

THE UNITED REPUBLIC OF TANZANIA

THE NATIONAL SOCIAL SECURITY POLICY

MINISTRY OF LABOUR, YOUTH DEVELOPMENT AND SPORTS

JANUARY 2003

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SOCIAL SECURITY POLICY – GLOSSARY

1. ILO Minimum Standards.

International Labour Organisation set an instrument which was adopted at its 35th session in June 1952, popularly known as 'Social Security (minimum Standards) Convention No. 102. Itemised number of contingencies and benefits required in the minimum standards convention include' Old Age, Invalidity, Survivorship, Employment Injury, maternity, medical Care, sickness, Unemployment and Death.

2. Indexation of Benefits:

It is an adjustment of pensions and other cash benefits to take account of price movements and protection against inflation to the beneficiaries. Indexes may include prevailing statutory minimum wages, yearly average earnings of the contributors e.t.c.

3. Portability of Benefits:

This is a system which ensures that members accrued benefits are not lost by a member changing employer, changing employment from one sector to another or by migrating from one country to another. The system ensures continuity of benefit rights accrued.

4. Means-tested Basis:

It is the basis of provision and adjustment of social assistance benefits by the government depending on a person's means of living. The most considered group of people for the provision of social assistance benefits by means-testing include, elderly, sick, invalids (disabled), survivors, unemployed. Normally these groups of people fall out of contributory schemes. In other words assistance is provided to citizens according to their inability to meet basic needs for survival, or defending themselves against natural calamities.

5. Three- Tier System:

According to ILO framework, Three Tier system is an arrangement/system designed to cater for different needs of protection for different categories of people depending on their level of incomes. Tier one, which is financed by the government, caters for those who are not able to purchase social security services e.g. sick, disabled, elderly e.t.c. Tier two caters for those who can contribute and is compulsory and supervised by the government. Tier three caters for those who can afford to supplement their Tier two security by purchasing commercial insurance benefits. Tier three is voluntary and privately managed. Three-Tier system is designed to reduce the government expenditure on social assistance/security programs through expansion of coverage of Tier Two and Three.

6. Actuarial Valuation:

It is the process which involves assessing the current level of funding of the scheme by comparing scheme assets with liabilities accrued to the date of valuation and to determine the level of contributions that need to be paid in future to achieve the level of funding necessary to pay out the benefits promised.

Actuarial reviews are conducted in intermediate periods to ensure that the fund is sustainable and this is reflected in the projections are of a long time frame e.g. 25 years.

7. Social Insurance Principles:

Is a social security administration where the resources are pooled together for meeting various contingencies, every one is included regardless of the level or risk exposure and the motive is social protection as opposed to profit maximization.

8. Defined Contribution v/s Defined Benefits:

Defined contribution is a situation where benefits from a social security is not known, but depends on the contributions to be made and interests rates obtainable. Defined benefits is a situation where benefits to be obtained are known well in advance regardless of the contributions to be made, provided that the members meets prescribed minimum conditions. Defined contributions are associated with provident fund schemes, while defined benefits are associated with social insurance schemes.

FOREWORD

The socio-economic and political changes, which are taking place in Tanzania, have prompted the formulation of the National Social Security Policy in order to address such changes for the benefit of its citizens and to ensure that sectoral programmes and activities are well coordinated.

The formulation of the National Social Security Policy came at a time when Social Security Providers are reorganizing their activities to respond to the market demand as related to free market economy. Since independence to-date, some few institutions have been enjoying monopolistic status of providing social security services in the country. However under this policy social security sector will be liberalized.

The National Social Security policy is a product of a series of consultations with stakeholders which started in year 2001. The policy was adopted by the government early in year 2003.

The aim of this policy is to realize the goals and objectives set out in the vision 2025 by extending social security services to the majority of the Tanzanians.

The structure of the Policy document provides background information of social security, status and challenges of the sector in Tanzania, and the rationale for its formulation. There are also chapters that provide policy issues and statements, institutional frame- work and responsibilities during its implementation.

With great pleasure I would like to welcome the social security policy for the development of our country.

Hon. Prof. J.A. Kapuya (MP)
Minister for Labour, Youth Development and Sports

CHAPTER 1

1.0 INTRODUCTION

1.1 Background

Every human being is vulnerable to risks and uncertainties with respect to income as a means of life sustenance. To contain these risks, everyone needs some form of social security guaranteed by the family, community and the society as a whole. Such socio-economic risks and uncertainties in human life form the basis for the need of social security. Social security is rooted in the need for solidarity and risk pooling by the society given that no individual can guarantee his or her own security.

Formal social security system in Africa and other developing countries is a product of colonialism. In Tanzania during the colonial era, social security coverage was extended to the few people who were in the colonial employment. Most of the people were excluded from any type of public social security scheme. The majority of the Tanzanian people depended upon the traditional social security system for their protection, which is still the case to date, though effects of urbanization and difficult economic environment have weakened the same.

After independence, the Government of Tanzania introduced a series of policies and measures to reverse the situation that prevailed during the colonial era. The measures included access to free education and healthcare, provision of social welfare services to marginalized groups such as the elderly, people with disabilities and children in difficult circumstances, as well as establishment of statutory social security schemes. However, tax financed social services have proved to be unsustainable as evidenced by introduction of cost sharing in sectors such as education and health.

1.2 The Concept of Social Security

Social security means any kind of collective measures or activities designed to ensure that members of society meet their basic needs and are protected from the contingencies to enable them maintain a standard of living consistent with social norms.

The social security concept has been changing with time from the traditional ways of security to modern ones. As societies became more industrialized as a result of industrial revolution in the 19th century and more people became dependent upon wage employment, it was no longer possible to rely upon the traditional system of social security.

The negative impact of industrialization and urbanization attracted the attention of policy makers to formalize social security system that addressed the emerged social issues.

Social security is defined in its broadest meaning by the International Labour Organization (ILO) as: -

*"The protection measures which society provides for its members, through a series of **public measures** against economic and social distress that would otherwise be caused by the **stoppages or substantial reduction of earnings** resulting from sickness, maternity, employment injury, unemployment, disability, old age, death, the provision of medical care subsidies for families with children."*

The ILO framework of social security is based on a three-tier structure, which seeks to utilize various funding sources for provision of better protection to the country's population. This structure also seeks to address needs of different groups in the

society with respect to income and degree of vulnerability. The structure consists of the following: -

a) Tier One – Social Assistance Schemes

This constitutes provision of services such as primary health; primary education, water, food security and other services on a *means tested basis*. These services are usually financed by the government and Non Governmental Organisations (NGOs).

b) Tier Two - Mandatory Schemes

These are usually compulsory and contributory schemes financed by both employer and employee during the working life for terminal and short-term benefits.

c) Tier Three - Voluntary or Supplementary Schemes

The schemes under this tier include personal savings, co-operative and credit societies, occupational pensions schemes and private schemes; managed by employers, professional bodies, community-based organizations and other private sector actors.

CHAPTER II

2.0 SITUATIONAL ANALYSIS OF SOCIAL SECURITY SYSTEM IN TANZANIA

2.1 Objectives of the Social Security Services

Social security in Tanzania covers a wider variety of public and private measures meant to provide benefits in the event of the individuals' earning power permanently ceasing, being interrupted, never developing, being unable to avoid poverty, or being exercised only at an acceptable social costs. The major domains of social security are: poverty prevention, poverty alleviation, social compensation and income distribution. Many issues relating to social security are sensitive, as they touch on the material interests of organized workers and the unorganized poor as well as insurance industry and employer organizations.

The social security system in Tanzania has the following key elements:-

- Social assistance schemes which are non-contributory and income-tested, and provided by the state to groups such as people with disabilities, elderly people and unsupported parents and children who are unable to provide for their own minimum needs. In Tanzania social assistance also covers social relief, which is a short term measure to tide people over a particular individual or community crisis;
- Mandatory schemes, where people contribute through the employers to pension or provident funds, employers also contribute to these funds;

- Private savings, where people voluntarily save for retirement, working capital and insure themselves against events such as disability and loss of income and meet other social needs.

Despite the existence of this framework, service delivery has not reached the majority of Tanzanians due to inadequate financing and fragmented institutional arrangements.

The estimated total population of Tanzania is 33.5 million¹. Out of this, 70 per cent are in the rural areas, while the rest are in urban areas. The total labour force of Tanzania is estimated at 16 million, where 5.4% of the total labour force or 2.7% of the total population is covered by the mandatory formal social security system. 93 per cent of the capable workforce is engaged in the informal sector in both rural and urban areas; out of that 80 per cent is engaged in the agrarian economy².

2.2 Informal Social Security System

Tanzania, like many other countries in the developing world has had strong informal and traditional social security systems built on family and/or community support. In times of contingencies such as famine, diseases, and old age; individuals have depended on family, clan members and members of the community for assistance in the form of cash or in kind. While it is recognized that over time, traditional social security system has tended to decay and change forms in response to the forces of urbanization and industrialization, there is evidence that in Tanzania family and

¹ National Bureau of Statistics, 2001

² National Labourforce Survey, 1999

community social support system have remained as means of social security within different social groups.

Overtime, socio-economic reforms have slowly resulted into disintegration of the family-based social security protection leading to the formation of self-help groupings such as UPATU, UMASIDA and VIBINDO.

2.3 Formal Social Security System

Formal social security is a regulated mechanism of protecting citizens against social contingencies. This system has existed in Tanzania well before independence; whereby various policy statements have been made and Acts passed in regard to the protection of the population against contingencies like injury, loss of employment and old age. These include the Master and Native Ordinance Cap 78 as amended by Cap. 371, Provident Fund (Government Employees) Ordinance Cap 51, Provident Fund (Local Authorities) Ordinance Cap. 53 and the Workmen's Compensation Ordinance Cap 262.

After independence new legislations were enacted and others amended. These include the Severance Allowance Act No. 57 of 1962; the National Provident Fund Act No. 36 of 1964 amended by Act. No. 2 of 1975 which was later repealed and replaced by the National Social Security Fund Act No. 28 of 1997; the Parastatal Pensions Act No. 14 of 1978, the Public Service Retirement Benefits Act of 1999, the National Health Insurance Fund Act No. 8 of 1999 and Local Authorities Provident Fund Act. No. 6 of 2000.

Currently, there are five major formal institutions that provide social security protection in Tanzania. These are the National Social Security Fund (NSSF) offering social security coverage to employees of private sector and non-pensionable parastatal and government employees, the Public Service Pension Fund (PSPF) providing social security protection to employees of central Government under pensionable terms, Parastatal Pension Fund (PPF) offering social security coverage to employees of the both private and parastatal organizations, the Local Authorities Provident Fund (LAPF) offering social security coverage to employees of the Local Government and the National Health Insurance Fund (NHIF) offering health insurance coverage to pensionable employees of central government.

The formal social security total coverage in Tanzania is about 871,000 members distributed as 363,000 for NSSF, 193,000 for PSPF, 180,000 for NHIF, 90,000 for PPF and 45,000 for LAPF. This represents about 85% of the persons employed in the formal employment sector.

2.4 The Impact of Social Security System in Tanzania

Efforts by the government to provide social security protection in the country have brought about significant development. However, due to the absence of an elaborate social security policy to guide effective functioning of the industry, there are some structural, operational and policy weaknesses inherent in the social security system.

- a) Achievements**
- i) Investment of Social Security Funds**

Social security institutions in Tanzania have been investing in portfolios such as commercial loans, real estate, government securities, Loanable funds, bank deposits and equities; all of which have contributed to social and macro-economic development of the country.

ii) Awareness on Social Security Matters

There has been an increase in the level of public awareness on the social security system in respect of benefits offered, coverage, investments and general operations of the sector.

iii) Organized Self-help Groups

Informal social security scheme in the form of self-help groups has been more organized than before.

(b) Shortcomings in the Current Social Security System

The existing social security system in Tanzania is characterised by a number of shortcomings, which need to be addressed by this policy. Among these shortcomings are: -

i) Limited Coverage

Persons covered by the social security schemes are those who are employed in the formal sector estimated at 1.0 million. This is only about 5.4% of the whole labour force of over 16 million Tanzanians. This means the remaining 15 million labour force, engaged in informal sector and comparatively more vulnerable are not covered by the formal social security protection.

ii) Inadequacy of Benefits Paid (Number and Meaningfulness)

The number of benefits offered by most of the existing schemes fall below the ILO Minimum Standards in terms of number, quality and indexation to the current levels of earnings.

iii) Fragmentation and Lack of Co-ordination

The social security sector lacks co-ordination at national level as each Fund reports to a different Ministry with differing operational rules and procedures. As a result, contribution rates, benefit structures, qualifying conditions as well as plans and priorities differ from one institution to another.

iv) Lack of Mechanism for Portability of Benefit Rights

There is no established mechanism that can allow benefit rights of a member to be transferred from one scheme to another. This results in employees losing some of their benefit rights when they move from one sector to another.

v) Social Security Benefits

In some of the Tanzania's social security schemes, members' benefits are not rights but privileges. Normally, members lose some of their benefits if they leave employment before attainment of their pensionable ages. In other circumstances, members' benefit rights are determined by the employers depending on the nature of termination.

vi) Conflicts in the Existing Legislations

Establishing legislations of the current social security institutions have provisions that conflict in terms of operations.

vii) Non-contributory Social Security Benefits

Currently, there is a segment of salaried workers who are getting social security benefits fully financed through tax revenues; this is a strain to the Government budget.

viii) Liberalization

There has been a monopoly in the operation of social security institutions in the country.

ix) Investment of Social Security Funds

There has been inadequate guidance on investment of social security fund at national level

2.5 Challenges In The Social Security System

i) Weakening of Informal Social Protection System

Socio-economic developments taking place in Tanzania have resulted into a slow but steady disintegration of the kinship or family-based social support systems on which the majority of Tanzanians have depended for protection against contingencies. Economic hardships have made it difficult for individuals, families and/or kin members to provide assistance to each other in time of crisis and need.

The high rate of urbanisation has also taken its toll on traditional social protection systems. There has been increasing fragmentation with families becoming more dispersed thereby eroding the capacity of extended families to function as social safety nets.

ii) Limited Growth of the Formal Employment

Public sector reforms have resulted into retrenchment of workers, freezing employment in the public sector and privatisation of public enterprises. These have led to increased unemployment, which in turn has forced more people to resort to employment in the urban informal sector where earnings are often inadequate and/or uncertain. There is however a limited growth in employment in the private sector.

iii) Reduced Access to Social Services

Despite the deliberate measures by the government to improve provision of social services to the public, considerable part of the population has either limited or no access to services. In some instances, cost sharing in the provision of social services has reduced the capacity of the people to access the services.

iv) Low levels of income

Incomes for the majority of the people in Tanzania are generally inadequate to meet their basic requirements and save for future use.

v) Declaration of Low Insurable Earnings

Some employers provide remunerations composed of basic salaries and allowances, while deductions for social security are based on basic salaries only, leading to lower benefits from social security institutions upon retirement.

2.6 Rationale For A Social Security Policy

The existing social security system has many shortcomings that include low coverage of the Tanzanian Society, fragmentation of

legislation, lack of regulatory framework, lack of a mechanism for portability of benefits and inadequacy of benefits provided. Therefore, the need for a well-articulated national social security policy is more eminent now than ever. In view of the foregoing, there is a need for having a comprehensive national social security policy that shall address the needs of employed people in the formal sector, self employed population in the informal sector, the elderly, people with disabilities and children in need of special protection. Therefore the social security policy is expected to:

- ♦ Widen the scope and coverage of social security services to all the citizens;
- ♦ Harmonize social security schemes in the country so as to eliminate fragmentation and rationalize contribution rates and benefit structures;
- ♦ Reduce poverty through improved quality and quantity of benefits offered;
- ♦ Institute a mechanism for good governance and sustainability of social security institutions through establishment of a regulatory body;
- ♦ Establish a social security structure that is consistent with the ILO standards but with due regard to the socio-economic situation in the country; and
- ♦ Ensure more transparency and involvement of social partners in the decision making with respect to social security institutions

CHAPTER THREE

3.0 POLICY ISSUES AND STATEMENTS

The general objective of the policy is to ensure that every citizen is protected against economic and social distress resulting from substantial loss in income due to various contingencies. Underlying the above-mentioned general objective, this policy shall therefore address the following specific issues: -

3.1 Policy Issue: The Structure of Social Security Sector

Different social groups face different contingencies, hence calling for varied types of protection. Provision of comprehensive social security services should follow a structure that recognises different levels of needs, utilises different funding sources and reflects roles of various stakeholders.

Policy Statement:

Provision of social security services in the country shall be structured as follows: -

a) **Social Assistance Programmes**

The Government shall enhance the capacity to attend to the social assistance programmes that constitute services such as primary health; primary education, water, food security and social welfare services to vulnerable groups such as people with disabilities, the elderly and children in difficult circumstances on a *means tested basis*.

Moreover, the government shall create an enabling environment for other institutions such as Non Governmental Organisations (NGOs), charitable organisations, families and mutual assistance groups to supplement the government's effort in the provision of such services.

- b) **Mandatory Schemes**
Mandatory social security institutions that shall operate under the social insurance principles in accordance with minimum acceptable standards and benchmarks.
- c) **Supplementary Schemes**
Supplementary schemes shall be established to cater for different social services like health, pensions and other types of insurance over and above those provided by mandatory and social assistance programmes. These schemes shall be run by employers, private companies, professional bodies and community-based organisations (CBOs).

3.2 Policy Issue: Coverage

The existing mandatory social security schemes currently cover only 5.4 % of the labour force estimated at 16.0 million. The larger part of the labour force engaged in the informal sector that includes smallholder agriculture, small-scale mining, fishing, and petty businesses are inadequately covered by self-help initiatives. Moreover, accessibility to the social welfare services by the disadvantaged groups is limited; hence the majority of the people are not covered by the formal social security schemes.

Policy Statements:

- a) Social Welfare Service shall be improved and extended to enhance accessibility to disadvantaged groups including people with disabilities, the elderly and children in difficult circumstances.
- b) A legal framework shall provide for all employees in the formal sector and devise means of extending coverage to the informal sector such as agricultural,

mining, fishing and small businesses.

- c) There shall be an act to support the formation of mutual assistance initiatives by the NGOs, CBOs and other groups operating at community level.
- d) Employers, financial institutions, professional associations, insurance companies, social security institutions and other organisations shall be enabled to establish supplementary schemes to provide social security benefits over and above those provided by mandatory and social assistance programmes.

3.3 Policy Issue: Social Security as a Right

According to Article 22 of the Universal Declaration of Human Rights of 10th December 1948; social protection is a rights issue. Likewise, Article 11(1) of the Constitution of the United Republic of Tanzania stipulates that:-

“The state authority shall make appropriate provisions for the realisation of a person’s right to work, to self education and social welfare at times of old age, sickness or disability and in other cases of incapacity.....”³ In view of such provision there is still inadequate coverage of social security services to the Tanzanian Society.

Policy Statement

Efforts shall be made to enhance awareness and

³ United Republic of Tanzania (1998) “The Constitution of the United Republic of Tanzania of 1977”

sensitisation of the society regarding the important and provision of social security services as a right.

3.4 Policy Issue: Inadequacy of Benefits offered

The number and quality of benefits offered by most of the existing social security funds are not adequate to meet the basic needs of beneficiaries; in terms of the number of benefits, magnitude and indexation to the current levels of earnings.

Policy Statement:

Social security schemes shall have a standard minimum number of benefits offered and indexed to the current levels of earnings of contributors.

3.5 Policy Issue: Portability of Social Security Benefits

Benefit rights are not portable when a member moves from one scheme to another due to differing legislations, operational rules and procedures. As a result members loose some of their benefit rights just by moving from one scheme to another.

Policy Statement

There shall be regulated mechanisms established to enable portability of benefit rights when a member moves from one scheme to another.

3.6 Policy Issue: Lack of Co-ordination

The current social security institutions are placed under different Ministries with different rules and procedures, as a result there is a conflict in the administration of social security matters.

Policy Statement:

The social security sector shall be coordinated by the Ministry responsible for social security matters.
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3.7 Policy Issue: Reciprocal Agreements for Transfer of Benefits

Labour mobility across nations has become a common phenomenon due to globalisation and foreign investment, there by require people work and live in different countries; and hence find themselves contributing to various social security institutions. Lack of a mechanism for transfer of benefit rights across nations may result into some members losing their rights or being unable to qualify for better benefits.

Policy Statement:

Legal mechanisms shall be developed to provide for reciprocal agreements with other countries for transfer of social security benefits across nations.
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3.8 Policy Issue: Partial Withdrawal of Benefits

Social security schemes do not provide for pre-mature withdrawals of benefits by members before attainment of the pensionable age. However, due to unstable employment environment, low level of income of most of the workers and little awareness on social security matters, members have a tendency of demanding total

withdrawal of benefits upon termination of employment before the attainment of pensionable age.

Policy Statement:

Legal mechanisms shall be developed to allow for withdrawal of part of the accumulated benefits; while the balance shall remain for long-term benefits on premature termination of their employment.

3.9 Policy Issue: Financing of Social Security Services

The Government has the responsibility of providing social security services to its citizens. However, due to limited resources the Government still provides limited services for salaried employees and individuals who can afford to contribute for the services.

Policy Statements:

- (a) Services under Social Assistance Programs shall be offered on a means-tested basis and financed by the general tax revenue and other grants.
- (b) Mechanisms shall be established to ensure that all salaried employees and individuals, who can afford to contribute to the mandatory schemes, do so to ensure enhancement of benefits.

3.10 Policy Issue: Guaranteeing of Mandatory Schemes

The Government has the responsibility to guarantee members' benefits in the event the established mandatory social security

schemes become insolvent. So far there is no concrete commitment by the Government to instil contributors confidence in their membership

Policy Statement:

- | |
|--|
| <p>(a) The Government shall continue to guarantee members' benefits in the established mandatory schemes.</p> <p>(b) The Government shall ensure that Social Security Schemes are managed efficiently.</p> |
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3.11 Policy Issue: Taxation on Contributions, Investment Income and Benefits

Contributions and income accrued from investment by social security institutions are being taxed thus weakening the capacity of the schemes to offer quality benefit to members.

Policy Statement:

<p>The government shall continue to review tax policies to ensure contributions, benefits and income from investments to enable mandatory schemes offer meaningful benefits to members.</p>

3.12 Policy Issue: Investment of Social Security Funds

Investment of social security funds is an inseparable function of social security institutions. Sustainability of the schemes and improvement of benefits depend on investment income. Social security funds have often been directed to areas where there is no stimulation of economic growth. There are no clear-cut guidelines directing investments of social security funds at the national level.

Policy Statement:

Guide lines will be developed based on principles of safety yield and liquidity.

3.13 Policy Issue: Good Governance

Good governance is the key to smooth functioning and efficiency in all social security schemes, as they are entrusted to manage funds on behalf of the contributors. There has been poor governance in social security services.

Policy Statement

There shall be guidelines to ensure that all social security schemes are transparent and accountable to the members and the public at large.

3.14 Policy Issue: Legal Framework and Minimum Standards

There is fragmentation of social security system in the country with respect to different legislations and design of the schemes. These schemes also lack minimum standards to guide their operations.

Policy Statement:

There shall be an act to govern and standardize operations of the social security sector. The law shall also provide for the establishment of a regulatory body that shall ensure smooth and efficient operations of the sector.

3.15 Policy Issue: Liberalization of the Social Security Sector

The current trend in the country is to liberalize various sectors in the economy. However, the current social sector is based on organization/institution monopoly in its operation.

Policy Statements:

Social security institutions shall operate in a regulated liberalized market as follows:-

While the existing mandatory social security institutions shall operate and compete among themselves Social Security Services under supplementary schemes shall be fully liberalized.

CHAPTER IV

4.0 ROLES OF STAKEHOLDERS

The different stakeholders shall have the following roles to play in the social security sector:-

4.1 The Government

- Coverage of the social assistance programmes
- Put an enabling environment for smooth operations of the social security
- To institute regulatory and legal framework
- Supervision of the sector.
- Guarantor of mandatory schemes

4.2 Social Security Institutions

- Offering quality benefits and services
- Good governance of the schemes
- Involvement of Stakeholders
- Widen coverage
- Awareness creation and sensitisation

4.3 Employers

- Registration of employees
- Timely and accurate remittance of contributions
- Awareness creation and sensitisation
- Adherence to safety and occupational health rules

4.4 Workers' Unions

- Representation of workers' interests in the social security sector
- Awareness creation and sensitisation
- Support the social security industry.

4.5 NGOs/CBOs

- Complement efforts by the Government in the provision of social assistance programmes and establishment of supplementary schemes
- Awareness creation to the public

4.6 Communities

- Responsiveness to the needs of the vulnerable persons
- Maintain self-help traditions