will be completed. A minimum of three and a maximum of 10 community-funded schemes would have been identified; infrastructure installed, and training completed. The basic information to be kept, reporting protocols and claims processing procedures will have been established and tested.

At end of subsequent years: Claims will have been paid to community-funded schemes; financial stabilization of participating schemes can be expected immediately, due to the transfer of financial risk to the reinsurer. The reinsurer would require several years of operation before it can be stabilized financially.

Additionally, improvements of the benefit package will have been implemented, as part of the introduction of Social Re. These benefit enhancements would be in the nature of preventive or low-cost and high impact procedures, e.g. de-worming, micronutrient supplementation etc.

The third component of results would be a considerable improvement of community-level knowledge in risk-management techniques, an improvement in the usefulness and desirability of risk aversion through insurance, and regularization of access to care as a result of the regularized financing of the insurance.

At end of the pilot: plans for large-scale replication can be undertaken, to cover significantly larger populations, and to establish the links between the Social Re and government facilities for extension of health insurance.

Contribution of the ILO

ILO is the UN agency with mandate to deal with the financing of social protection, including social health insurance. It has well-established links to national social institutions. The proposed new financial mechanism could and should be linked to governmental institutions, and this can best be done on the basis of existing relationships with such institutes.

ILO also has a relatively large network with the social partners (employers and workers’ organizations), and a rapidly growing network of entry points to the informal sector (notably rural cooperatives, micro-finance schemes, and other work to provide support to micro-insurance schemes). ILO also has an established field structure that can backstop this project at low cost and minimal time.

Last but not least, ILO is the only UN agency with specific knowledge in policy development and quantitative analysis of social protection schemes.

Budget

1. The budget for back-office activities during year one, two and three amounts to US$ 450,000. This amount covers project management, actuarial capacity, local staff, transportation, printing and programming of standard operating material, training activities, and two meetings of the Advisory Board per year.

2. The budget for working capital and regulatory surplus-requirements would be established in the course of year one (set-up). The needed resources are not yet known with precision, but are estimated at between five and 10 million US$, much of it in the form of non-spent credit facility. A significant share of this amount may be raised through donor support. Partnership discussions have been initiated with the World Bank, the Asian Development Bank and other interested parties.
NOTE: The conceptual phase of “Social Re” has been financed from an Award of the World Bank Development Marketplace, plus an allocation from the ILO. The outputs of this project in the year 2001 will be a book, a computer toolkit to assess premiums of the Social Re, a meeting of experts (to present the conclusions, conduct high-level consultation on successful implementation, and mobilize the resources to cover worst-case scenarios during the pilot period). The present proposal would thus enjoy the outcomes of this previous investment.
Minimum Income for School Attendance (MISA)

Coverage: African LDCs

Executing Agencies: International Labour Office (ILO)
United Nations Conference on Trade and Development (UNCTAD)

Brief summary: MISA is a cash transfer (minimum income) programme conditional on school attendance, targeted to poorest and most vulnerable families. The distinguishing feature of the MISA approach is to use the cash transfer instrument to achieve the simultaneous objectives of reducing current poverty, combating child labour and improving the educational attainment of the children, which should serve to reduce future poverty by increasing human capital.

Evaluations carried out in both Brazil and Mexico indicate that there is a strong synergy between these objectives. They also show that the scheme can have wider multidimensional effects. In particular, it has been observed that the increased security provided by the cash transfer conditional on school attendance can increase female activity rates in the labour market as well as upgrading labour skills and strengthening the coordination of social policies, and therefore, their effectiveness.

A Report1 prepared by an Advisory Group brought together by ILO and UNCTAD, with the participation of representatives from some African LDCs and from UNICEF and World Bank, has assessed the desirability and feasibility of applying such a scheme in African LDCs. The Report argues that the MISA approach would be a valuable and innovative mechanism for helping governments to achieve international development goals and the specific targets of their Poverty Reduction Strategy Papers. Preliminary estimates for a limited MISA programme, targeted simply at poor families with children dropping out of school, indicate costs in the range of US$ 10-40 million per year per country.

This deliverable consists of a pilot scheme, to be implemented in at least three African LDCs over the next three years, to examine benefits, trade-offs, costs and implementation options in practice. This will be coordinated by the executive agencies with possible involvement of other specialized UN agencies.

Budget

3 Pilot Projects in 3 African LDCs (2001-2004). This estimate is based on simulations made for 3 countries which differ in terms of target group size, annual value of cash grant and GER (gross enrolment rate) gap. In addition, 20% over-head costs were also computed.

Total amount: US$ 3,070,000 for three years2

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2 Estimates based on a sample of 3 African LDCs:
Country 1: 5,000 children x US$45 annual school grant + 20% over-head = US$270,000
Country 2: 10,000 children x US$50 annual school grant + 20% over-head = US$600,000
Country 3: 1,600 children x US$80 annual school grant + 20% over-head = US$153,600
Total Annual Cost: US$1,023,000
3 year Programme Total Cost: US$3,069,000
Background

Poverty and social exclusion are a widespread and profound problem of global proportions. To alleviate the plight of this immense contingent of poor, several initiatives to extend and improve the social protection system of these countries have surfaced, some of which are inspired by the concept of guaranteed income. These are minimum income programs, which may be tied to school attendance by poor children of school-going age. They are particularly attractive because in addition to reducing poverty they increase educational attainment and contribute to the elimination of child labour.

Several Latin American countries, like Brazil and Mexico, have been pioneers in extending minimum income support schemes in a developing country context. The format of a guaranteed minimum income tied to compulsory school attendance, was implemented successfully in Brasilia, Brazil Federal District, in 1994. For the first time, a social programme reached a sufficiently large scale and coverage to generate an effective impact on the impoverished population. In view of the very satisfactory results and low operational cost, and in the absence of perverse trade-offs that often have an adverse effect on the efficiency of social programmes, the Federal District Bolsa-Escola programme has become something of a model in Brazil and other Latin American countries.

What are the major outcomes of the Bolsa-Escola Programme? It has contributed to the breakdown of mechanisms which exclude the poorer students. Bolsa Escola commits families to ensuring that their children attend school and, at the same time, obliges the schools to keep on students who would otherwise be at high risk of dropping out. The Bolsa Escola Programme has proved an effective means of breaking one of the most pervasive mechanisms for reproducing and legitimizing inequalities: namely, early exclusion from school. In addition, the Programme does not constitute a disincentive to work, but rather, the contrary. Family income (not including the benefit) increased significantly in the first year that families were in enrolled in the Programme, despite the difficulty of finding jobs on a weak labour market. More than 50 per cent of the adults in the Programme and/or their spouses are illiterate, or barely literate. Despite such shortcomings, the level of occupation (employment) among the benefited families rose to a level that fulfilled their basic economic needs, notwithstanding an unfavourable economic environment characterized by recession. Thanks to the monthly cash-benefit received over the period of one year, over two-thirds of the families in the Bolsa Escola Programme were enabled to rise above the poverty line and reduce their degree of social deprivation. The Bolsa Escola Programme also had positive effects on the incidence of child labour, in that Bolsa Escola students tend not to be engaged in paid work.

ILO and UNCTAD have brought together an advisory group of international experts to assess the feasibility and desirability of applying such a scheme to African LDCs. The Report of the Advisory Group argues that the MISA approach would be a valuable and innovative mechanism for helping governments both to achieve international development goals and the specific targets of their Poverty Reduction Strategy Papers. Preliminary estimates for a limited MISA programme, targeted simply at poor families with children dropping out of school, indicate costs in the range of US$ 10-40 million per year per country. The very positive outcomes of this joint-initiative led to the following deliverable for UNLDC III.

The Deliverable: MISA INITIATIVE (Minimum Income for School Attendance)

a. Objectives

The overall objective of this initiative is to test how the MISA approach can best be implemented to promote poverty reduction, the achievement of universal primary education and the elimination of the gender gap in education, the combating of child labour and human resource development in African LDCs.

3 See UNCTAD 2000 Report and WB 2000-2001 WDR.
b. Strategy

The preliminary assessment of the desirability and feasibility of applying MISA programmes in African LDCs has identified a series of issues and options for programme design and implementation. The basic form of the programme will vary according to the precise weight given to the achievement of the different objectives which are attainable through the programme. Key issues include: the value of the cash grant, defining and identifying the population to which it should be targeted, designing the scheme to reinforce school quality, maximizing the multi-dimensional developmental benefits of the programme, the role of local and central institutions, tailoring the programme to rural and urban communities.

These issues can only be effectively addressed through concrete initiatives. Pilot projects are also imperative to allow LDC governments themselves to tailor the programmes to their local circumstances and fit them into their poverty reduction strategies. It is important that LDC government who enter the pilot project agree to be fully involved in the design, implementation and monitoring of the pilot project.

c. Results

The outcome of the project will be to provide information on how the MISA approach can contribute to poverty reduction and educational goals of the LDCs and how the approach can be applied on a wider scale both within the countries concerned and in other African countries over the ten-year period of the Global Programme of Action for LDCs.