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Strategies for Improved Social Protection in Asia: Social Insurance (Project and Program Issues)

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I. Introduction

In designing any new social insurance program or reforming an existing system it is necessary as a first step to collect all the available data on the sector of the population at which the programme or reform is directed. This can be difficult when there is an absence of historical data, and in any event it is usually advisable to conduct special surveys to ensure that all data is current. In forecasting the cost of a new programme it will almost always be essential to call upon the services of professional analysts, statisticians, and actuaries with whom it will be necessary to agree assumptions on a number of issues, for example, the expected rate of take-up of a new benefit. There will be no point in designing a social insurance programme that the available administrative machine will be unable to implement at the time of the planned date of introduction. Administrative costs are an increasing and significant factor in the design of modern social insurance programmes and need to be calculated with care. A set of simple social insurance benefit rules which allow for conditions of entitlement to be clearly set out in legislation can be a tremendous advantage to those faced with the task of drawing up procedures and providing specifications for computer software. The amount of staff time required to design a programme, explain its effects to Ministers, the social partners and the general public, make all the necessary preparations for its launch, and ensure its introduction according to the agreed timetable, can easily be under estimated.

II. Identification of Programme Operational Issues

The operational issues facing those with the task of reforming the social insurance organizations in DMCs or introducing new schemes are many and complex. Most of them spring from the existence of the two distinct labor markets, namely, the formal sector embracing workers in the larger enterprises and the informal, embracing workers in smaller urban and rural enterprises and those in the agricultural workforce. The informal sector can account for around 80% of the national workforce. Some DMCs have an agreed timetable for extending mandatory social insurance schemes to the employees in smaller enterprises while other DMCs see an *extension of coverage* as desirable and lacking only a government decision for the change.

One of the larger problems to be faced when planning to extend coverage is the limited capacity of social insurance administrations. Many of the institutions are not well equipped to collect

contributions and ensure compliance in the formal sector and would require substantial investment in staff development and new technology before taking on these tasks in the informal sector. There will be no point in deciding to extend coverage or design new schemes to meet the special circumstances of workers in the informal sector if the result will be non-compliance on a large scale due to lack of enforcement staff. This problem and other associated difficulties are summarized below.

Some of the advantages and disadvantages attached to the question of extended coverage are:

For

- a. will provide insurance cover to those currently exposed to the risks of poverty and ill health,
- b. will improve productivity through the better use of labor and the improved health of workers,
- c. will increase the income of the social insurance funds,
- d. will make for better social cohesion,
- e. is an essential step towards universal coverage,
- f. will improve the mobility of labor, and
- g. will facilitate anti-fraud measures when unemployment insurance is introduced.

Against

- a. will require significant investment in new staff, staff training and new technology if there is to be any prospect of compliance being at reasonable levels,
- b. fluctuations in income may be difficult to accommodate without special legislative provision,
- c. low incomes may call for a disproportionate administrative effort in operating necessary contribution exemption provisions,
- d. will require long-term pilot exercises to determine the appropriate legislative and administrative responses to the above potential areas of difficulty, and
- e. the additional cost of contributions could have some initial negative impacts on the development of smaller enterprises.

An important question which faces DMCs and other countries in the process of reforming their social insurance schemes is whether the *collection of contributions* should be the responsibility of one agency dedicated to the task. Present arrangements in DMCs tend to favor separate collections for health and social insurance. A single system of collection is much easier for employers and should show significant savings in administration. *Evasion or under-payment of social insurance contributions* are problems faced by all contributory schemes to a greater or lesser extent. Dedicated agencies with the responsibility for ensuring compliance with the law relating to social insurance contributions can have operational responsibility for collecting contributions, maintaining a national database of contribution records and providing an advice service on contributions to other parts of the social insurance system, the business community and members of the public. The Agency can appoint inspectors with powers under social insurance legislation relating to entry to premises and the inspection of documents. Inspectors are usually based in all local areas and make follow-up visits when the central database staff inform them that individual employers or the self-employed have a deficient contribution record over a past given period. While inspectors have the power to take civil proceedings or criminal proceedings for specific offences listed in social security legislation the vast majority of enquiries are completed without recourse to these powers that are used only as a last resort. Without such a network of inspectors, and a headquarters contributions directorate to give them support and advice, experience has shown there is little prospect of maintaining collection rates at a high enough level to meet benefit and pension costs. In collection and compliance administrations throughout the world the collection rates can vary from below 50% to over 95% with those in the lower range facing the serious prospect that in the absence of large State subsidies their social insurance scheme will collapse.

The *classification of contributions* means that in most schemes the law defines when a person is liable to pay as an employed person or a self-employed person, and whether they can join the scheme as a non-employed voluntary contributor. Countries who have moved recently from a payroll based collection system to one with individual contribution records are beginning to meet the problem of classification or categorization. If there is an advantage in terms of a lower mandatory contribution rate, say, for low wage earners or the self-employed, this can result in the expenditure

of much administrative effort in investigating wage levels and the terms of a person's contract and reaching a decision on whether he or she is employed or self-employed.

Those workers with very low earnings are usually *exempt from the liability to contribute*. The threshold is usually supplied by a statutory lower limit that is kept under review by government. An upper earnings limit is also usually found in the law and again is reviewed and changed as necessary following an annual review. The fixing of these lower and upper limits is important for the administration of the scheme while the level of the lower limit has poverty consequences for those with regular low earnings. The question of an appropriate lower earnings level could be an important one for any DMC that plans to extend coverage into the informal sector and to the self-employed.

In long established social insurance schemes it is usual to find a system of *crediting contributions* designed to assist those who are already insured under the scheme but, for reasons beyond their control, are unable to continue to make the requisite contributions. Credits are usually awarded for periods of sickness, maternity, and unemployment when benefits are in payment, to those caring full-time for invalids and to those caring for dependent children. The latter two categories will usually be women who have traditionally lost pension and other benefit rights when acting as carers. Credits can also be awarded to those in full-time education or undertaking a period of approved training. To the extent that crediting is permitted, the beneficiaries are being subsidized by other contributors. Without a form of credits the sick and unemployed and particularly women with dependent children are penalized and will lose benefits because they are unable to satisfy conditions of entitlement which call for a minimum number of contributions paid over a given number of months or years. For example, unemployment benefit qualifying conditions might well require contributions to be paid for at least 10 months in the 15 months ending 3 months before the claim. Such a rule could conceivably require a credits provision if it is to be seen by insured workers as fair. As a poverty alleviation measure the awarding and funding of credits could be seen as justifying central government expenditure as an alternative to leaving the extra financial burden for scheme contributors.

Some DMCs record the social insurance contributions paid by individual contributors using a national or regional database. A national database is probably essential if the social insurance contribution collection system is to be used to collect mandatory contributions that can be sent

quickly to a private pension fund selected by the individual contributor. Those DMCs that see a second pillar pension scheme as having a part to play in the future of their social insurance schemes will need to consider the issues of collection, transfer and allocation of contributions and whether their existing computer systems need to be enhanced or replaced. A national database of social insurance personal records will also be essential when schemes expand and participating workers become more mobile in more efficient labor markets.

The *introduction of unemployment insurance* will present DMCs with many operational tasks before their schemes can begin to function in an efficient and effective manner. The first benefit payments will become available to claimants after the payment of at least one year of contributions

The preparatory tasks can be summarized as follows:

- a. The education of senior policy makers regarding the experiences of countries with a long history of operating unemployment benefit schemes;
- b. The drafting of legislation suited to the national labor market;
- c. A survey of local employment and social insurance offices to establish whether they have the necessary facilities to operate the scheme;
- d. The development of local labor markets;
- e. A survey of the new technology available to the employment service and social insurance organization and required to process claims and exercise effective control of claims;
- f. A survey of the current contributions collection and recording administration to establish its future size and organization;
- g. The establishment of a database of all the known employer contributors to the scheme;
- h. A survey of existing staff complements and office organizations to determine their future size and form;
- i. The drafting of software specifications and proposals for the procurement of hardware;
- j. The design of any necessary pilot exercises and their implementation;
- k. The production of procedural manuals and training modules;
- l. The training of those who will train the staff in employment and social insurance offices;
- m. The recruitment of new staff;
- n. The training of those who will manage the unemployment benefit fund;

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- o. The arrangement of training programmes and training locations;
 - p. The drafting of publicity leaflets for the new scheme;
 - q. The drafting of a communications strategy covering workers, employers, employer's organizations, trade unions and the general public; and
 - r. The design and production of printed forms for distribution to local offices.

One major problem in introducing any new social insurance scheme is the timing of the various operations to ensure that everything is in place on the start date. Project planning may be an area where DMCs would welcome assistance and advice.

It is evident from the experience in *assessing disability claims* that there is a need for a cadre of well-trained medical staff in the social insurance administrative machine who can ensure that expenditure is focused on those claimants who are truly unable to work. These same medical staff would be responsible for drawing up and supervising rehabilitation programmes designed to return disabled people to the workforce. The first requirement, however, is to have in place legislation that lists the criteria to be applied when assessing a claim. The medical equipment required to make an assessment using a functional method is simple and inexpensive whereas that required for clinical tests used by many medical examiners tends to be expensive and only found in hospitals. The question for those DMCs with methods of assessment that give rise to escalating costs or have been shown to be inadequate for the task, is whether they have the resources to recruit and pay a number of part-time or full-time doctors to perform this essential work. Another option would be to contract the work out to an organization with qualified medical staff on a "fee for examination" basis and to carefully monitor that organization's performance.

The following key issues facing the designers of social insurance projects and programmes in the DMCs can be placed in the following *rough priority order*, but, of course, priorities will be affected by national preferences and differences:

- a. The extension of health insurance;
- b. The introduction of micro-insurance or other local insurance self-help schemes in poorer communities;
- c. The improvement of governance where required, including the establishment of independent appeals systems;

- d. capacity building in social insurance institutions;
- e. The provision of new technology to assist in the extension of coverage, the introduction of reformed pension schemes and unemployment benefit;
- f. The improvement of data collection, management and financial information systems;
- g. provision of staff skills training;
- h. The development of a public communications strategy;
- i. The improvement in the workings of the labor market machinery to ensure that the employment services are able to exercise effective control of claims when unemployment benefit is introduced;
- j. The improvement of the social insurance contributions collection service to give it improved prospects of collecting contributions when coverage is extended;
- k. The design of reformed pension schemes where existing schemes are not sustainable in the longer term;
- l. The design of any proposed unemployment benefit scheme;
- m. The training of staff in the operation of an unemployment benefit scheme;
- n. Improvement in disability assessment and rehabilitation systems;
- o. A review of equal treatment and gender issues in current legislation and practice;
- p. The development of financial institutions able to manage pension funds for reformed pension schemes;
- q. To improve the investment performance of Provident Funds; and
- r. To develop benefit delivery systems.

III. Implications for Programme Choice

In the transition economies poverty alleviation is probably the first priority of administrators in the branches of government concerned with social protection. While officials would like to progress the development of the national social insurance schemes it is probable that governments will be compelled in the short-term to place several desirable reforms on a fairly slow track. The restructuring of State owned enterprises is a major problem in the transition economies and there will always be a temptation to use existing balances in social insurance funds as a source of financial assistance towards the restructuring programme. This could have implications for the choice of programmes and projects directly related to social insurance reform.

When considering the social insurance projects that might be helpful to DMCs in reforming present systems a most compelling question must be whether the capacity of government and private financial institutions is sufficient to implement and then administer the proposed reforms. A second and equally important question is whether the governance of those institutions is such that members of the public will trust them to hold and manage their lifetime contributions and savings. A third question is whether the existing social insurance schemes in DMCs should be reformed in a way that would make them sustainable in the longer term and, at the same time, more attractive to excluded members of the workforce. Following from that third question is the question whether changes to social insurance systems can persuade the workforce in the informal sector of the labor market that social insurance offers them a better means of covering insurable risks than the traditional support available from personal savings and the extended family. Another question is whether separate schemes should be designed to meet the social insurance needs of those local communities too poor to participate, as yet, in national social insurance schemes. These five questions are discussed below.

The complements and *capacity* of some DMC government social insurance offices appear to be limited when compared to the standards of Ministries and national agencies that manage more developed schemes. Even where the complement is adequate the staff can be handicapped in their work by a lack of reliable data and insufficient numbers of professional support staff. Computer systems are not always suitable or large enough for the tasks required of them. While single projects can help to improve performance through reorganization, data collection, training and the

installation of modern computer systems, it will be for DMCs to decide how much they can afford to invest in building viable organizations. The administration costs borne by social insurance schemes vary widely across the world but an acceptable level of costs should be sufficient to maintain a complement of well-trained and efficient staff who are also effective in scheme management. However, if there is a need for major improvements in staff numbers, buildings and computer systems, before scheme administration can be improved, this will clearly call for funds that are unlikely to be available from current social insurance revenues.

Governance is a key issue for social insurance schemes as without openness and public confidence in the management of funds and the decision making processes it is unlikely that schemes will survive in the longer term. If the public has reason to think that even a small minority of civil servants or private managers of pension funds are likely to be corrupt it will be almost impossible to keep participation in a scheme at a level that guarantees its sustainability. Where governments see the need for improvement in the management of human resources in the public service it should be possible to offer assistance in establishing an effective service with clear job descriptions, a culture that allows for the proper delegation of responsibility, and with increased transparency in the management of financial resources. As mentioned above, autonomous bodies with proper customer representation can improve accountability and transparency. All of this must rest on a sound legal and regulatory framework in which both public servants and members of the public know their rights and obligations and where both can take complaints and appeals to an independent adjudication service. A first step towards good governance can often be the reform of existing legal institutions followed by a new legal system that has public confidence. In the absence of a sound legal system it is difficult to see how a sound business investment climate can be created or how social insurance schemes can be developed beyond a very basic form. Several DMCs have begun to delegate more responsibility for the administration of government programmes to local districts and provinces. With rules that require more transparency and accountability such delegation should lead to greater public interest and better governance. However, the scope for delegating parts of the administration of national social insurance schemes to local levels is somewhat limited by the requirement that schemes should be consistent in the treatment of both contributors and beneficiaries.

Given that their social insurance institutions have acquired the necessary capacity, efficiency, and degree of good governance there is no reason to believe that *DMC social insurance schemes* cannot be improved to provide beneficiaries with better safeguards against insured risks and at the same time show greater scheme sustainability. However, a DMC without sound private financial institutions will not be able to develop a pensions system that takes advantage of private fund management. If a DMC is contemplating the introduction of a second pillar pension scheme with individual accounts held and managed by private sector companies it will need to consider whether there are a sufficient number of such national companies with the capacity, management skills, and resources to offer contributors a choice of safe and well managed funds in which to invest for a pension. There are the alternatives of fund management by a government agency or by foreign companies with or without locally registered companies. State managed funds have not shown good returns for Asian provident fund investors while investment in foreign funds managed by foreign companies could present political difficulty. Whether those DMCs with limited scheme coverage can reform their present systems to attract workers from the informal sector of the workforce is probably a question that can only be answered after pilot studies have obtained the views of these excluded workers on the risks they regard as priorities for cover and the premiums they are prepared to pay. When this information is available in a reliable form then the design process can begin.

Informal sector workers will probably require a great deal of persuasion before they are convinced that their priority needs will be met within a national social insurance scheme. There will be great advantage in any scheme that has simple rules and probably a flat rate guaranteed form of payment. A large-scale communications campaign will be an essential precursor to the successful launch of such a scheme with leaflets, posters, television advertising, radio discussions and press coverage. Politicians will need to give such a campaign their full support while social security staff at local level will require training before they are ready to deal with enquiries on the proposed scheme. The experience of some DMCs with voluntary pension schemes for farmers and workers in rural areas has shown that price fluctuations of agricultural products has caused some such schemes to collapse while younger farmers tend to have wider perceptions and see their future prosperity and security in old age coming through migration to urban areas and work in industrial enterprises rather than as members of rural pension schemes. It is possible that those in the informal sector would

prefer to make flat rate contributions to a scheme with defined flat rate benefits. Their requirements may not extend beyond cover for the risks of disability and early death. For such a scheme to attract volunteers it would probably have to offer regular monthly payments to disabled people and the same to a worker's surviving family after one year of membership. The problem of an effective and fair system of disability assessment would remain in several DMCs but see below for suggestions on improving this.

Schemes for relatively poor communities could offer such communities a number of choices and all will probably have to be treated as pilot projects for their first few years of operation. While it will be for each community to choose an appropriate *micro-insurance programme* to suit its particular needs it may be helpful to local deliberations to have a menu of risks provided by outside advisers with estimates of cost per head against each. If support can be obtained from the private insurance industry this will make the task of estimating premium rates much easier. As with other parts of the informal labor market it will probably be necessary to conduct a survey of community wishes before deciding on a menu of options. Adverse selection will be one problem to be faced and it is most probable that a micro-insurance or mutual assistance scheme will only be viable if a very high percentage of community members (say 75%) are willing to join a scheme. The question of re-insurance is important to the success of any micro-insurance scheme. A scheme cannot plan to meet the costs of exceptional and unexpected losses and will need to carefully assess the extent of the normal and expected losses that it can meet from its member's contributions.

IV. Strategies for each Sub-Region

The number of common challenges facing all DMCs committed to reforming their social insurance systems makes it difficult to identify separate strategies for each of the regions of Asia. There are, however, some distinct sets of circumstances that distinguish the tasks in transition economies, in South Asia and in those South East Asian economies most affected by the 1997 Asian financial crisis.

In the *transitional economies* the social insurance structures are often well developed but in need of reform to meet the demands of a market economy. Some have always been near achieving national coverage with only a small part of the workforce engaged in self-employment. The numbers

of the self-employed are now growing and they are not always interested in joining the current statutory schemes. One challenge is how to design schemes that meet the requirements of these workers. The introduction or improvement of unemployment benefit schemes is planned in several of the transitional economies. Their success depends very much on the development of the labor market and the effectiveness of local labor exchanges. Pension schemes tend to be first pillar defined benefit schemes and could be in need of reform where the process has not already been started. The restructuring of State owned enterprises (SOEs), with the prospect of redundancy facing a large number of workers in the formal sector of the labor market, will mean that governments have as a priority the improvement of the labor market with an emphasis on retraining and resettlement. If some SOEs are sold the proceeds could be used to meet the cost of reforming the existing social insurance structures.

The possibilities for the use of such funds are:

- a. Developing the employment services to provide a national network of offices capable of handling benefit claims from the unemployed and applying the labor market tests so essential to the efficient operation of an unemployment benefit scheme;
- b. Providing re-training grants to redundant workers, or, with an unemployment benefit scheme in place, funding exceptional benefit costs to provide for the extended duration of benefit payments where the level of local job vacancies is low;
- c. Subsidies to assist in the transition of current pension schemes where first pillar schemes will in the longer term be unsustainable given existing and future pension liabilities. Where a second pillar scheme can be introduced the subsidy will probably be required until this fully funded scheme is able to give younger workers a more sustainable combined pension; and
- d. Improving the capacity of social insurance institutions in preparation for an extension of social insurance cover to the informal workforce.

The transitional economies have several options for improving the generally well-developed state of their social insurance systems. In summary the suggested priorities are:

- a. To design schemes that meet the special needs of the self-employed,

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- b. To consider publicity campaigns to persuade the self- employed to join social insurance schemes,
 - c. To develop labor markets prior to introducing or improving unemployment insurance schemes,
 - d. To review first pillar pension schemes with a view to improving their long-term sustainability,
 - e. To improve the capacity of labor exchanges prior to the introduction or improvement of unemployment insurance schemes,
 - f. To improve the capacity of offices engaged the collection of contributions, compliance and enforcement,
 - g. To build capacity and improve governance in social insurance institutions,
 - h. To improve the capacity of financial institutions that could undertake the management of second pillar pension funds,
 - i. To extend the coverage of social insurance schemes to the employees of smaller enterprises where this has not been achieved,
 - j. To develop improved benefit delivery systems,
 - k. To extend the coverage of health insurance where this is not universal,
 - l. To consider pilot exercises to test public choices and options for micro-insurance schemes, and
 - m. To review current legislation to ensure the absence of both direct and indirect gender discrimination.

In the *South Asian economies* a large part of their populations have traditionally relied to a large extent on informal risk management. The social insurance schemes are either geared to individual savings accounts that pay out lump sums to cover the risks of old age, early death, disability and periodic unemployment, while employer financed funds cover the risks of employment injury and sickness, or are based on a dual pension and provident fund system. A priority for these economies is seen as the restructuring and development of their existing programmes into schemes that provide contributors with better returns and payments that better cover the risk of poverty in old age and the premature death of a breadwinner. Many of these schemes will have the potential for

conversion to second pillar defined contribution retirement plans but may require greater transparency if contributors are to invest with confidence over a working life. Consideration may well have to be given to transferring fund management to the private sector where this is a viable option given the state of financial infrastructures and where such a move would improve the rate of return on investments. Current schemes tend to have limited coverage with private sector workers and public servants the more usual participants. The existing capacity of social insurance administrative structures will almost certainly need strengthening if coverage is to be extended with an effective system of contributions collection and enforcement. As in all regions of Asia the extension of insurance coverage is a major challenge and the further encouragement of self-help schemes in poorer communities will probably show good returns for a relatively small investment. In summary the suggested priorities for the S. Asian economies are:

- a. To convert Provident Funds into second pillar pension schemes , or
- b. To improve the management and investment performance of Provident Funds,
- c. To consider a change from a system of lump sum payments to one of pensions that better cover the risk of poverty in old age,
- d. To improve financial infra-structures ,
- e. To strengthen social insurance administrative structures,
- f. To extend coverage to the employees of smaller enterprises,
- g. To conduct pilot schemes to test public choices and options for viable micro-insurance schemes,
- h. To improve the governance of social insurance institutions and linked financial institutions, and
- i. To develop pension companies that can offer annuities.

In the *South East Asian DMCs* worst affected by the 1997 Asian financial crisis the movement of workers out of the formal sector workforce and the need for them to withdraw savings from provident funds had quite serious repercussions for the national social insurance schemes. The priority is now to rebuild individual funds and encourage compliance and new savers by better investment returns. There has probably been a certain loss of confidence in social protection schemes that can only be overcome by offering a better range of benefits to be provided from long-

term and secure investment. A public awareness campaign could be a useful and effective means of educating potential contributors to improved social insurance schemes. Some countries have social insurance institutions that lack the capacity to improve enforcement procedures. The private sector could perhaps offer to manage funds or even act as agents in the collection and control of contributions. This, of course, assumes that the private sector has the capacity or inclination to take on these tasks and enjoys more public confidence than the State institutions. The improvement of governance in both sectors is probably something that must be achieved before major reforms of social insurance can be successfully completed. In summary the suggested priorities for SE Asia are:

- a. To improve the governance of social insurance institutions and their linked financial institutions if any,
- b. To rebuild the financial resources of Provident Funds,
- c. To improve the rate of return on Provident Fund investments,
- d. To improve compliance and enforcement capacities,
- e. To extend coverage to the employees in smaller enterprises,
- f. To consider the private management of Pension and Provident Funds,
- g. To consider private agencies for the collection of contributions,
- h. To introduce greater transparency into schemes in order that contributors can know when employers have not paid contributions,
- i. To improve the coverage of health care insurance,
- j. To consider pilot exercises to test public choices and options for viable micro-insurance schemes, and
- k. To improve the assessment of claims for disability benefits.

The *Pacific DMCs* tend to have developed social insurance schemes using the provident fund model to provide coverage for selected groups of employees with the option of voluntary participation by others in the workforce. The benefits usually include old age pension, disability benefits, work injury benefits and a death grant. This is true of the larger countries while some of the smaller countries have yet to introduce schemes. The essential question for the provident funds is whether they provide an investment income sufficient to meet current and future pension

obligations. The picture will vary as between countries and local financial structures. Micro-insurance for the more isolated communities could be an option where the local population favor this approach in the absence of a government scheme.

In all the Asian sub-regions there are DMCs with pension plans open only to government employees, military personnel and others. These plans tend to be much more generous in their final payments than any scheme available to members of the general public. If national pension schemes are to be made sustainable in the longer term there must be a good argument for bringing all citizens within the one scheme and providing separately for the additional pensions of occupational groups.

V. Practical Options for Programmes and Projects

The Annex to this chapter sets out the various social insurance policy instruments with the areas in which they can be used to best advantage. With the possible exception of micro-insurance schemes all require efficient and effective administrative machinery to be in place if they are to play a full part in the elimination of poverty. Many DMCs will need to improve their social insurance administrations before they have a realistic prospect of providing a service for those of their citizens who are currently excluded from contributing to schemes. In a *capacity building* programme for DMC social insurance organizations the following projects would seem to be practical options:

- a. A review of present methods for collecting social insurance data with recommendations for any necessary improvements in the methods used to collect management and financial information and in conducting special surveys.
- b. The follow-up to (a) might be:
 - The offer of any necessary new technology required to operate a management information system and a financial management system,
 - The offer to develop MIS and FIS and write the software specifications, and
 - The offer of assistance in the construction or improvement of national and local survey programmes.
- c. The development of a communications strategy to inform the public or target populations about:

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- their rights, obligations and entitlements under existing SI schemes,
 - details of new schemes and who will be affected by them,
- d. The development of a training unit for a social insurance headquarters office to include:
- A team trained in the techniques for conducting social insurance technical training courses, and
 - A team trained in the production of social insurance training modules.

It is not recommended that special *training* centers are provided outside a headquarters office as experience suggests they are usually under-used and that social insurance training courses can be held equally well in government or private premises at less cost. Training courses can be divided between technical training for those who will operate the social insurance benefit and financial procedures at local or regional levels and training for senior management that might include, for example, some of the following subjects:

- a. Strategic Management and Planning,
- b. Organizational Change,
- c. The Policy Environment,
- d. Parliamentary Business,
- e. Advising Ministers on Options,
- f. Social Insurance Law,
- g. Public Expenditure and Government Accounting,
- h. Objective Setting and Performance Measurement,
- i. Project Management,
- j. Management Accounting,
- k. Investment Appraisal,
- l. Senior Negotiating Skills,
- m. Media Skills, and
- n. Management Theory, Tools and Techniques.

Contributions Collection – the biggest problem facing any DMC planning to extend the coverage of its social insurance scheme to the informal sector is how to collect contributions from employers and the self-employed who have few connections with the current government

bureaucracy. A survey in one DMC showed that 2% of the population paid income tax and in another that the income tax authorities had income data on only 23% of the urban self-employed. It is unlikely that the present methods used to collect contributions in the formal sector can be applied in the informal sector without some radical simplification. It was found in one DMC that farmers and fishermen reported incomes that on average were less than half their actual income. While pilot projects to determine practical, simplified and efficient methods of collection in the informal sector will have to cater for the difficulty of workers moving into and out of the pilot area it will probably be essential to run such pilot projects in areas where there is minimal migration.

It may be necessary to introduce simplified methods of collection that meet the special work patterns in the informal sector and that make the task of enforcement less onerous. An example might be a system based on four levels of income such as:

- a. Those with gross earnings, or profits from self-employment, below the national minimum wage, (or a set minimum income in the absence of a national minimum wage);
- b. Category 1. -gross earnings, or profits, between the national minimum wage (or a set minimum income) and twice the national minimum wage;
- c. Category 2. -gross earnings, or profits, between twice the national minimum wage and three times the national minimum wage (or a set minimum income); and
- d. Category 3. -those with gross earnings, or profits, of more than three times the national minimum wage (or a set minimum income).

In the absence of profit and loss accounts it will be necessary for inspectors to use their judgment and discretion when deciding whether to challenge the stated income of self-employed and casual workers. Inspectors working in a locality should, however, over time, be able to build a fairly reliable picture of the true incomes of contributors. Many self-employed workers would no doubt claim to have profits of less than the set national minimum. If the social insurance legislation provided that the onus was upon the contributor to prove that profits were below the level considered realistic by an inspector, this would tend to increase the number of self-employed workers liable to make contributions and increase the effectiveness of enforcement. The employed earners and the self-employed with gross earnings or profits below the set national minimum would be exempt from making contributions for so long as their gross earnings or profits remained at that

level. These workers would be given certificates of exemption. The fact that employed workers were found to be earning less than a national minimum wage would, in the normal course, lead to inquiries under the labor law. Those with exemption certificates would not be building an insurance record and could, therefore, lose entitlement to benefits under the scheme unless they resumed or started to pay contributions at a later date. The workers with exemption certificates would, however, be recorded and their stated earnings and profits reviewed periodically given sufficient staffing resources within the social insurance organization. The advantages in having broad earnings and profits bands are that:

- a. Minor changes in income levels during the year need not, in the main, be recorded by employers or the collection office;
- b. The self-employed can declare their profits to be within a particular band and if this is seen as reasonable and acceptable by the compliance inspector there will be no need for the inspection to proceed further;
- c. The assessment of exact profit margins would be virtually impossible and cause insurmountable problems for inspectors in the early years of collecting contributions from those currently in the informal sector; and
- d. Those professional workers and others with large incomes or profits would not normally be assessed on the basis of their full incomes and with an upper limit fixed at three times the national minimum could be expected to accept this as reasonable and contribute without the need for disclosure of income details.

The method of recording contributions made by workers in what is now the informal sector will depend to a large extent on the social insurance system that DMCs see as best suited to the needs of these workers. For example, a simplified system of contribution records based on pension points (see above how a notional contributory benefit (NCB) scheme can be based on pension points) could assist in those DMCs without a fully developed national recording system. At the end of each accounting year each contributor would be notified of the points he or she had earned. A person with fully paid contributions on earnings in category 1 could be allocated one pension point. Category 2 workers could earn two points and category 3 workers three. At the end of subsequent years the annual notification would give the cumulative points earned. If a person had paid

contributions for less than a full year or the year included periods when contributions were not paid, any fraction of a pension point would be carried forward to the following year. In some DMC transition economies workers still have personal workbooks or social insurance booklets that record when contributions have been paid but these are usually held by the employer. A big advantage for workers under this proposal would be that an annual notification informs insured scheme members of instances when their employer has failed to pay contributions on their behalf. This is currently a problem in some DMCs where workers can discover at a late date that, unknown to them, a former employer has failed to pay contributions. If contributions have been deducted from an employee's wages and not paid to the social insurance collection service this constitutes fraud and should be taken up with the employer by an inspector immediately such practice comes to light.

With a system as outlined above the storage of personal contribution records can be limited to the number of points a person has to their credit. Social insurance law would need to provide that any insured person who has been sent an annual statement has a limited time, say three months, in which to challenge the accuracy of the statement. Otherwise the record will stand and cannot be amended. When a pension is claimed the points earned can be divided by the years of the contributory period and the pension calculated by reference to the average number of points earned and revaluations that have been made over that contributory period.

A pilot project based on the above outline or a similar simplified system of collection and data storage would seem to be a practical way of approaching the problem of an extension of coverage in DMCs. The design of the pilot exercise would, of course, need to take account of how a simplified scheme could be integrated with existing social insurance schemes. Existing schemes currently operating in the formal sector could perhaps be adapted to form part of a more simplified national scheme or could run in parallel with schemes for the informal sector on a permanent or temporary basis with legislation providing rules governing the situation of workers who move from one scheme to another. However, it is doubtful if any scheme could promise to provide many workers in the informal sector with a benefit or pension as a fixed percentage replacement income when their working income fluctuates to a great extent. Mention was made earlier of a scheme designed for workers in the informal sector offering cover for the risks of disability and early death with flat rate

contributions. Such a scheme with flat rate contributions could also be a possible subject for a pilot exercise to test the effectiveness of collection procedures in the informal sector.

It is doubtful if all DMCs planning to extend social insurance into the informal sector have sufficient storage space on their *computer systems* to accommodate the anticipated new population of insured persons and individual contribution records. It is always possible to underestimate the IT capacity required for any social insurance scheme and it is likely that DMCs that have not already arranged to do so would welcome a review of their existing IT systems with advice on whether they are able to take on the anticipated amount of additional data. The first two tasks facing IT teams when a scheme is extended are:

- a. to create a database with details of all known employers,
- b. to enter the names and identification number of all employees with a cross-reference to their employer, and
- c. to enter the names and identification number of the self-employed.

This can be a major task calling for the recruitment on a temporary basis of many data-input staff. If information on workers in the informal sector is unreliable, as may well be expected in many DMCs, the task of collecting and recording essential data could present special problems with which outside IT specialists could assist. The whole task could alternatively be out-sourced to the private sector with built-in guarantees as to confidentiality and performance.

Few DMCs employ sufficient *compliance inspectors* to ensure that employers comply with their obligation to collect social insurance contributions at the correct rate and pay them at the right time. A possible form of assistance to DMCs would be a project aimed at increasing the efficiency of inspectors or the introduction of an effective system for compliance. Such a project could cover the following areas:

- a. An examination of the existing powers of inspectors to enter employer's premises and inspect records, with recommendations for legislative change where necessary;
- b. The drafting of a compliance manual with the help of local counterparts that provided guidance for newly appointed inspectors. This manual will need to be based on the current law but may cover all the actions to be followed when visiting an employers premises including:

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- Action when an employer fails to pay monthly contributions for all his employees,
 - Action to follow when a company ceases to trade,
 - How to take a case for civil proceedings in the Courts and the procedures in the event that criminal proceedings are appropriate,
 - How to examine any available accounts of the self-employed or arrive at a best estimate of profits, and
 - How to organize and conduct surveys of districts to establish whether there are unregistered enterprises that are not paying contributions.
- c. The production of training modules with help from counterparts. These modules to be based on the material in the inspector's compliance manual, and
- d. The provision of training courses for inspectors; these to cover perhaps one, or two weeks.

Several DMCs are reviewing their current *first pillar pension schemes* with the intention of extending coverage and revising key parameters such as pension ages and provisions on early retirement. Others are considering introducing second pillar schemes with individual accounts. Whether individual or collective responsibility is the more important in pension schemes is often not such a fundamental question as it appears. In practice most States take both lines of approach to pension scheme design in the expectation that one will complement the other. A universal scheme introduces collective responsibility and shared risk, whereas a scheme with individual accounts imposes the discipline of the marketplace and encourages self-reliance. Each country's public pension programme operates in a particular and unique institutional, social, political and economic environment. The pension approach ultimately adopted must balance programmatic preferences with accommodation to these environmental realities¹. Some assistance with the planning of reforms and the acquisition of new skills may be welcomed by governments and social insurance staff involved with these tasks. The following technical assistance projects are suggested:

- a. Training in how to determine whether a national first pillar pension scheme or partially funded first scheme scheme is sustainable in the longer term;
- b. Training for actuaries, statisticians and economists in social insurance analysis techniques;

1. Thompson – ADB draft paper “Pension Systems in Asia; Issues and Challenges in Design, Reform and Implementation” Jan. 2000.

- c. Assistance in the drafting of private pension scheme legislation;
- d. Advice on the options for simplifying present first pillar PAYG schemes where this appears desirable on grounds of operational efficiency or sustainability (see above under “Contributions” for an approach using notional defined contributions);
- e. Training for social insurance staff on the operation of second pillar pension schemes;
- f. Investment training for managers of Provident Funds;
- g. A review of pension schemes to examine whether contribution credits could be introduced and the cost to schemes in the short and long term. As outlined earlier the award of credits for periods of sickness, maternity, unemployment, time spent at home in caring for young children and sick relatives, would greatly assist in giving workers, particularly female workers, a better contribution record and hence a better rate of pension; and
- h. Individual contributors need to be confident that their pension contributions are being invested wisely with national or international pension companies with good investment records. The Bank has already undertaken a great deal of work in DMCs to improve financial infra-structures and no doubt those countries hoping to offer workers better investment opportunities for individual funds will wish to establish appropriate and effective supervisory and regulatory bodies. There will clearly be much scope for projects offering training in how these bodies can best operate.

The pension reform options where a first pillar defined benefits pension scheme is unsustainable in its present form over the longer period include:

- a. Raising the retirement age - if retirement ages are low an option is to raise the minimum age of retirement, say, to 60 or even 65. A decision by government to raise the pension age will normally be preceded by a consultation period with a government paper explaining to the public why it is necessary to consider this option. Male and female retirement ages can be equalized on the grounds of equal treatment and the right of women to retain their jobs until the common age for retirement. This should prove popular in those DMCs where there has been a campaign by women's groups to equalize retirement ages. Any change is best introduced gradually to avoid distortions in the labor market and to give workers time to adjust to longer working lives;
- b. Raising the upper earnings limit for contributions – this change will give an immediate increase in revenues but in the longer term will benefit higher income groups, who tend to maintain earnings levels better into their later years of employment and live longer at the expense of lower paid workers; a regressive effect. If equity is to be maintained and sustainability not compromised it will be necessary to adjust pension formulae in favor of lower paid workers by calculating pensions from career earnings. Another option would be to limit the maximum pension to say, twice or three times the rate of that payable to someone with a national minimum wage;
- c. Raising the level of contributions for employees – lower paid workers will feel the effect more than higher paid workers and may be tempted to move out of the formal sector of the labor market so reducing scheme income;
- d. Raising the level of contributions for employers – if employer contributions are already at or above the levels found in the pension schemes of those countries that are competitors, the increase will reduce a home country's international competitiveness and could lead to job losses in the longer term. Employers could also reduce manning levels in the shorter term to cut their labor costs;
- e. Reducing pension levels for higher paid workers only – as mentioned under the option of raising the upper earnings limit, this option increases the distributive effect and if linked

with the introduction of a second pillar pension scheme could be more acceptable to higher paid workers;

- f. Removing the cost of disability pensions from a retirement pension scheme – the cost of disability cover is high where workers have been able to seek early retirement via a disability claim. The cost of disability benefits for those under pension age could be covered by increased contributions towards both short and long-term sickness with more effective controls on the assessment of disability claims (see below). Another option is for survivors' benefits for those below pension age to be paid from a separate fund;
- g. Reducing opportunities for early retirement – in some pension schemes those workers in hazardous or arduous occupations can retire early. The concession could be removed on the grounds that these workers are generally paid higher wages as compensation for their work or the cost could be met from their increased contributions;
- h. Changing the method of indexation – indexation can be linked to changes in prices or wages or a combination of both;
- i. Reducing the replacement rate of pensions if replacement rates are high. It may be possible only in the case of higher paid workers if low paid workers are to avoid poverty; and
- j. Bringing public service pensions into the State scheme – this will help increase the income of a national scheme but may call for an additional occupational scheme for government workers.

DMCs with mandatory savings into *provident funds* that do not give competitive returns may consider moving these funds to one or more private fund managers. At the same time consideration could be given to creating two separate accounts. A pension fund account for each individual saver would be aimed at achieving long-term growth and a second savings account would be a common fund available to cover the pooled risks of disability and unemployment. The pension account would be used to purchase an annuity at retirement age or provide a survivor's benefit in the event of earlier death. The second common account would be available to make lump sum payments to disability claimants and the unemployed. However, if governments were able to provide a guarantee, such a common account might allow for a limited number of flat rate monthly payments

during a spell of unemployment and similar payments until a disabled person reached pension age with a guaranteed minimum pension from the individual's pension account thereafter.

DMCs without a State pension scheme and a limited capacity to administer a pension system could consider two options. First a mandatory flat rate first pillar defined benefit scheme for younger workers in which flat rate contributions would build up partial funding over a period of more than ten years. Scheme rules would need to ensure the scheme was sustainable in the longer-term. Second, a voluntary scheme with a choice of three flat rate contribution levels for investment in individual savings accounts. Pensions from individual accounts would be better used to purchase annuities, but if this were not possible a lump sum could be paid at retirement age, or periodic payments made from the savings accounts. The first option would allow for coverage to extend to workers in small enterprises and require a minimum of enforcement, but the limit for coverage would have to be carefully drawn in the light of national industrial and labor market conditions if contribution collection rates are to be at an acceptable level. If the take-up of the voluntary scheme were sufficiently large and capital markets were sufficiently developed this could be converted at a later stage into a second pillar mandatory scheme.

A social insurance scheme that might encourage participation by workers in the informal sector beyond the low take-up figures usually experienced in this sector is one focused purely on the risks of disability and early death leading to destitution for survivors. The scheme would probably have to start as voluntary with a well-planned publicity campaign to inform potential participants of the guaranteed benefits in the event of disability or early death, and the guaranteed pension at a fixed pension age. The problem of adverse selection could be overcome to some extent by imposing a qualifying period of, say one year before benefits were payable. The contributions would probably have to be at a standard flat rate that took account of a crude actuarial assessment of risk. Government would almost certainly have to be prepared to provide a guarantee of the benefits.

Developing a new second pillar scheme will be an option where the above list of options does not provide an acceptable political agenda for improving the sustainability of a first pillar scheme. The introduction of a second pillar scheme that complements first pillar pensions may allow for more flexibility in the adjustment of the first pillar pension levels of the higher paid. A second pillar scheme is seen by many as a means of reducing the possibility of political interference in pension

management and investment policy. The advantages and disadvantages of developing a second pillar mandatory defined contribution scheme are:

For

- a. Contributions should yield higher returns in a funded scheme,
- b. Second pillar funds should improve financial markets,
- c. Macro-economic effects can be beneficial,
- d. A reformed scheme could absorb existing low yielding Provident Funds,
- e. Will not be affected directly, like a first pillar scheme, by the ageing of the population,
- f. Diversified investments can reduce risk of loss,
- g. Introduces private competitive management of funds,
- h. Reduces the options for political involvement, and
- i. Introduces more choices for workers.

Against

- a. Will take time to develop,
- b. Requires public confidence in national financial institutions,
- c. Requires increased contributions,
- d. The transfer and allocation of contributions to funds can be administratively difficult,
- e. There may be political objections to international investment that could lead to over reliance on the national economy,
- f. Investment returns may need a government guarantee to gain public acceptance,
- g. Fund managers could impose high administrative and marketing charges, and
- h. Requires close regulatory supervision.

The following illustrations cover some of the models used when introducing a second pillar scheme.

Box. 1. The Latin American Model – this has been used in Eastern Europe and in Central Asia – workers select a pension fund manager from a list approved by government. Worker contributions plus interest and less administrative charges are usually collected by government and allocated to the fund manager of choice. Pension funds are responsible for maintaining account records and notifying account holders of current balances. At retirement the usual procedure is for the proceeds to be passed to an insurance company for the purchase of an annuity but there can be an option for the insured worker to make withdrawals to provide an income for an expected lifespan. There can also be a minimum pension guarantee by government.

Box. 2. The Singapore Model – with some exceptions employed persons who are not members of an approved private pension scheme contribute an earnings related contribution to a government managed provident fund. Employers also contribute. The provident fund is invested in government bonds at bank interest rates. Those workers with a deposit balance above a certain level are able to invest part of this excess in private equity markets. At retirement, a fixed sum is left in the retirement account to ensure continued income while the balance is paid as a lump sum.

Box. 3. The United States Thrift Savings Plan – workers will have the opportunity to invest regular contributions into one or more index tracker fund that track the performance of domestic and international equities, corporate bonds and government bonds. The government will contract with private companies able to ensure that workers assets match the performance of the chosen indexes. Workers will have a choice of indexes but not of fund manager. The government will be responsible for all scheme actions apart from asset management and the payment of annuities by a government selected annuity provider. The plan is aimed at reducing administrative costs to the minimum for privately managed funds and is considered to have the potential to reduce these to one-half or one-third the level under the Latin American model.

The US thrift savings proposals are particularly interesting as a means of reducing the impact of market costs. Those countries that have introduced the private management of individual accounts are generally exploring ways of limiting such costs. The UK is this year introducing a new second pillar pension scheme aimed at lower paid workers in which the management fees of private fund managers must not exceed 1% of income. The scheme is to be based on pension funds that have contracted with employers to provide an investment service at a given cost. It is envisaged that this will remove the need for expensive marketing and leave employers in a strong position to negotiate reasonable fund management fees.

Non-contributory old age pensions feature in some social insurance systems for those citizens who are outside the scope of the social insurance pension scheme because they are too old

to have had any chance of contributing. There is every likelihood that these citizens will suffer poverty in advanced old age in the absence of family support. A relatively cheap method of targeting help to the very old is to introduce a non-contributory old age pension that may be claimed at, say age 70, by those with income and capital below certain levels. The rate of pension would normally be at the subsistence level for a single person and paid following a simple written declaration of means. The cost of such a scheme will be offset to some extent by savings from the expenditure on the residential care of the elderly. Another important side effect of such pensions is that workers in the informal sector who have been supporting their aged parents will not face the double financial burden of parental support and contributions to their own pension if they move to the formal sector or join a scheme designed for the informal sector.

Migrant workers who move across national boundaries can often be required to pay contributions to a pension scheme that are then of no value when they return to their country of origin. This can be a major cause of poverty for an increasing number of workers in some Asian countries. Some Asian countries that export workers have special arrangements for the payment of contributions to the national pension scheme by absent workers. An alternative is for countries at the same stage of developing their social insurance systems to make reciprocal agreements that allow social insurance contributions made in one country to count in another.

As *unemployment benefit* is at the planning stage in two DMCs it would appear an appropriate time to consider what might be done to assist in its introduction. The following projects are suggested for the period until the start of a scheme:

- a. The training of employment office staff in modern methods of job placement and other labor market skills,
- b. The equipping of employment offices with any new technology required to operate within a modern labor market,
- c. A survey of employment offices to establish whether the network of offices is of sufficient size to provide for the local registration of the unemployed and that space is available for both reception and interviews,
- d. Assistance in refurbishing or extending local offices as necessary,

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- e. Assistance in the training of staff in employment offices and local social insurance offices who will be required to administer the benefit provisions,
 - f. The provision of new technology in social insurance offices required to access contribution records and exchange information with employment offices on claims, and
 - g. The training of local staff in control and anti-fraud measures.

Box. 4. An example of an Unemployment Benefit Scheme – Earnings related contributions to be paid for 6 months in the last 18 months before benefit is payable. Benefit is not payable for the first 4 days of claim. Flat rate benefit paid at 80% of national minimum wage for up to 6 months provided the claimant is available for and actively seeking work. After 6 months unemployment, the claimant is offered a choice of training or work-experience at the national minimum wage. If the claimant refuses the offer, no further benefit is payable. Claimants are disqualified for receiving benefit if they are voluntarily unemployed or lost employment due to their misconduct. Disqualification for 6 weeks follows the refusal of a job offer. When unemployed, a claimant may earn up to 10% of the national minimum wage without penalty.

Disability assessment, that is the method used to assess a claimant's entitlement to disability benefit has presented many countries across the world with difficulty. Either medical staff have been too lenient and successful disability pension claims have increased to the point where they have begun to undermine national pension funds or the number of awards has been so low as to suggest the wrong criteria were used by medical experts. When the level of unemployment is high and increased numbers of claimants exhaust their entitlement before they find work it is not unusual to find a high incidence of claims to disability benefit from this same group. Those DMCs who have experienced these difficulties may welcome assistance in overcoming their problems. Once the assessment of claims has been put on the right footing the question of rehabilitation is often raised together with the most efficient way to organize it in countries with hospitals that have little spare capacity. DMCs may welcome projects in some of the following areas:

- a. The drafting of legislation with the criteria to be used in assessing the work capacity of those who claim disability benefits and pensions;
- b. Help in establishing a network of medical examination centers where social insurance claimants attend for examination; or

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- c. Help in drawing up a form of contract for use in contracting- out medical examinations to private contractors who would be required to apply agreed criteria with provision for close monitoring;
 - d. Training of medical staff in applying a functional method of disability assessment (examples of the functional method of assessment are given below);
 - e. To review the present facilities available to the disabled for rehabilitation programmes and make recommendations for any necessary improvements;
 - f. Assistance in establishing a network of rehabilitation centers geared to getting disabled people to rejoin the labor force or, if this is not possible, helping them to manage the tasks in daily living; and
 - g. Assistance in the design and operation of effective rehabilitation programmes.

The functional method of assessing disability uses functional descriptors to test the degree to which a person can perform physical and mental activities associated with the capacity to work. An example is the test of the ability to walk. The “activity” is described as “ Walking on level ground with a walking stick or other aid if such aid is normally used”. The descriptor has the following range and it is for the medical examiner to decide after examining the claimant, questioning him or her about their lifestyle, and examining any available medical records, to decide which description best fits the claimant’s situation:

- a. Cannot walk at all,
- b. Cannot walk more than a few steps without stopping or severe discomfort,
- c. Cannot walk more than 50 meters without stopping or severe discomfort,
- d. Cannot walk more than 200 meters without stopping or severe discomfort,
- e. Cannot walk more than 400 meters without stopping or severe discomfort,
- f. Cannot walk more than 800 meters without stopping or severe discomfort, and
- g. No walking problem.

Each of the above statements attracts a number of points and after deciding the appropriate description for each of eighteen activities the total points earned decides whether the claimant is incapable of work and entitled to a disability pension. An example of an activity test for mental disability is “Coping with pressure”. The descriptor is divided into six statements as follows:

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- a. Mental stress was a factor in making the claimant stop work,
 - b. Frequently feels scared or panicky for no obvious reason,
 - c. Avoids carrying out routine activities because of conviction they will prove too tiring or stressful,
 - d. Is unable to cope with changes in daily routine,
 - e. Frequently finds there are so many things to do that he or she gives up because of fatigue, apathy or disinterest, and
 - f. Is scared or anxious that work would bring back or worsen his or her illness.

These functional descriptors and the system of disability assessment based upon them were developed by medical experts in several Western European countries and in the United States after extensive research. Their application in these countries has halted the previously regular annual increases in the number of successful claims to disability benefits. The system is now used by both in-house social insurance medical assessors and by private medical contractors under contract to social insurance institutions, and facilitates the task, allotted to social insurance medical directors, of monitoring the quality of decision-making.

Box 5. Example of an Incapacity and Disability Benefit Scheme. Earnings related contributions must have been paid for 6 months in the last 18 months before benefit is payable. Employer pays a flat rate sickness benefit for the first month and reclaims 80% from the government. There after, benefit is paid by government for up to end of 6 months of sickness. After 6 months of sickness, the claimant is given a medical examination. If found capable of some work, he or she is required to register as unemployed and given help in finding work. If found incapable of all work, a disability pension is paid. The disability pension will be reviewed after a given period when the claimant has prospects of recovery. All disability pensioners who can benefit from a course of rehabilitation are required to attend.

It is probably not feasible for *micro-insurance or self-help schemes based on local communities* to cover from their own resources many of the major risks normally covered by a social insurance scheme. The most that might be expected is that those who can afford to pay only small premiums from their marginal income will receive small lump sum payments when in need as a result of some easily identifiable cause. Exceptionally, locally based schemes might provide periodic payments to families in more long-term poverty. The following projects suggest themselves as preparatory steps towards the introduction of viable micro-insurance type schemes:

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- a. To conduct a survey in representative areas of DMCs where people do not have access, or have only limited access, to social insurance or health insurance. Local communities would be invited to express views on the establishment of a community based micro-insurance scheme and indicate the risks they would like to see covered. The project would need to be able to offer advice on the type of risks that can be covered and the probable rate of premiums for risks that can only be covered through the available insurance industry;
 - b. To assist local communities in drafting a set of rules governing the operation of schemes;
 - c. To conduct pilot exercises to establish and monitor schemes covering agreed risks;
 - d. To review the working of schemes after a period of six months and one year ;
 - e. To assist in establishing an advice service where local communities could obtain information on the management of micro-insurance schemes; and
 - f. To provide training in the management of a micro-insurance scheme for local committee members.

The main problem facing a community about to launch a micro-insurance scheme is probably where to find individuals prepared to give of their time and risk the displeasure of their neighbors as scheme officials. The work involved in collecting contributions, keeping records of those who have paid, and those who have not, managing funds, perhaps seeking temporary loans, hearing the pleadings of those in need and using discretion within a committee to decide when and how much to pay out, will be daunting for most scheme members. It is likely that many schemes will fail after a few years when committee members find the work too time consuming or too demanding. A better option might be to find an existing organization that has the trust of local communities and the capacity to take on scheme administration. Trade unions, trade co-operatives, NGOs, or even subdivisions of local government could be willing and able to at least help with the administration by offering the use of an office and its facilities. Such assistance might put a scheme beyond the usual understanding of micro-insurance but it is difficult to see a scheme having a guaranteed future without substantial long-term help from an existing organization.

The collection of contributions from community members who have fluctuating incomes from agriculture or other self-employment will mean that at certain times of the year scheme income could be insufficient to meet outgoings. The scheme may have to borrow to meet its commitments

and in an ideal situation will have a promise of a short-term loan should this be needed. It is perhaps doubtful whether commercial banks would be prepared to make a loan to tide over a temporary shortfall in income. Banks would know that a high percentage of micro-insurance schemes have a short life span and would only consider a loan if a guarantor could be found.

One episode of a low risk high cost event can result in a household moving from poverty to destitution. To spread such risk one obviously needs to recruit enough contributors to a micro-insurance scheme to ensure that the small contributions of scheme members can meet the cost of these exceptional calls on scheme funds. There will however be a limit to how many such exceptional episodes any micro-insurance scheme can stand. An option for a scheme that has met the maximum that experience shows it can cover in any one period is to consider outside insurance. This should be fairly straightforward for such easily verifiable events as the death of a member but more difficult with events such as the need for hardship payments following crop failure or costly spells of hospital in-patient treatment.

Regardless of who initiates group-based health insurance (NGOs, governments or international bodies), such activity needs the political, moral, technical and financial support of governments². This was true of the Japanese experience (described earlier) and clearly it would give more stability to a scheme if governments were willing to provide some form of limited financial guarantee for commercial loans to cover temporary reductions in scheme income.

A lesson from the growth of mutual aid organizations in Japan during the 1930s is that those based on a municipality or a group engaged in the same trade or business were much more likely to succeed than other groups that lacked managerial know-how. Most of the successful local societies operated their own medical facilities with help and support from government. It is perhaps understandable that a local society dependent on the support of the community would more easily retain that support if it could point to, say, a newly built clinic with medical staff, drugs and equipment available to all scheme members. This advantage was helped in the Japanese case by government subsidy in a society's first year at a fixed rate per insured person reducing in subsequent years. To have this form of initial financial support to supplement a local society's own money while leaving choices and decision-making at the local level would appear a good recipe for

2. Dror and Jacquier Micro-insurance: Extending health insurance to the excluded. ISSR Jan/March 1999.

success. With affordable primary health care as the traditional priority for poorer communities in Asia it would seem that any micro-insurance scheme would be best advised to have health care at the core of its business.

For a community that has ready access to primary and secondary/ tertiary health care a micro-insurance scheme will be attractive if it can guarantee a good standard of service and provide insurance against low risk, high cost, events. Even where health care is subsidized by government, low-income families can find the normal charges for drugs and treatment make up a significant part of their spending and these families can be expected to think of a good service as one with low costs. The size of membership for any such a scheme is probably critical to its success. It is suggested that 1000 families might be near the minimum and 3000 families the maximum membership of a scheme that is financially viable and yet at the same time not so big that the membership would feel remote from its leadership and unable to influence decision making. In its negotiations with health care providers the scheme could look for primary care from private practitioners and government funded services for a capitation fee to include the free supply of drugs. The problem for providers is that such an open-ended agreement could lead to excessive demand. Some form of rationing would probably have to be incorporated into the agreement such as a limit on the number of free calls per family with a fee-for-service at agreed rates to operate thereafter. This, of course, calls for a system of record keeping. In some schemes the members are issued with cards to record the services they have received and this is perhaps the simplest method of controlling access when rationing is necessary.

Beyond health care a micro-insurance scheme is likely to find that the membership will look for financial help to cover the risk of early death and a payment towards the costs of childbirth. A death benefit that gives the maximum affordable support to survivors will probably be a priority with a maternity grant as a second requirement. Both births and deaths are events that can be easily verified and the administration of the insurance arrangements should present few problems. There might be a need for the scheme to re-insure or arrange a temporary loan facility against the possibility of an above average number of births or deaths in any one accounting year but this should not be beyond its budget.

Micro-insurance is strengthened when it is part of a network of such schemes in that the opportunities for pooling of risks are enhanced. Also as part of a larger group the written or unwritten rules governing the management of schemes are more likely to be applied in a consistent manner. If a network is to provide mutual support to groups the rules for achieving this need to be accepted by all as fair. Area based schemes run by (local) government in collaboration with a wide variety of possible social security partnerships ...could be extended to other areas in relatively short periods, because governments would be able to replicate the schemes on the same conditions³. The Self-Employed Women's Association of India is an organization that has provided an existing administrative structure for a network of micro-insurance schemes.

Some micro-insurance schemes have related contributions to the income of members. This would appear to depart from an obvious requirement that schemes should be kept simple. In the interests of simplicity it will be better if all members are required to sign-up for the same complete package of benefits and pay a standard flat rate contribution. The issue of who will pay the contributions of those with a very low income is an important one because for a close-knit community to give a scheme its wholehearted support it will need to feel that membership will continue for all, irrespective of their future earning power. Governments in many Asian countries issue free health cards, giving access to free primary health care to the poor and other designated groups such as the disabled. It would be a considerable stimulus to a scheme if central or local government were to agree to pay the contributions of these very low-income groups. The alternative of exemption for low-income groups is a question that would need to be decided by a community at the launch of a micro-insurance scheme. It is probably more realistic to view the very poor as outside the scope of micro-insurance and to see them as recipients of social assistance or other poverty alleviation schemes. Another difficult issue for all micro-insurance schemes offering health care or health related benefits is that of potential members with prior medical conditions. The generally accepted view is that it would be too complicated and costly for any scheme to attempt to distinguish between these applicants and others.

An independent appeals system is probably the most effective means of achieving *good governance* and an improved service to the public in a social insurance organization. Few such

3. Ginneken van Social Security for the informal sector: a new challenge for the developing countries ISSR Jan 1999.

appeals systems exist in DMCs and it is suggested that pilot exercises should be run to establish appeal tribunals in selected areas. These could include the following steps:

- a. Draft legislation to establish an independent social insurance appeals system where the necessary legislation is not in place. This legislation to give the power to run pilot exercises in designated areas;
- b. With counterparts, produce an appeals manual covering all aspects of appeals processing. Produce a training module based on the manual;
- c. Train legally qualified chairpersons and lay members from trade unions and employer's organizations in the workings of the tribunal system;
- d. Train selected officials to act as clerks of tribunals; and
- e. Train social insurance decision-makers to present appeals at oral hearings before a tribunal.

Appeal hearings are best held in premises unconnected with the social insurance local office. Appellants can be asked if they wish to attend in person or are content for their appeal to be decided on the papers. Each appellant should have been given the opportunity to put his or her grounds of appeal in writing to the tribunal clerk before the date of the hearing. Hearings can be open to the general public unless the tribunal agrees otherwise and appellants should be free to bring a friend or representative to speak for them. Trade unions are often prepared to represent their members at oral hearings. The clerk to the tribunal will be responsible for meeting appellants, explaining the procedures and paying traveling expenses. The decision of the tribunal can be related to the appellant immediately after the hearing or sent by post. The notification of any adverse decision should inform the appellant of any further right to appeal to the Courts

Social insurance delivery mechanisms should facilitate benefit delivery in a way that minimizes transaction costs while achieving good governance. They must take account of administrative capacity and the circumstances of the populations they serve. Delivery can be made by governments as the sole service provider with a centralized system controlling all aspects of a scheme, through the use of autonomous agencies with full operational responsibility or through a decentralized system with operational responsibility delegated to the local level. The more common approach in fully developed national systems is for central government to retain responsibility for

setting policy objectives and budgets, while delegating to agencies the authority to manage their operations. Executive agencies will normally be established by statute with a duty to deliver benefits efficiently and effectively within a fixed budget and to performance targets agreed with Ministers. The chief executive of each agency is usually appointed by open competition from candidates with good management skills and a proven record of good service in either the public or private sectors. The chief executive and agency staff have to work within the national social insurance law but have wide discretion in how best to achieve targets within their budget allocation. The targets set by Ministers can relate, for example, to the collection rate for contributions, the accuracy of payments, the time between the receipt of a claim in a local office and the issue of a decision on benefit entitlement, the overall quality of customer service, the detection of fraudulent claims and the recovery of overpayments. The chief executive is responsible for ensuring that appropriate arrangements are made for the internal audit of the agency and its management information systems and that quality assurance is maintained within the network of local offices. Agency accounts are then audited by external auditors with reports going to Ministers and Parliament. Agencies are sometimes allowed to generate revenue from activities consistent with the role of a publicly funded service provided such activities have been approved by Ministers. Such activities might include offering employers a personnel selection service.

The delegation of social insurance administration to local or district levels can be the means of providing an efficient and cost effective public service if the controls are in place to ensure consistency of treatment between providers. Private providers such as insurance companies and commercial banks manage pension schemes in various parts of the world and other specialist companies could no doubt manage employment exchanges and local social insurance offices. One method of ensuring that benefits law is applied accurately, fairly and consistently by private providers is to provide them with support in the form of government paid adjudication officers who they are required to contact if they have doubts about how to determine a claim or other legal question arising on a claim. This form of support from a corps of well-trained adjudication staff in a central office linked by good communications with the offices of providers should ensure consistent treatment. With such a system, providers would have little excuse if government auditors found they had wrongly decided claims that had not been referred for advice to the adjudication service. It could

be politic for governments to retain a proportion of local social insurance offices under their direct control when contracting out others to the private sector. This would provide some insurance against the failure of a contractor and also leave open a means of comparing the performance of offices.

A pivotal question for any social insurance benefits system is whether it is more cost effective to process claims at local offices or at a single large central office. This will be an important decision for those DMCs that have not yet developed a network of local offices or have very limited facilities in a restricted number of such offices. Apart from unemployment benefit claims all other social insurance benefit claims could be processed at one central office. Claims are normally made on a claim form obtained at a post office or other official outlet but in some systems the claimant's employer initiates the claim. The claim form is forwarded to the nearest local office where the information is checked and verification action taken as necessary. An essential early check in the claims process is that which establishes whether the required number of contributions have been paid to meet the benefit qualifying conditions. The decision on the claim is sent to the claimant and a payment authorized if there is entitlement. The whole claims and payments system is usually subject to several percentage checks by supervisors and management and an annual audit. A central office placed close to a national computer centre holding all social insurance records on its database may have some clear advantages in terms of the speed at which it can access contribution records and so process claims. However, in making any comparison with local offices it would be necessary to know the quality of the communication links between local offices and a national computer center and the efficiency of the postal service. If communications and postal services are poor it may be more efficient to process claims at local offices and post instruments of payment from there rather than concentrate all claims and payments processing at a central office. If these options were available to any DMC, each would need to be carefully costed. Even when claims are processed at a central office it will always be helpful to the public to have a local social insurance advice center at which information can be obtained. As the coverage of a scheme expands the immediate access to a national computerized record center becomes essential for all staff dealing with new claims. The claims officer will need to confirm that no other claim is extant in another part of the country, and that the claimant's personal details, as stated on the claim form, are the same as those held on the central database.

The *delivery of benefit payments* presents some social insurance institutions with high costs. Some systems are not customer friendly with outlets only in main cities requiring pensioners and others to travel some distance to draw their monthly awards. The method of delivering payments will depend very much on the efficiency of the postal services, the number of local social insurance offices and their coverage of the more remote parts of a country. If the postal services are able to guarantee delivery to the homes of all beneficiaries it will be usual for the Ministry or agency with responsibility for making social insurance payments to negotiate a price for delivering payments on more favorable terms than the normal postal charges. In countries that have a network of local post offices where cheques can be cashed, the cheques can be prepared in a central social insurance office and dispatched in envelopes to the central post office for home delivery. If pensioners have bank accounts they can elect to have payments made directly to their account by automatic credit transfer.

The history of social insurance payment procedures shows that many countries had early schemes in which payments were generally made in cash at local social insurance offices. Then order- books were issued to pensioners containing up to 6 months of orders. These could be cashed at a local post office of the claimant's choice. The post office returned all paid orders to a central social insurance office where reconciliation action was taken. For short-term benefits a single postal order was prepared for each payment due and posted by the local office to the claimant's home. Any claimant who could not attend a post office by reason of poor health or disability could nominate another person to collect the payment. In countries without a network of easily accessible post offices it is still common to find that cash is delivered by the postal service to a claimant's home where a receipt is obtained for return to the central social insurance office. This tends to be an expensive service for social insurance administrations and can only be operated in areas where postal delivery staff can be sure of their own security.

The latest thinking on payment delivery focuses on payment through cash machines, at bank premises or in other retail outlets such as supermarkets, that can be accessed by smart cards. Information on entitlement is held on central computer systems that can trigger the correct cash payment as and when the claimant uses the card after the due date for payment. The new technology required for these payment systems has a high capital cost and calls for a well-trained

team of in-house technicians to ensure its efficient operation, or the contracting out of the work to the private sector. Due to the high cost several developed social insurance systems continue to use the cheaper option of delivery through the postal system. In very remote areas, for example, smaller islands, agents are often appointed to hold cash on behalf of the nearest social insurance office and make monthly payments as indicated on a schedule posted to them from that office. As the options in each DMC will vary in line with the available facilities for making payments it will be for each institution to consider the method that offers the most secure and cost effective service best suited to the needs of social insurance beneficiaries.

A project to examine current methods of producing and delivering social insurance instruments of payment with a view to establishing a system that could embrace additional claimants when schemes are extended, could be a useful exercise if it provides planners with a blue print giving options on the types of equipment that might be required.

A project to improve the policy monitoring and evaluation skills in social insurance institutions could be of value to those DMCs faced with the difficult task of reforming their existing social insurance systems. Officials and staff engaged in project work could find it helpful to have the following guidance on how those responsible for monitoring and evaluating social insurance policies operate in more developed systems.

Developing policy - before one can monitor or evaluate social insurance policies it is necessary to know how each particular policy was developed. Policy issues usually arise because someone sees a problem with present arrangements. The first essential is to be very clear what the problem is and what governments would like to achieve - for example is the problem the underlying policy, the way it is being implemented, or the way it is being presented or perceived. It will always be helpful to have a written list of the objectives that the policy is attempting to meet. These can include the provision of a particular benefit or service at minimal cost, with maximum value for money, ease of administration and reduced vulnerability to fraud and abuse. Governments will also have a number of general objectives in the social insurance field that need to be taken into account when considering policy issues. The various objectives will often appear to conflict and it may be necessary to decide which are the most important. Any list of objectives and their relative priority should reflect the views of government Ministers - if there are any doubts on this point Ministers or

senior civil servants should be asked to clarify. When developing new policy or a change in policy the following key issues will be for consideration:

- a. the need to accurately direct benefits to the target group;
- b. the effect on incentives to work and self-reliance;
- c. cost to public funds and to business;
- d. effects on expenditure of demographic, economic or other national developments;
- e. the effect on families;
- f. the wider economic, financial or social effects;
- g. the size and distribution of gains or losses experienced by individual beneficiaries;
- h. vulnerability to fraud and abuse;
- i. accessibility and quality of service to the public;
- j. impact on administrative efficiency; and
- k. information needs of target groups and media presentation.

A. Evaluation of options

The next step is to consider options for action and their advantages and disadvantages. Leaving things as they are will almost always be an option. Among the factors to be considered when evaluating options are:

- a. effect on beneficiaries - who will lose and who will gain and by how much;
- b. operational feasibility - operational and computer staff should be asked if the proposed policy change is practical; what the costs of implementation might be; what aspects of the proposed approach would be particularly difficult or easy to administer; how vulnerable the policy might be to fraud;
- c. the benefit cost - costing is not something to be done after an option has been chosen; relative costs are an important factor in making a choice;
- d. legal powers - whether a proposed change involves primary or secondary legislation; and
- e. timing - primary legislation takes time assuming there is space in the Parliamentary programme. There may be a need to consult outside bodies; computer systems may have

to be developed, staff trained and new accommodation acquired. Options that involve substantial delay will usually be less attractive to governments.

Other points to consider are - *transitional arrangements* - once the approach to be adopted has been decided it can be considered how to get there. A first question is often what should happen to beneficiaries with live claims at the point of change. If transitional protection is given it has to be decided how long it should last and whether a change should be brought in at once or be phased in. Success will sometimes be dependent upon the *presentation* of a change in policy. Questions are how and when should it be announced and how positively can it be presented. *Behavioral changes* often occur after social insurance benefit rules are changed. People can and will change their behavior to take advantage of whatever rules are made. *Detail* is important because most of the political backwash and complaints from policy changes come from the small percentage of anomalous cases rather than the 99 per cent of typical cases.

B. Professional Analytical Support

In evaluating policy options it will often be necessary to obtain help from whatever professional quantitative and analytical support is available. Specialist statisticians and economists should be available to help in estimating both the benefit costs and administrative costs of policy changes. It will always be helpful to have statistical information from any available database with any trends that have been identified. Regular surveys of household income and expenditure can also be very helpful in monitoring the effects of policy initiatives.

C. Resources

All proposals for policy changes will normally require fully worked out programme and administrative costs or savings, including staffing changes, which should be explored in consultation with the appropriate social insurance finance directorates, and other directorates with an interest in implementing the changes. For publicity programme costs, the civil servants with responsibility for communications with the mass media should be asked to provide estimates.

D. Implementation

Although methods of implementing policy will vary depending on the nature of the changes involved, it is essential to have:

- a. a list of all steps necessary to ensure implementation,
- b. a timetable for carrying them out,
- c. a clear allocation of responsibility to a named person for ensuring that each of the steps is carried out by the appropriate time,
- d. an identified person with a specific responsibility for co-coordinating action, ensuring that others are discharging their responsibilities by the necessary time and taking corrective action if the timetable seems to be slipping, and
- e. an overall approach to presentation with a named point of contact in the office responsible for public relations and communications with the mass media.

E. Finance and Policy

Policy changes can arise from a number of sources including political programmes, public pressure, deliberations of officials, and other government offices of which the Ministry of Finance is the most prominent. Whatever their source, the principles and procedures to be followed are essentially the same and are equally true of proposals to increase expenditure or to reduce it. For a policy proposal that involves additional expenditure it is essential to know if the resources are available. Policy proposals are evaluated against each other, so accurate and consistent costing is very important.

F. Assumptions

It is very important to indicate what assumptions have been made in reaching an estimate of both benefit and administrative costs. It can be expected there will be a unit in government administrations with the necessary skills and information to assess the administrative costs of any new proposal. In assessing staff costs it is very useful, if not essential, to have an agreed list of staff unit costs by grade of official. The staff unit cost will include the overhead costs in employing each grade of official, including the average salary, social insurance contributions, accommodation costs, telephone costs, stationery costs etc. It will then be necessary to decide on the grade of officer to undertake each task and the time each task will take to complete. Costing policy proposals can never be an exact science but it will be necessary to strive for as much precision as possible. It is crucial that the assumptions underlying a particular costing are always recorded and made available to all officials dealing with the issue. It is best to keep an "Assumptions Sheet" for each policy proposal listing all the assumptions made about numbers and costs, which can easily be amended if a fresh costing is made. This will assist in the defense of the policy and ensure that the same basic assumptions are used for costing both the programmed (benefit) and the consequential administration expenditure.

G. Technical Support

Senior social insurance policy staff will find it helpful to maintain estimates of current and planned spending levels on all social insurance benefits for 3 years ahead and a definitive list of spending figures for all benefits in past years. These figures will be useful for quick costings of non-structural changes in benefits, such as changes in benefit levels. Historical spending figures, which include caseload figures, will always be of use. There is no point in costing administrative proposals or changes that cannot be implemented or could only be implemented within an unrealistic timetable. The relevant operational staff should be able to advise on the administrative practicalities and they will normally discuss these with one or more local offices. With increased reliance on computerized systems it is important to take account of information technology implications. Technical capacity may limit the scope for change, or policy changes may involve significant operational penalties in terms of cost or complexity. Any change involving new or modified computer

systems should be discussed in detail with the appropriate information technology experts who should be asked for an estimate of the cost of new technology and the likely timetable for its introduction. For some major changes, particularly in the pensions field, it will be necessary to consider the effects on expenditure of population trends, with projections to provide the numbers affected by a particular measure. Research institutes with mathematical expertise can provide this form of help in many countries.

H. Full Year Costs

The key element in any estimate of full year costs must be the numbers affected by the change when it has been fully implemented. The estimate is then adjusted for years in which the change affects only part of the year, in which transitional arrangements apply, or in which any other factors operate to mask or alter the full effect of the change. The basic formula for calculating the full year programme costs of a benefit proposal are straightforward. It is - "number of beneficiaries at a point in time affected by the change x average monthly benefit increase x 12 (months in year) = full year cost. The full costing is affected by a number of additional factors, though not every one necessarily applies to every case (see below for a costing checklist). These factors include:

- a. take up (the number who will claim as opposed to the number who could claim a benefit);
 - b. Behavioral effects (for example, will the change lead people to give up work or to look for work);
 - c. indexing policy (how many times per year, and by how much will benefits be increased);
 - d. build up of expenditure / phasing (will costs increase over time as more people become entitled to the benefit);
 - e. transitional protection (how long will this last and how slowly will the numbers affected decrease);
 - f. start date (this may be delayed, for example, to await primary or secondary legislation);
 - g. actual gainers and losers (the number of existing clients who will gain financially, and the number who will lose money);
 - h. structural gainers (those who can claim the benefit who would not have been able to claim but for the proposed change);
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- i. structural losers (those people who will not be able to claim following the change who could have claimed had it not been introduced); and
- j. characteristics of affected population (age, married, single, number of dependants, etc).

I. Gainers and Losers

Governments will often be interested in not only the number of people who will gain or lose from a policy change but also the extent of the gains or losses. It is therefore helpful, when possible, to estimate and record both the average gain or loss, and the range in individual cases. Even a very small number of "hard cases" may be very important in reaching decisions about a policy change.

J. Evaluating Policies

Policy evaluation ensures that Government policy is properly managed and that officials are accountable for assessing its effects. This is an important part of good governance. Evaluation is the process of finding out what has actually happened since a particular policy was introduced and assessing critically the extent to which the objectives of that policy have been achieved. Evaluation should not be confused with monitoring. Monitoring is the routine checking of information or statistics against a plan. It plays a very important part in the evaluation process but is not a substitute for evaluation.

K. Why Evaluate?

Evaluation should be built into all new policy initiatives and all proposals arising from policy reviews. It is good practice to draw up an evaluation plan for all major social insurance policy proposals with financial implications. Evaluation is a learning process that may sometimes expose difficult issues, which may be uncomfortable for policy managers and Ministers. But these still need to be examined if decision-making is to improve and policies are to meet changing circumstances. Evaluation is not about attributing blame for errors or medals for successes. It contributes to future policy development by:

- a. helping policy managers to plan ahead,
- b. identifying problems at the earliest opportunity,

- c. providing information on what has actually happened instead of what should have happened,
- d. providing lessons from past successes and failures,
- e. identifying best value for money and the most successful method of achieving the policy intent, and
- f. highlighting which parts of the policy are ineffective so allowing policy to be fine-tuned.

L. Initial Planning

Social insurance policy directorates are in the best position to plan and execute the evaluation of the policies for which they are responsible. Once a policy decision is taken it is important to plan the evaluation taking account of the agreed policy and financial objectives. It is important to plan the evaluation at this stage because:

- a. The policy manager is aware of the important issues and can ask the relevant questions to appraise the policy,
- b. The extent of the evaluation appropriate to that particular policy can be assessed and the necessary resources identified,
- c. Arrangements can be made from the outset to commission research to obtain the appropriate information and statistics,
- d. It may be possible to set up a "before and after" study of the policy, and
- e. Meetings with local office staff can be established to help undertake the evaluation.

Drawing up a plan at the outset does not mean it is set in stone. The outside world will change, the objectives may be modified and even the policy amended. Having a plan means that these changes can be noted explicitly and taken into account in the evaluation.

M. Evaluation Plan

The complexity of each plan depends on whether the policy is a major or minor change. This depends on:

- a. how much the cost/savings are,
- b. how many people are affected,
- c. what the impact is on each individual,
- d. how high profile the policy change is, and
- e. whether special groups of people are affected adversely.

In considering the timing and number of any evaluation reports it can be expected that some major policies will take time for the full effects to feed through and evaluation might not be appropriate for at least a year. However, in the meantime interim reports may be useful to evaluate progress and measure intermediate objectives. If the policy is minor and not sensitive, a full evaluation report is unlikely to be necessary. Instead a short paper gathering together any regular statistics and other monitoring information with some evaluative comment should be sufficient. The plan and subsequent evaluation papers should be kept on file to provide an audit trail.

N. Administrative Procedures

It is essential when evaluating policy to bring the staff who operate the scheme into discussions. One way to do this is to establish joint committees comprising officials from the relevant directorates, officials from a local office and computer staff where the benefit concerned is administered using new technology. Quarterly meetings should be sufficient to allow all interested parties to examine in detail how the policy on a particular benefit is operating in practice. An on-line statistical data service, incorporating information from financial and management systems, and bringing together information from both clerical and computerized systems will be an essential tool for evaluation.

O. Setting Objectives

Setting clear objectives for the policy, including financial ones, is fundamental to good evaluation. Ideally, objectives are ranked in order and included in early proposal papers. Sometimes governments wish to define their objectives in general terms only and the evaluation plan has to take account of this.

P. Have Objectives Been Achieved?

In order to discover whether objectives have been achieved, the following questions should be asked:

- a. what effect the policy is having,
- b. how is it operating,
- c. what has actually happened since it was introduced, and
- d. the extent to which the objectives have been achieved.

Q. Policy Aims

It is important to distinguish between the fundamental aim of the policy and the mechanism by which it is to be achieved. For example, the overall aim of a policy might be "to encourage state pensioners under 65 to take part-time work". There are many ways of achieving this, for example, by introducing pension increments which can be earned from working up to 20 hours per week or by reducing pension rates for those under 65. Either option could be bad value for money by increasing claims for social assistance or causing an increase in unemployment through the displacement of other workers. It would therefore be better to have a more specific objective along the lines of "to encourage state pensioners under 65 to work without increasing dependency on social assistance or producing an increase in the national level of unemployment". This would focus the attention on other ways of achieving the aim such as publicity for special incentives to encourage employers to find additional part-time jobs for pensioners. The mechanism for achieving the latter objective might be to "improve work incentives for state pensioners under age 65". But incentives could be increased without any increase in the number of pensioners entering work. So evaluating just the mechanism would not give the full picture, nor would it assist policy development.

R. Sub or Intermediate Objectives

The sub or intermediate objectives expand on the overall aim. They may also reflect various stages in policy implementation and operation. They often relate to customer service, time limits, and performance at operational levels and financial objectives. Wherever possible these objectives should be quantified. For example, " every fit pensioner under the age of 65 should have the work incentives and pension increments explained to them in a clear, simple and factual way at an interview."

S. Financial Objectives

All policies have financial objectives. These will normally be the costs/savings, both administrative and programme, originally calculated and agreed when the policy decision was made. These must be stated explicitly in the evaluation plan. The costs or savings split between administration and programme should be quoted for the first three years following implementation.

T. Evaluation Criteria

Evaluation criteria are the questions which establish what has actually happened since the policy was introduced and what needs to be known to assess the extent to which policy objectives have been achieved. The criteria must relate not only to all the policy, financial and other intermediate objectives but also to the overall policy aim. Time and resources are not unlimited so it will be necessary to determine the most important questions and the best way to obtain the information.

U. Important Areas

Some of the most important areas to be addressed are:

- a. the base case or situation,
 - b. deadweight,
 - c. additionality,
 - d. gearing and the multiplier effect, and
 - e. displacement or substitution.
-

All these terms are explained below.

The *base case*, sometimes called the counterfactual case, is what would have happened if the policy had not been made. It is established before comparison with what has actually happened takes place. One of the simplest base cases is the continuation of existing policy. Statistical analysis and projection is usually needed to provide a true comparison. The important aspect is not what happened in the last year of the old policy but what would have happened in the current year if the old policy had continued. It is also necessary to review the base case to take account of significant and unpredictable changes. For instance a policy initiative aimed at reducing the number of claims to disability pension could be affected by an increase in the level of unemployment. It is necessary to know the extent to which disability claims have been affected by this unpredictable change. The difference between the actual change in the number of disability claims and the number which would have been made had unemployment remained at its original level is the "additionality" (see below) produced by the policy initiative.

Deadweight is when behavior is not influenced by the policy and what has happened would have occurred anyway without government intervention. For example, a policy aimed at persuading employers to reduce their debts to the social insurance fund could appear to be effective if a general and concurrent improvement in the performance of the national economy was not taken into account. There is inevitably some deadweight in all policies but it is important to consider it when assessing the effectiveness of the policy and value for money.

Additionality is the extent to which a policy has actually influenced what has happened. An example would be the number of people who take up employment as the result of a policy initiative who would otherwise have remained unemployed.

Gearing is the extent to which government expenditure is enhanced by private sector or other funds. For example, if Government were to invest a sum x 100 in a project on condition private companies invested the same sum x 400 the direct gearing ratio is 1:4 provided there is no deadweight or displacement or substitution. The *multiplier effect* is a closely related concept. It refers to the level of economic activity resulting from an injection of expenditure. For a benefit injection of y in terms of money, the recipients might be persuaded to work to produce $y \times five$

Displacement or Substitution is when a policy generates a beneficial effect in one-area but causes losses in another. For example, if a policy gives single parents who receive benefits an incentive to take up employment they may cause others in the workforce to become unemployed.

V. Evaluation Methods

If computer systems are used to collect a special selection of statistics, it will be necessary to draw up a specific user requirement some months before they are needed to give time for the required software package to be written. Statistics alone will not be enough to evaluate most policies and other research, internal or external, will generally be necessary. Researchers will also need to be consulted early, particularly if a base case study is to be undertaken, to establish the position before a policy change. It may be possible to call on the services of an outside research institute to undertake all or part of the required research. The early stages of the evaluation work are likely to concentrate on management and financial targets. The later stages will look in more detail at what the policy change has achieved.

W. Administrative Costs

Some social insurance institutions have found that because the key, in nearly all administrative costing exercises, is manpower and the associated salary costs, these should form the base for any costing system. Other administrative costs, as shown from the most recent annual accounts, can be allocated across the existing complement, by staff grade, to give the real cost of each employee. Normally the more senior the grade the higher will be the allocation of costs. For example, the allocation of expenditure on accommodation should take account of the fact that senior officers will normally occupy more space than their junior colleagues. Once costs have been allocated by grade, a table can be constructed for use when changes in social insurance programmes are contemplated or new programmes designed. Where salary or other costs differ widely between parts of a country there may be a need for more than one costing table to take account of these variations. It will usually be the responsibility of a social insurance finance directorate to keep the costing table or tables under review and issue annual up-dates to those operational staff charged with producing

administrative costs. The following set of issues will need to be considered by those who construct a costing table and those who are costing a particular change.

X. Staff Pay and Allowances

Location	Where the work will be carried out, as there will be different salaries and costs according to location.
Grade of Officials	Is it appropriate to use the existing grading and management structure, or does the nature of the change suggest that these should be looked at afresh?
Seniority	Will existing staff be used, many of whom may be at the top of the scale; or new staff recruited?
Allowances	Will particular skills be required, e.g. automatic data processing? Will there be any shift work?
Employer's Social Insurance	Include employer's social insurance contributions in any estimate of staff costs.
Staff Pensions	Take as pension costs a percentage of the basic salary costs for the grades of official required.

Y. Other Staff Costs

Overtime or Casual Staff	Will overtime be necessary? Will temporary or casual staff be required on short-term contracts?
Training	The cost of training new recruits, as well as the cost of training existing staff. The cost of travel etc for trainees.
Common Services	These include the headquarters staff units providing Personnel, Audit, Finance and Policy services and support to local offices.
Local Office Common Services	These include the cost of archivists, typists, etc
Retention of Staff	A high turnover of staff means higher than average recruitment and training costs.

Consultants	May be especially relevant when developing information technology.
Other Specialist Staff	For example medical staff within medical centers or the cost of services purchased from an outside institution.
Any Staff Savings?	If so, there may be savings in other areas, for example, accommodation costs, or telecommunications.

Z. Accommodation

Grades/Functions of Staff	Space requirements depend on the grade of staff and any special functions e.g. cashier.
Existing Office Space	May accommodate the extra staff.
Visits by the Public	Will the change require more space for interviews?
New Buildings	If new buildings are to be acquired an investment appraisal is required and the cost of the building applied over its likely useful life. Generally, purchasing a building, rather than leasing, provides better value for money over time if the capital cost can be found.
Rent	Local enquiries should be made to establish local rental levels.
Fuel/Utilities	Fuel and lighting costs etc.
Fitting Out	Work that must be done before furniture can be put in place, for example, the installation of computer cables.
Furniture	Is special furniture needed? Include both the initial purchase price of furniture and replacement costs in later years
Building Maintenance	Seek advice on the cost of contracts for maintenance.
Archive Space	There may be a requirement for more storage space for paper files.

AA. Travel and Subsistence

Staff Travel	Apart from travel costs for training how much other traveling will have to be done and what is the overall cost?
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BB. Information Technology

- Existing IT systems** Can the present systems accommodate the proposed changes?
- New IT systems** A formal investment appraisal should be carried out by IT experts assisted by accountants.
- Residual Value** When it is proposed to purchase new equipment - computers, office machines, furniture etc - or buildings, an investment appraisal of its expected life may be needed, and of its residual value, if any, at the end of its life.

CC. Publicity

- Leaflets and Posters** These will need to be costed for internal or external production.
- Press** Coverage might be needed in both local and national newspapers/magazines.
- Radio/TV** Free publicity may be available, or there may be costs for any publicity campaign.
- Launch Events** If both local and national events are required these will have a cost.

DD. Other Costs

- Stationery** New forms – the number required for an initial launch and the annual user figure.
- Postage** What will be the average weight of postal items? And how many will there be each year? Have special rates been negotiated with the post office.
- Telecommunications** Additional staff will need telephones and the average annual cost of their calls should be assessed.
- Minor Office** List the additional items required.
- Machinery**
- Official Vehicles** If these are to be purchased both capital and running costs should be estimated

EE. Timing

Make sure the costs are allocated to the correct year. Delays may result in extra costs in some parts of the project but savings in other areas.

FF. Price Protection

A forecast of future rates of annual inflation is usually made by Finance Ministries and needs to be taken into account for future costings.

GG. Other Government Offices

Many changes in social insurance will have an impact on the businesses of other Government offices and it will be necessary to ensure that these other Ministries/offices are signed-up to the need for the transfer of funds between budgets. In the event of one Ministry providing services to another the question of repayment arrangements will arise.

HH. Costs to Business

Many social insurance policy or operational changes will have an impact on business. Governments may decide against a proposal that would place extra burdens on businesses and bring complaints from business leaders that the change would reduce their efficiency.

VI. Other Donor Agencies

In the social insurance field the World Bank has been by far the major player in the development of projects to improve and reform national systems. It is probably true to say it has concentrated until now on reforming pension schemes in the transitional economies. The introduction of unemployment benefit schemes and modern labor markets where none had previously existed has also been a priority. Now that many countries in Asia and Eastern Europe are well on the way to establishing multi-pillar sustainable pension schemes with computerized databases the emphasis is moving in those countries to improving health insurance schemes and facilities for the rehabilitation of disabled people. Closely linked to these social insurance projects are other projects to improve the administration of social assistance schemes. The two types of project will often develop a new national computer system to be used in common.

The World Bank has designed a sophisticated tool-kit for use in deciding whether an existing pay-as-you-go pension scheme is likely to be sustainable in the longer term. This is known as PROST or "Pension Reform Options Simulation Tool-kit". The system software requires the input of a range of national statistical data. In some countries this data may not be available in a sufficiently reliable form. For the diagnosis of the long-term fiscal/financial sustainability of a pension scheme the user needs to specify a time and age-frame for Prost to operate and calculate the implicit pension debt. The number of years covered is usually around 75. The information to be input includes:

- a. a population projection,
- b. a life table showing life expectancies for each age,
- c. life expectancy changes over the years,
- d. demographic structures,
- e. numbers of contributors and beneficiaries,
- f. projections of the labor force and employment levels,
- g. length of employment at retirement,
- h. macroeconomic trends including GDP growth,
- i. contribution rates and collection levels,
- j. wage levels, and

k. pension levels.

Communication strategies have been funded by the WB in countries where there has been a lack of knowledge of social insurance schemes on the part of the general population. Also where a new scheme required effective publicity. These projects require the design of publicity materials and short presentation pieces for television and radio.

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Annex 1

Policy instrument	Most suited to	Advantages	Disadvantages	Typical financing	Typical Institutional Structure	Targeting Mechanisms	Risks (supply and demand side)	Good partnerships
First pillar pensions	Formal sector workforce in countries with means of collecting and recording contributions.	Guaranteed pension creates social solidarity.	Demographic change may result in unsustainable pension liabilities.	Earnings related contributions from employers and employees.	Social insurance Ministry.	Mandatory scheme for formal labor market.	Inflation without indexation. Govt. may renege on pension promises.	Government. Tripartite board.
Second pillar pensions	Countries with developed financial infrastructures.	Contributions invested in financial markets.	Funds may under-perform. Administration charges could be high.	Earnings related contributions sent to pension fund of choice.	Social insurance Ministry with regulatory body.	Mandatory for those in first pillar scheme.	Poor governance. Low returns. Poor annuity returns.	Government. Tripartite Board.
Third pillar pensions	Countries with high waged workers and fully developed financial markets.	Capital creation assists the pensioner and helps develop financial markets.	May be sold to people with insufficient income. Charges may be high.	Voluntary premiums. May be a tax incentive to encourage participation.	Private pension companies and Banks.	Higher paid workers targeted by financial institutions.	Insured unable to maintain premiums. Divorce may leave spouse without pension.	Private financial institutions.

Policy instrument	Most suited to	Advantages	Disadvantages	Typical financing	Typical Institutional Structure	Targeting Mechanisms	Risks (supply and demand side)	Good partnerships
Provident Funds	Countries where workers prefer a savings fund and lump sum payments in lieu of a pension	Savings are portable on change of employment.	Low returns on savings. Early withdrawals allowed.	Regular savings from earnings.	Government institution.	Mandatory for workers in formal sector.	Investments in government bonds give poor return. Lump sum payments not indexed. Poor governance.	Government.
Survivors pensions	All countries with a pension scheme or a provident fund.	Avoids family hardship in the event of early death of main earner.	None	Pension scheme contributions	As with pension schemes.	As with pension schemes.	As with pensions	Government.
Unemployment Benefits	Countries with a developed labor market	Provides an income on job loss. Assists with cost of effective job search.	Reduces incentive to find work quickly. Administration costs can be high.	Equal contributions by employers and employees.	Social insurance and Employment Ministries working through labor exchanges.	Mandatory for workers in formal sector.	Large-scale redundancies can bankrupt fund.	Government. Tripartite Boards. Employment Agencies.
Sickness and disability	Countries that can collect and record contribution. Countries with large employers able to pay on behalf of government.	Provides an income during short-term sickness and disability.	Make encourage malingering and requires medical staff for effective control.	Mandatory contributions from workers in formal sector.	Social insurance Ministry.	Mandatory contributions.	Employers may misuse scheme to reduce wage costs at slack times.	Government. Employers.

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Health insurance	All countries with insufficient tax revenues to finance health care.	Improved general health of population and so of national productivity.	Expenditure has no obvious limit given usual demands.	Contributions.	Ministry of Health.	Formal sector workers and families. The very poor.	Escalating medical costs will reduce quality of care.	Government
Micro-insurance	Poorer communities not covered by social insurance schemes.	Low contributions with benefits related directly to community choice	Requires commitment over long period by local community leaders.	Local contributions	Local committee.	Targeted on local communities.	Too few of local community may wish to join or stay as members.	Local government. Trade Unions. Trade Associations.

