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# **International social security standards and challenges to social security**

## **Lessons for a Tanzanian reform debate**

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## What is defined as social security = social protection?

- All interventions from public or private bodies intended to relieve households and individuals of the burden of social risks or needs.
- Interventions to replace lost income and to help where there is a lack of income
- Interventions are mostly in the form of transfers with no reciprocity



## 9 Branches of social security

- Medical care
- Sickness
- Unemployment
- Old-age
- Employment injury
- Maternity
- Family responsibilities
- Invalidity
- Survivorship



# **Social protection – social security types of interventions**

- Informal and formal social protection
- Private and public
- Social insurance - income replacement
- Income support, minimum income guarantees
- Transfers in kind: social services - like basic education or health care but also employment services and labour market programmes
- Transfers in kind: re-imbursments
- Subsidies
- Tax benefits – exemptions for social reasons



# Objectives and tools of social protection/social security

- Interventions reducing risk:
  - Providing preventive health care services, basic education, prevention in area of occupational safety etc.
- Interventions mitigating risks:
  - social security schemes for health, sickness, maternity, employment injury, maternity, old-age, disability, death, family and children
- Interventions helping to cope when prevention or mitigation did not work
  - Social assistance – cash and in kind conditional transfers



## Objectives of social protection

- Social protection is not only about social risk management
- It is also about reducing poverty and income inequality through redistribution
- It replaces lost income (insures against loss of income but also:
  - intends to secure a minimum income
- Social protection/social security is a human right



## Instruments of social protection

- **Social insurance:** feasible to protect formal sector employees
- **Universal benefits:** ideal to ensure minimum income to everybody in countries with large informal sector and/or large share of self-employed in labour force
- **Social assistance:** complements two other forms whenever and wherever there are gaps in coverage. Targets the most vulnerable



## **Social protection and the labour market**

- Enhancing human capital
- Supporting mobility and flexibility
- Changes market outcomes
  - Desired
  - Undesired
- Affects behaviour
  - Desired
  - Undesired





## How much social protection is needed?

- Human right
- Labour standards
- Convention 102 and other conventions set minimum standards with respect to:
  - Scope of social protection
  - Extent of coverage
  - Adequacy of benefits
  - Governance
    - Equitable financing
    - Democratic supervision
    - Effective administration



# SOCIAL SECURITY STANDARDS

## ➤ CONVENTIONS (31)

Nos. 2, 3, 8, 12, 17,  
18, 19, 24, 25, 35-40,  
42, 48, 55, 56, 70, 71,  
102, 103, 118, 121,  
128, 130, 157, 165,  
168, 183

## ➤ Up-to-date Conventions: 8

## ➤ RECOMMENDATIONS (24)

Nos. 1, 10, 11, 12, 17,  
22, 23, 24, 25, 29, 43,  
44, 67, 69, 75, 76, 95,  
121, 131, 134, 162,  
167, 176, 193

## ➤ Up-to-date Recommendations: 8



# Convention No. 102

Social Security Minimum Standards Convention  
(1952), No. 102

## *Flagship Convention*

- Defines 9 branches of social security
- Sets minimum standards,
- Based on basic social security principles



## Higher social security standards (1)

- C. 121 on Employment Injury Benefits
- C. 128 on Old-Age, Invalidity and Survivors' Benefits
- C. 130 on Medical Care Benefits
- C. 168 on Unemployment Benefits



## Higher social security standards (2)

- C. 183 on Maternity Benefits
- C. 118 on Equality of Treatment
- C. 157 on Maintenance of Migrant Workers Rights



## Minimum Standards

- Minimum percentage of personal coverage
- Minimum level of benefits
- Maximum qualifying period for the entitlement to benefits
- Minimum duration of benefits



# Principles

- Guaranteed, defined benefits
- Democratic supervision
- General responsibility of the Governments
- Collective financing



## Principles (2)

- Adjustment of pensions
- Regular actuarial reviews
- Right of appeal
- Equality of treatment
- Suspension of benefits





## **Alternative ways to provide social security to meet requirements of the Convention**

- Social insurance schemes
- Universal schemes
- Social assistance schemes
- Any combination of the above
- Private provision possible if under democratic supervision



# Old-age benefit (Part V of Convention No. 102)

## ➤ Contingency:

- *Survival* beyond prescribed age
- *Maximum Prescribed age*: 65 or such higher age with due regard to working ability of elderly persons
- Benefit may be *suspended* if pensioner is engaged in prescribed gainful activity or has earnings above prescribed amount



# Old-age benefit (Part V of Convention No. 102)

## ➤ Coverage:

- Prescribed classes of employees amounting to at least *50% of all employees*
- Prescribed classes of economically active population amounting to at least *20% of all residents*
- *All residents* whose means are below prescribed limits



# Old-age benefit

## (Part V of Convention No. 102)

### ➤ Benefit:

- Periodical payment = pension
- Earnings-related benefit: at least **40%** of former earnings after 30 years of contributions or employment or 20 years of residence
- Flat-rate benefit: at least **40%** of wage of unskilled worker after 30 years of contributions or employment or 20 years of residence
- Reduced benefit after 15 years of contributions or employment



# Invalidity benefit (Part IX of Convention No. 102)

## ➤ Contingency:

Inability to engage in any gainful activity which is likely to be permanent or persists after the exhaustion of sickness benefit



# Invalidity benefit (Part IX of Convention No. 102)

## ➤ Coverage:

- Prescribed classes of employees amounting to at least *50% of all employees*
- Prescribed classes of economically active population amounting to at least *20% of all residents*
- *All residents* whose means are below prescribed limits



# Invalidity benefit

## (Part IX of Convention No. 102)

### ➤ Benefit:

- Periodical payment = pension
- Earnings-related benefit: at least **40%** of former earnings after 15 years of contributions or employment or 10 years of residence
- Flat-rate benefit: at least **40%** of wage of unskilled worker after 15 years of contributions or employment or 10 years of residence
- Reduced benefit after 5 years of contributions or employment



# Survivors' benefit

## (Part X of Convention No. 102)

### ➤ Contingency:

- Loss of support suffered by the *widow or child* as result of the death of the breadwinner
- Right to benefit of widow may be made conditional on her being presumed to be *incapable of self-support*
- Benefit may be *suspended* if widow is engaged in prescribed gainful activity or has earnings above prescribed amount





# Survivors' benefit

## (Part X of Convention No. 102)

### ➤ Coverage:

- Wives and children of breadwinners of prescribed classes of employees amounting to at least *50% of all employees*
- Wives and children of breadwinners of prescribed classes of economically active population amounting to at least *20% of all residents*
- *All resident widows and resident children* who lost the breadwinner and whose means are below prescribed limits



# Survivors' benefit

## (Part X of Convention No. 102)

### ➤ Benefit:

- Periodical payment = pension
- Earnings-related benefit: at least **40%** of former earnings after 15 years of contributions or employment or 10 years of residence
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## How much social security is affordable?

- OECD countries spend between 10 and 30% of GDP on social security
- Usually countries spend between one third and half of total public expenditure on social security
- In countries younger demographically and less developed it is basic education and health which dominates public social expenditure
- In ageing OECD countries pension expenditure dominates and health follows



## How much social security is affordable?

- Countries at the same level of economic development differ significantly in how much they spend on social security
- There is no apparent link between economic performance and the size of the national social security system
- Size of social security system is shaped mainly by prevailing political attitudes towards redistribution
- Affordability is a function of the societal willingness to finance social transfers through taxes and contributions



## How much social security is affordable?

- Social security systems which perform in a way approved by the majority of the general public are usually also affordable – whatever is their size.
- Systems which perform badly from the point of view of the general public usually lose support and acceptance and may become unaffordable even if relatively small in fiscal terms



## **How much social security is affordable in low income countries?**

- What kind of a minimum social protection package could low income countries afford?
- To what extent could such a package be financed out of domestic resources?
- How much international assistance would be needed over the next years?



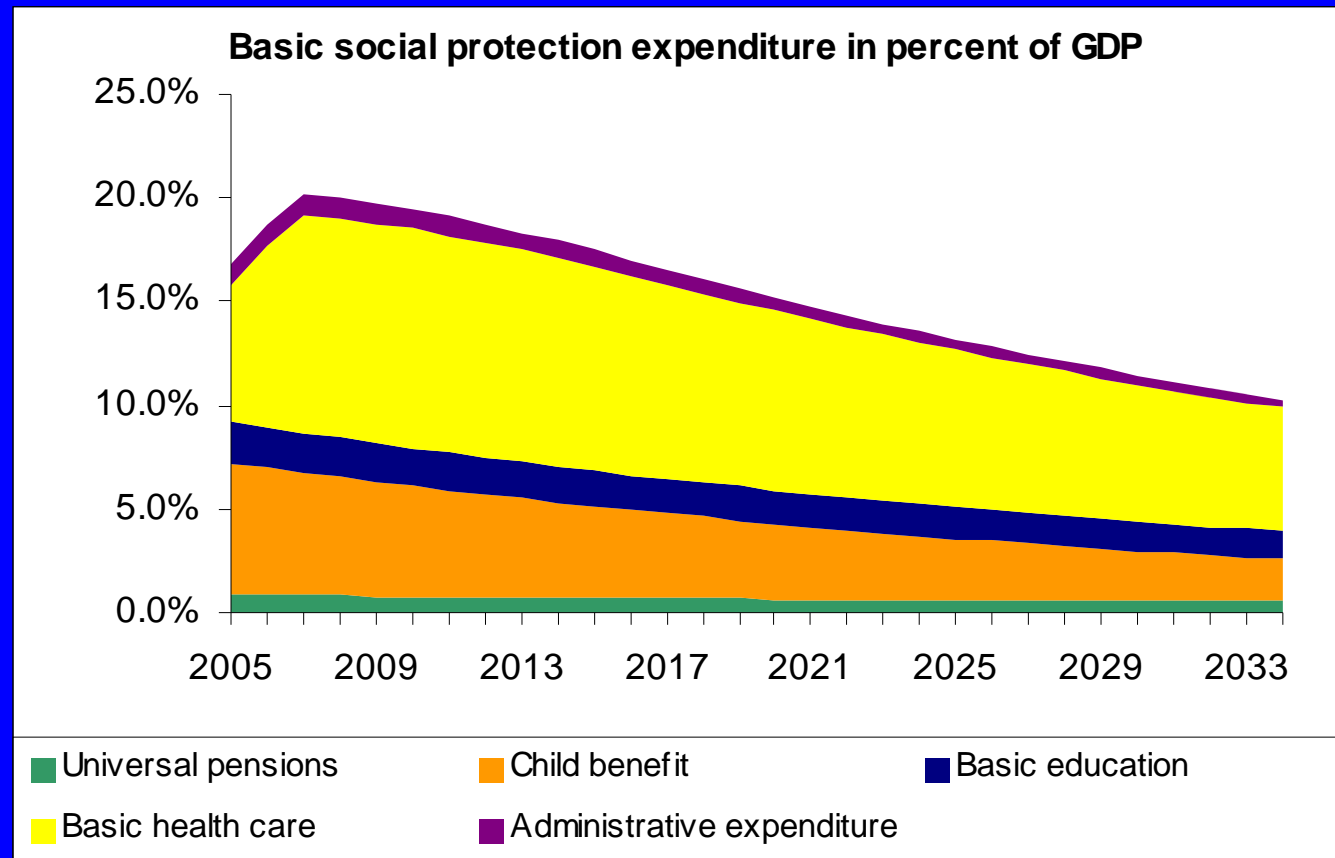
# Minimum Social Protection

Priority basic social protection package:

- Universal access to essential health care
- Basic education (primary education)
- Minimum income security
  - Basic old age and invalidity pensions
  - Cash benefits to children (notably orphans)



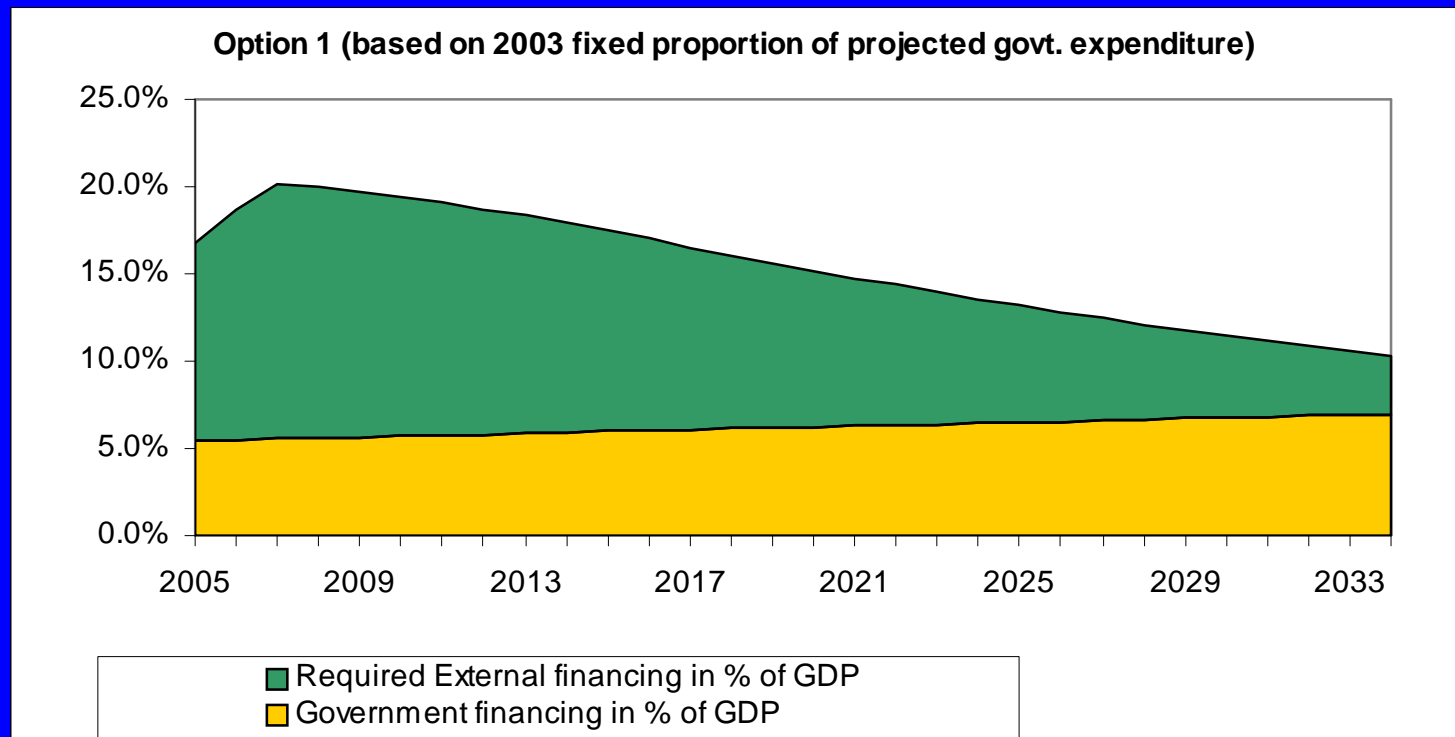
# Preliminary Results for Tanzania: Expenditure







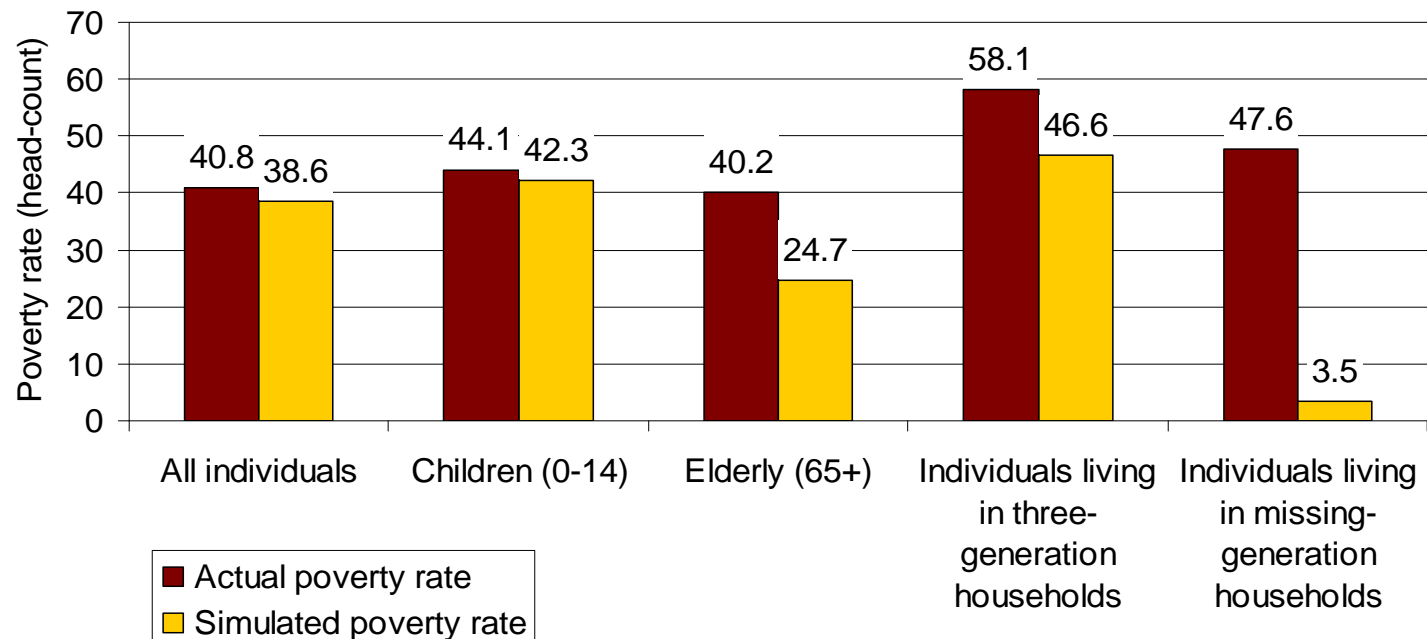
# Preliminary Results for Tanzania: Financing





# Poverty reducing effects of a universal old-age pension

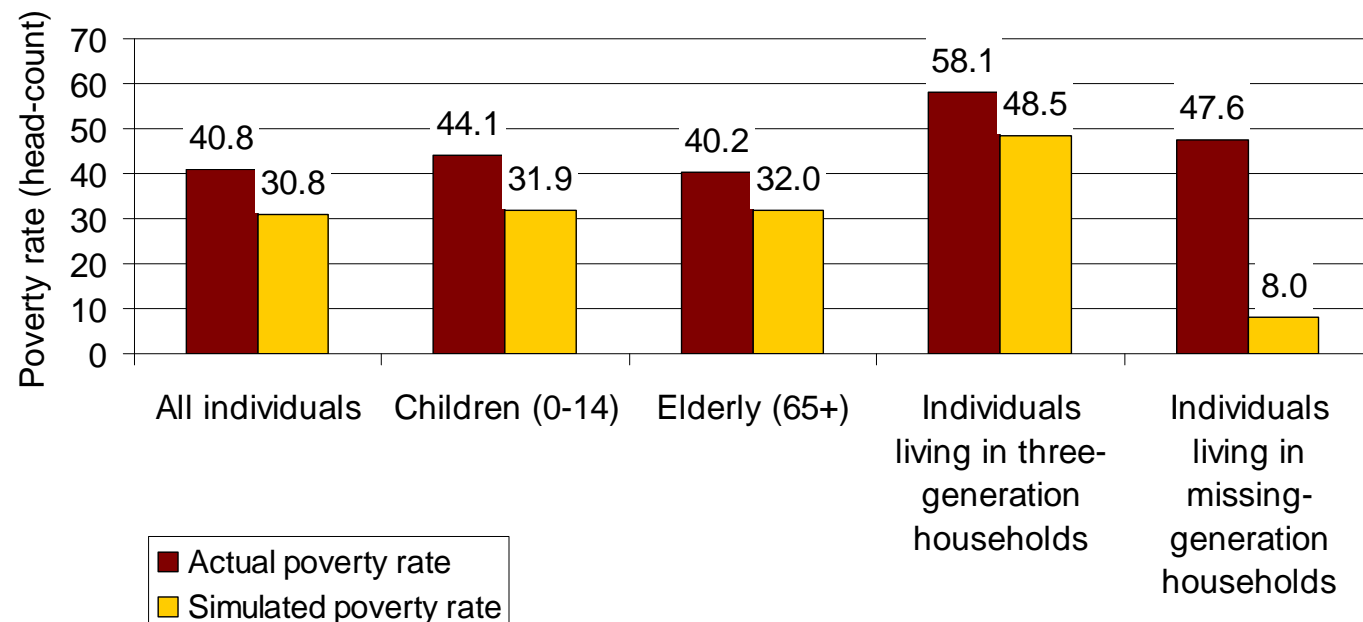
Simulated impact of a universal old age pension of half the \$1/day poverty line in Tanzania (based on basic needs poverty line)





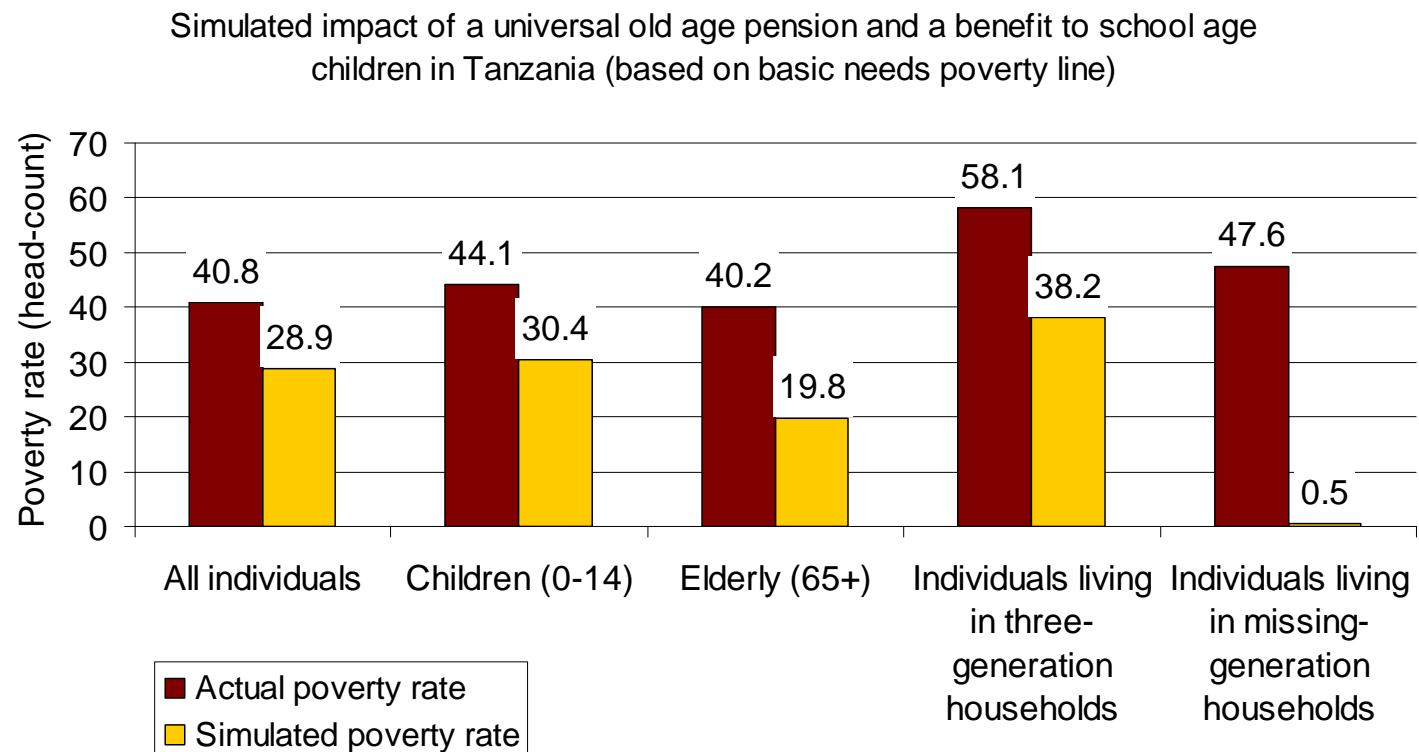
# Poverty reducing effects of a child benefit to school-age children

Simulated impact of a benefit to school age children of one quarter of the \$1/day poverty line in Tanzania (based on basic needs poverty line)





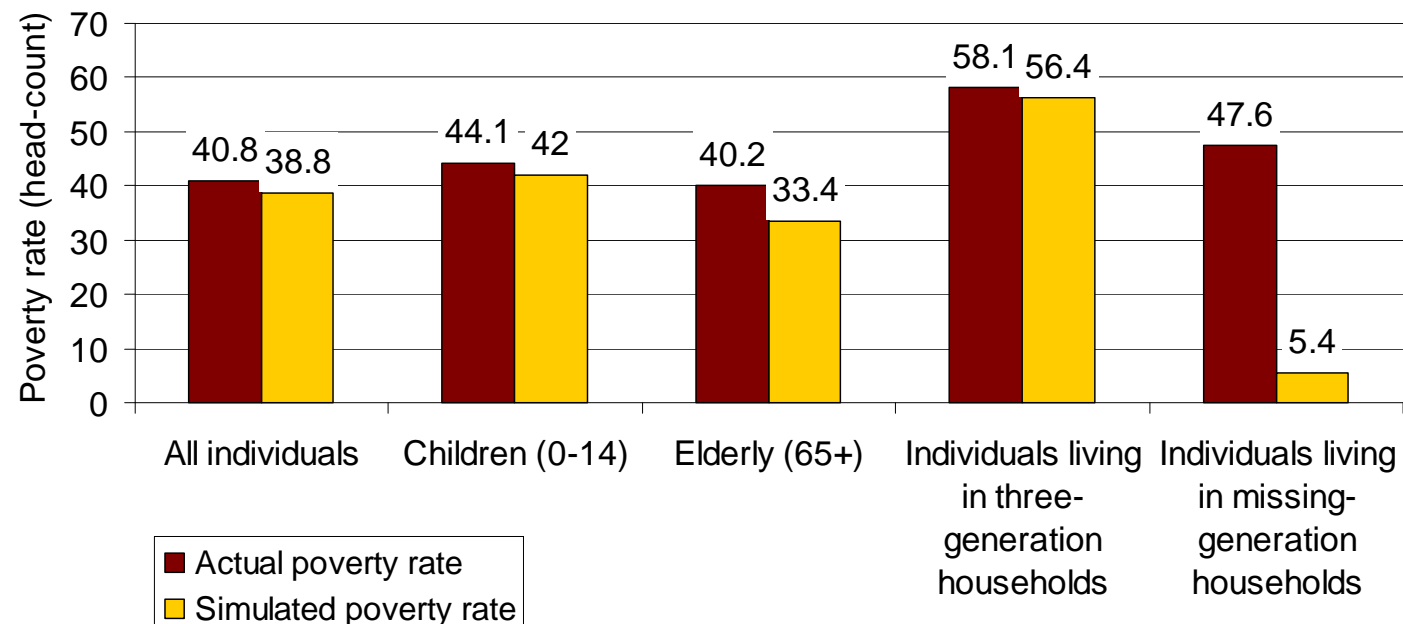
# Poverty reducing effects of an old age pension and a child benefit





# Poverty reducing effects of a targeted cash transfer to the most vulnerable

Simulated impact of a targeted cash transfer to the most vulnerable of \$6 per month in Tanzania (based on basic needs poverty line)





## Current social security reform debate in Tanzania (1)

- The draft bill elaborated in 2005 presents a very ambitious attempt to harmonize fragmented social security system in Tanzania and to open the ways to extend social security coverage to uncovered groups. The task is very challenging and difficult but certainly worth trying. The draft certainly needs many major improvements but it is a good starting point for a real debate.



## Current social security reform debate in Tanzania (2)

- The draft bill:
  - a. Provides a comprehensive framework legislation setting minimum standards for the scope, extent and quality of social security coverage in the country;
  - b. Sets institutional framework for a well coordinated social security policy making and governance through establishing Coordinating Committee and Social Security Regulatory Authority;
  - c. Attempts to unify Tanzanian social security institutionally by proposing to set the Public Sector Social Security Fund, the Private Social Security Fund and the National Health Insurance Fund



## Current social security reform debate in Tanzania (3)

- d. Significantly extends scope of social security coverage through extending health insurance compulsory coverage to all public and private sector employees;
- e. Foresees further extension of the scope of social security coverage of the employees through foreseeing access to benefit package including old-age, disability and survivors pensions, sickness and maternity benefits, health care benefits and unemployment benefits
- f. Sets a framework aimed at extending the social security coverage to the informal economy foreseeing both the link with existing micro-schemes and government subsidies financed through general taxation and/or special taxes. This is very interesting but needs to be elaborated more on details.





## Current social security reform debate in Tanzania (4)

- As the reform involves gradual changes in the social security entitlements of those currently covered and foresees imposing new financial obligations on employees, on employers and on taxpayers in general, it is particularly important that open and well informed social dialogue, involving all the stakeholders is being held through all the phases of the reform process.
- Actuarial and other quantitative analysis of the overall costs of the reform and the new schemes, of contributory burden involved, of fiscal implications in general and of gains and losses from the perspective of the different types of household and families has to be undertaken immediately as only having the results of such an analysis one can imagine a real debate on the proposal. This will be a huge and complex task.



# Current social security reform debate in Tanzania (5)

## **Extending the coverage to the informal economy:**

- The very definition of the “informal sector” is unclear and should be avoided in the law. Law should rather specify existing categories of persons in the labour market and their family members. All employed in any country, including Tanzania, are either employees (some of them having formal, written contract, some not), or employers or self-employed or helping family members. Law should rather refer to these specific categories than to employed “informal” or “formal” sector. The ultimate policy objective pursued by the law is to cover all employed and their family members. Covering all employed means in some sense turning everybody into “formally” employed. Those covered and uncovered often work for the same establishment, they are not in different sectors. One of the stated objectives of the law should be clearly “formalization” of the employment and adequate measures should be foreseen.



# Current social security reform debate in Tanzania (6)

## **Extending the coverage to the informal economy:**

- The concrete mechanisms to extend the coverage are not clearly described (except the reference to the “informal social security institutions” [271 and 272]). The text refers to the Government and Board of the funds to define concrete measures and mechanism to reach the extension. We should keep in mind that there is no experience of a comprehensive extension of social security (like the one described in the bill) to the informal economy workers in low-income countries. The difficulties to design adequate mechanisms to cover informal economy workers (and to finance them) seem to be sub-evaluated. There is a big effort in the document to address the diversity of the situation of informal economy workers. However, one has to avoid creating a system which will be too complex and expensive to manage.



## Current social security reform debate in Tanzania (7)

- The financial effort required from the government taking into account the benefits announced (238), the size of informal economy in Tanzania, the low capacity to contribute of most informal economy workers and self-employed, will be certainly very high. Careful social budget study would have to be undertaken in order to assess financial needs against potential fiscal capacity of the state. Additional fiscal policy measures would have to be designed.
- Taking into account a low proportion of employees with formal job contracts in the Tanzanian economy, one has to look at the extension of coverage as a long-term objective which would have to be implemented gradually (for example defining priorities related to groups to be covered and type/level of benefits to be provided). One has to restrain from including into the law provisions which are not feasible. On the other hand the law should provide a clear legal framework opening the way to – gradually – provide social security coverage to all Tanzanians.



# Current social security reform debate in Tanzania (8)

- Two controversial policy statements in the « National social security policy » document:
  - « *Legal mechanisms shall be developed to allow for withdrawal of part of the accumulated benefits; while the balance shall remain for long-term benefits on premature termination of their employment.* » (3.8)
  - « *Social security institutions shall operate in a regulated liberalized market as follows: While the existing mandatory social security institutions shall operate and compete among themselves. Social Security Services under supplementary schemes shall be fully liberalized* » (3.15)
- It may (depending on how it is translated into practice) be difficult to reconcile not only with the international social security standards and principles but also with the basic income security requirements and with the financial and administrative rationality



## Conclusions

- Reform proposals go in the right direction:
  - With the ambition to provide social security to all Tanzanians
  - And to design a system able to cope with demographic and fiscal challenges
  - In line with international standards and principles
  - Following «**National social security policy**» document adopted in 2003 which already accepted many of the basic social security standards and principles
- Debate has to be assisted with a detailed analysis of social and financial implications of different policy options and institutional solutions



## **ILO is ready to assist the Tanzanian reform debate**

### **ILO specializes in providing advice and technical assistance in:**

- Analyzing existing social security systems with respect to their coverage, effectiveness and financial sustainability
- Analyzing and costing feasible policy options for extending coverage and improving performance
- Tools: performance reviews, social budgeting, actuarial valuations
- Capacity building through training