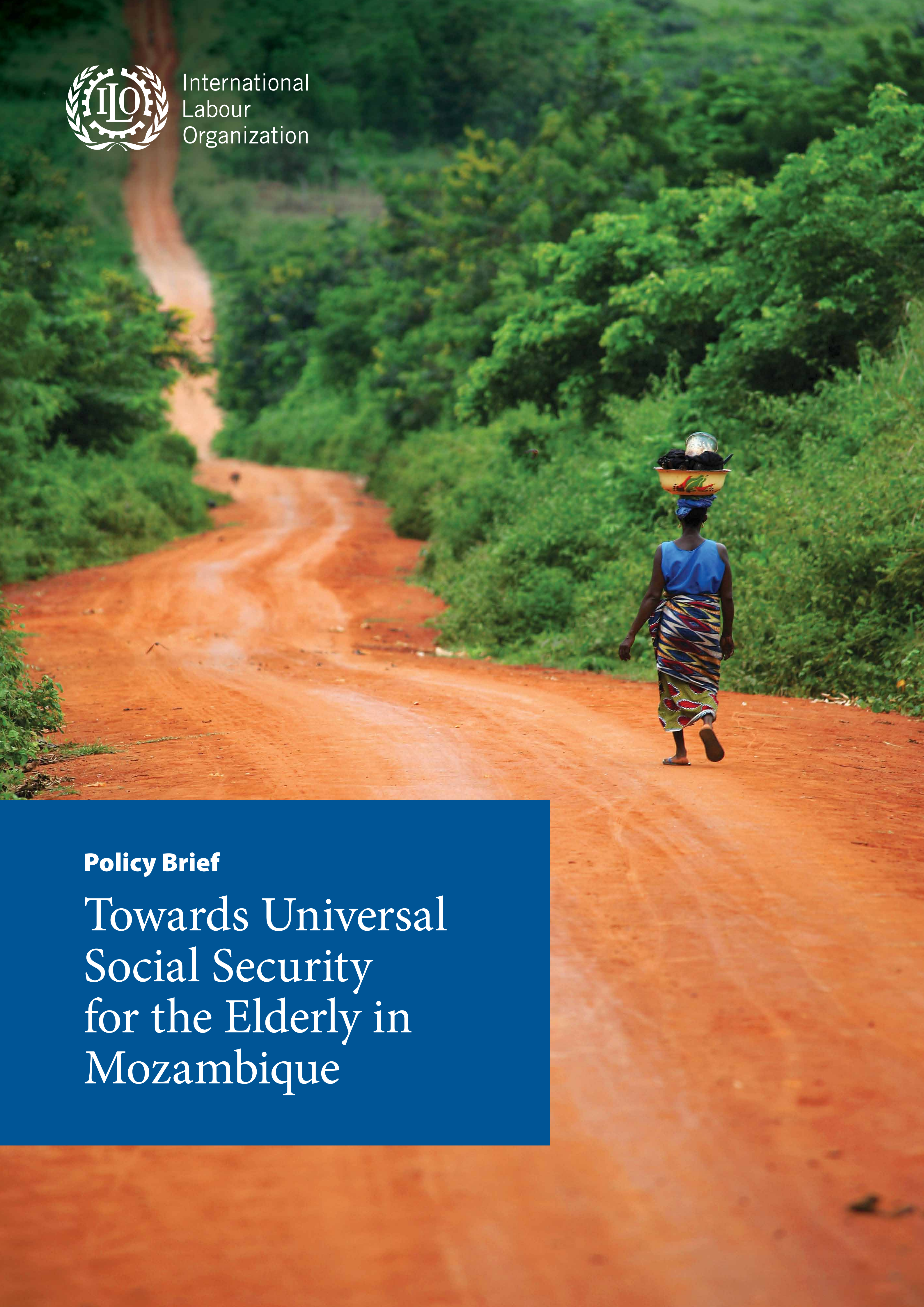
International Labour Organization



Policy Brief

Towards Universal Social Security for the Elderly in Mozambique

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Towards Universal Social Security for the Elderly in Mozambique

RUTH CASTEL-BRANCO
RUBÉN VICENTE ANDRÉS

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All citizens are entitled to assistance in case of disability and old age.

— Constitution of the Republic of Mozambique, Art. 95.1[1]

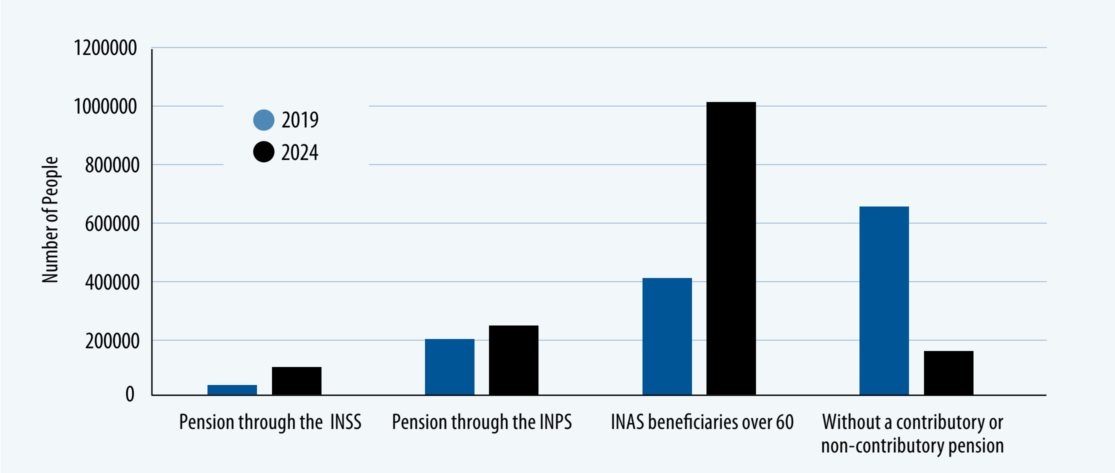
In Mozambique, social assistance for the elderly is a right enshrined in the Constitution of the Republic. An elderly person is defined as anyone aged 60 years or older.[2] Mozambique currently has 1.25 million elderly people, which corresponds to 4.5% of the population.[3] Although assistance during old-age is a right, half of all elderly people are excluded from social security — whether through the mandatory social security subsystem (contributory) or the basic social security subsystem (non-contributory).

The proposed National Strategy for Mandatory Social Security (ENSSO) 2019-2024 (yet to be approved) aims to enforce employees' and employers' contributory obligations and extend the coverage of the contributory subsystem to self-employed workers. Meanwhile, the National Strategy for Basic Social Security (ENSSB) 2016-2024, aims to expand the coverage of the non-contributory subsystem to more than one million elderly until 2024.[4,5] However, according to population projections, 10% of the elderly will remain without any coverage (Figure 1), even if the targets approved by the ENSSB 2016-2024 are met.

Considering both the country context and international experiences, this policy brief argues that the implementation of a bureaucratic selection method—through the harmonization of the information management systems of the National Institute for Social Security (INSS), the National Institute for Social Providence (INPS) and the National Institute for Social Action (INAS)—would ensure the right to universal social security for those aged 60 and older. This harmonization is already anticipated in the ENSSB 2016-2024 (Strategic activity 5.2).

In the short term, a bureaucratic selection approach will require an increase in budget allocations for the basic social security subsystem, in order to ensure universal coverage for people aged 60 and older. Assuming a simultaneous increase in the value of the cash transfer, according to average inflation rates, an additional $24 million will be required annually, to the budget approved by the ENSSB 2016-2024. Given the projected impact of cash transfers on poverty and inequality, this projected increase can be justified in terms of cost-effectiveness. In the medium term, improved enforcement and compliance with the mandatory social security subsystem, and its gradual expansion to self-employed workers, may significantly increase its coverage and reduce the burden on the basic social security subsystem.

Figure 1: Coverage of the contributory and non-contributory social security subsystems, 2019 and 2024[6], III

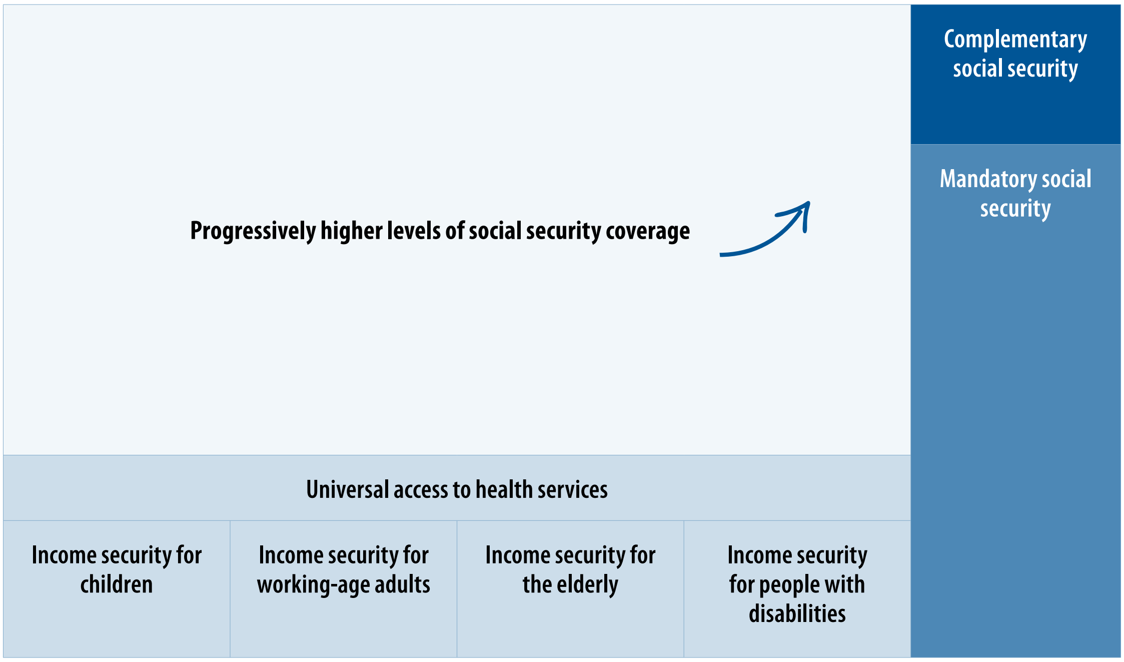


The Importance of Universal Social Security Coverage for the Elderly

The Constitution of the Republic defines the extended family as the basis of society. However, extended family networks are increasingly fragmented, and today Mozambique is considered one of the worst countries to grow old.[7] Poverty and unemployment, labor migration, and the nuclearization of families, are just some of the factors that have contributed to this shift. Given this context, the State has an ever greater responsibility to our so-called "libraries", and social security is one of the instruments at its disposal.

Social security compensates the elderly for the loss of productivity and the reduction of income with the decline in their physical ability as a result of aging. Recommendation 202 of the International Labour Organization (ILO) recommends that all countries establish a minimum guarantee of income security for the elderly. This should be complemented by other mechanisms, introduced progressively, in order to ensure higher levels of coverage, as stipulated by the ILO Convention No. 102 of 1952[8,9] (Figure 2).

Figure 2: The Social Protection Floor bi-dimensional strategy



The Regulatory and Institutional Framework for Social Security

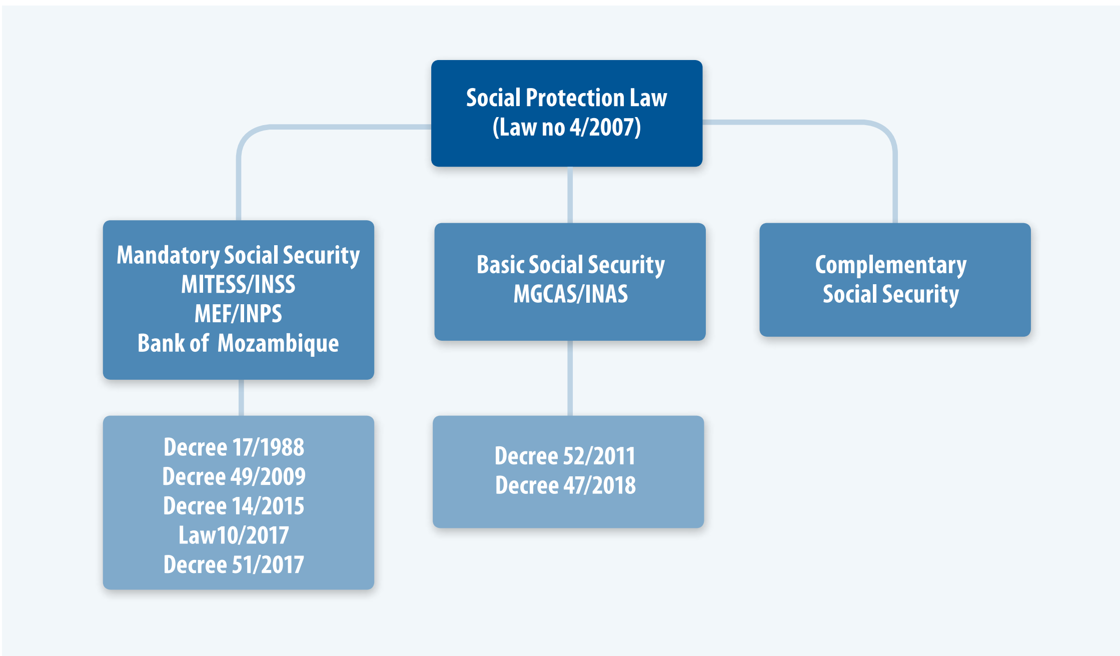
All citizens have the right to social protection, irrespective of color, race, sex, ethnic origin, place of birth, religion, degree of education, social position, parents' marital status or profession.

— **Social Protection Law, Art. 6** [10]

The Social Protection Law No. 4/2007 defines social security as a right for all citizens, and establishes the following pillars:

- The Mandatory Social Security subsystem (SSO): which provides benefits to registered contributors; financed by the contributions of employees and employers (or in the case of the self-employed, workers); managed by the INSS, the INPS, and the Bank of Mozambique; under the tutelage of the Ministry of Labor, Employment and Social Security (MITESS) and the Ministry of Economics and Finance (MEF), respectively.
- The Basic Social Security subsystem (SSB): which provides social transfers to the labor-constrained and vulnerable, who live in a situation of absolute poverty; financed primarily by the State budget; managed by INAS; under the tutelage of the Ministry of Gender, Children and Social Action (MGCAS);
- The Complementary Social Security subsystem (SSC): designed to regulate the private insurance market, under the tutelage of MEF.

Figure 3: Regulatory and Institutional framework for Social Security in Mozambique



The Mandatory Social Security Subsystem (SSO)

The SSO subsystem is oriented towards formal sector employees and based on a social insurance framework. Its objective is to provides income security to those who face a reduction in their physical capacity, including due to aging.

In the private sector, the SSO subsystem is regulated by Decree No. 51/2017. Registration for formal sector employees is mandatory, and the employer is responsible for channeling monthly contributions to the INSS. The contribution is shared between the employer and the employee, who contribute 4% and 3% respectively.[11] In 2015, Decree No. 14/2015 extended the SSO subsystem to self-employed workers. The Decree establishes a contribution rate of 7% of workers' income. The self-declared income cannot be less than the minimum wage for their corresponding sector[12], and the contribution must be paid in full by the self-employed worker.

Those who have made at least 240 months' worth of contributions to the INSS, are entitled to an old-age pension from 55 years if a woman, and 60 years if a man. The level of the pension is calculated based on the total number of contributions and the average monthly remuneration in the last 60 months. The level of the pension should be no less than 90% of the lowest minimum wage.

$$\text{Level of the pension} = \frac{\text{Number of months}}{420} \times \text{Monthly average remuneration}$$

In the public sector, the SSO is regulated by the General Statute for State Functionaries and Agents. As in the private sector, registration is mandatory; but unlike in the private sector, the State discounts 7% of public sector workers' monthly remuneration for the retirement pension alone.[14] This is forwarded to the INPS, which was created by Decree No. 8/2014, under the tutelage of the MEF. INPS is also responsible for assigning pensions to former combatants.

Employees with at least 15 years of contributions, are entitled to an old-age pension from 55 years old if a woman, or 60 years if a man. The level of the pension is calculated based on the number of years of contributions and the remuneration at the time of retirement:

$$\text{Level of the pension} = \frac{\text{Number of years}}{35} \times \text{Last monthly remuneration}$$

Coordination between the INSS, the INPS, and the pension fund of the employees of the Bank of Mozambique is regulated by Decree 49/2009.[15,16]

The Basic Social Security Subsystem (SSB)

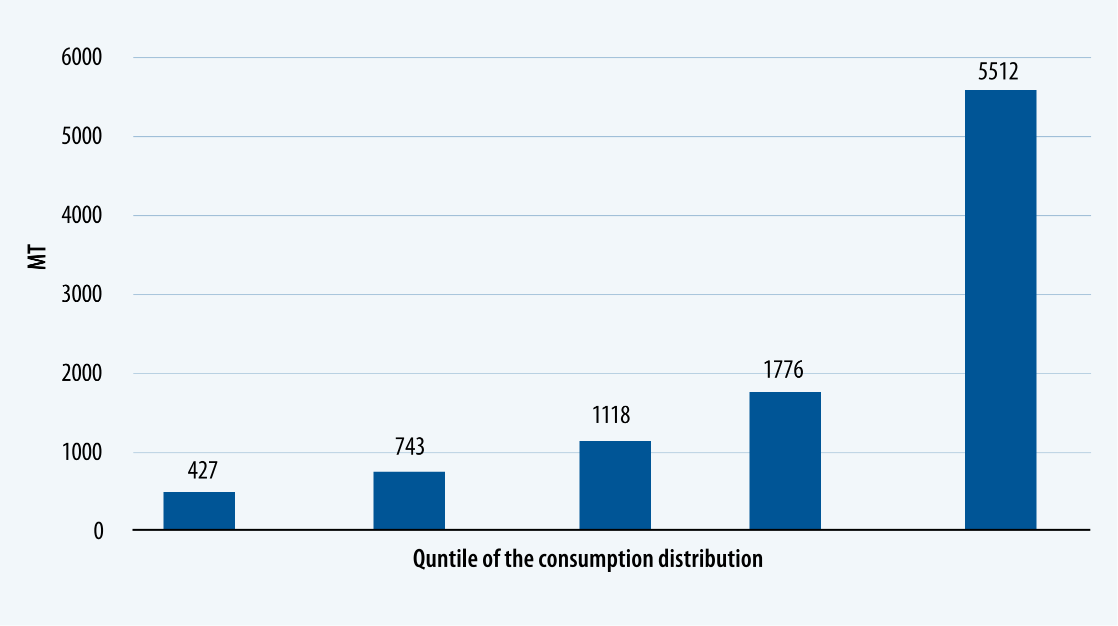
The SSB subsystem is a redistributive instrument, financed by the State budget, and regulated by Decree 47/2018. It includes the Basic Social Subsidy Program (PSSB), which consists of monthly regular monetary transfers for an indefinite period, to people living in a situation of poverty and vulnerability, including the elderly. The value of the transfer varies between Mt 540 and Mt 1000, depending on the size of the household (Figure 4).

Figure 4: The value of the PSSB, as % of the poverty line and minimum pension of the INSS

Aggregate size	Value of the PSSB	% of poverty line (2014/15)	% of minimum pension INSS (2019)
1 person	MT 540	67%	14%
2 people	MT 640	59%	16%
3 people	MT 740	46%	19%
4 people	MT 840	39%	21%
5 people	MT 1000	37%	25%

Currently, the PSSB applies a categorical, geographic, poverty, and community selection method. Men and women aged 60 years and older, living in labor-constrained households, that were identified by the community and verified by INAS staff as "poor" are eligible for the program. The ENSSB 2016-2024, approved by the Council of Ministers, proposes an individual selection approach, of an almost universal nature. The advantage of a universal approach is that it reduces the risk of errors of inclusion and exclusion, particularly in a context where consumption distribution in the lower quintiles of the population is fairly flat[17] (Figure 5).

Figure 5: Monthly per capita consumption (in Mt, per quintile, 2014/15)[18]



Progress and Challenges Towards Universal Social Security Coverage for the Elderly

Progress of the SSB subsystem

In the last decade, there has been significant progress towards universal social security coverage for the elderly in Mozambique. The consolidation of the regulatory and institutional framework for the SSB subsystem allowed for a gradual increase in budget allocations for INAS programs (Figure 6), and a progressive expansion in coverage (Figure 7).

Figure 6: Budget allocations to SSB programs in nominal terms[19]

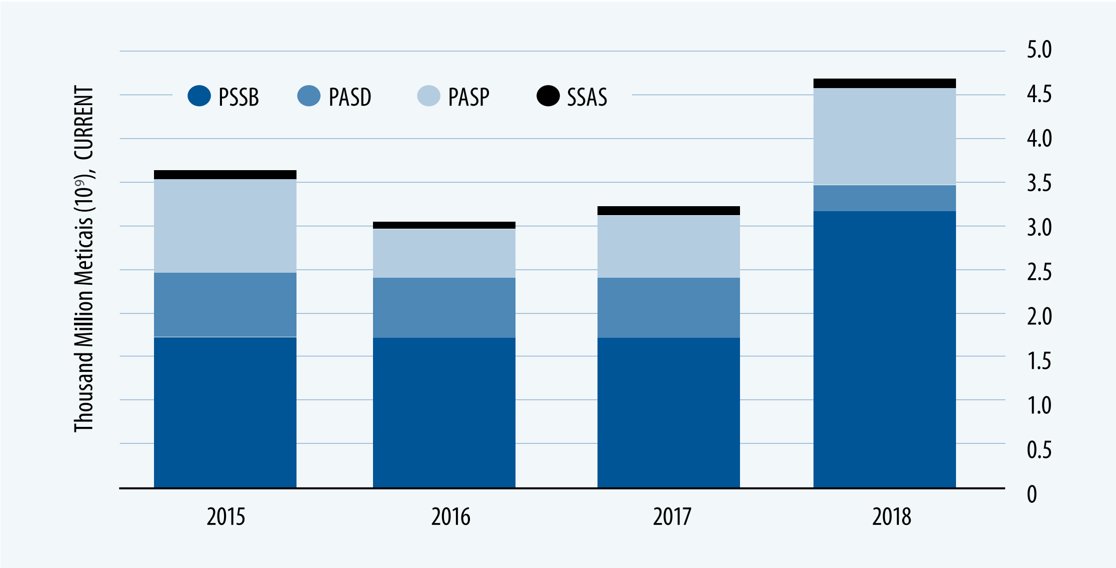
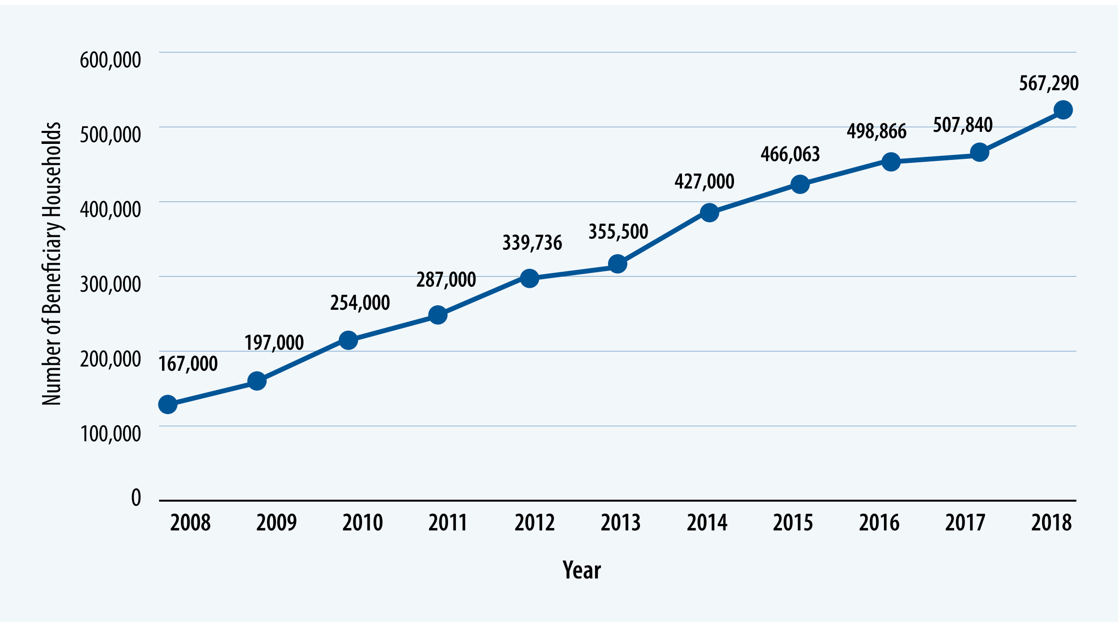


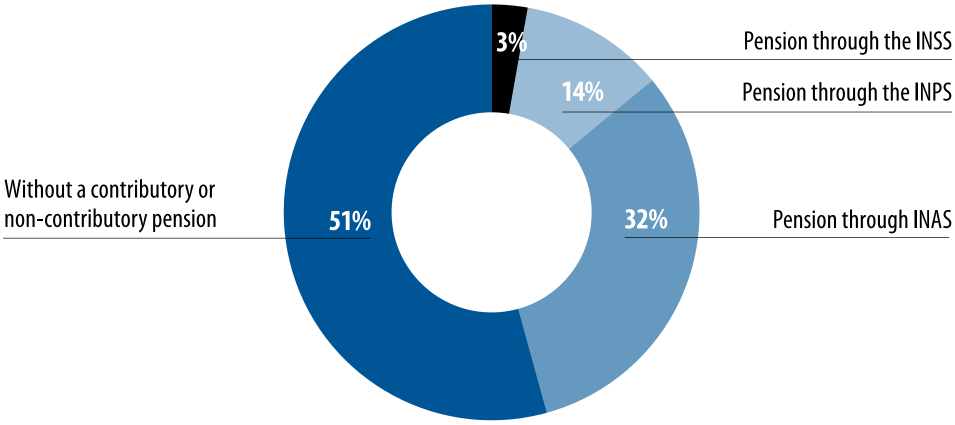
Figure 7: Evolution in coverage of the SSB subsystem, 2008-2018[20]



Challenges for the SSO and SSB subsystem

Despite the progress made, 50% of the elderly in Mozambique still do not have access to social security--either through contributory or by non-contributory means (Figure 8). Only 3% of the elderly receive a pension through the INSS and approximately[i] 14% through the INPS.

Figure 8: Social security coverage for the elderly, 2019

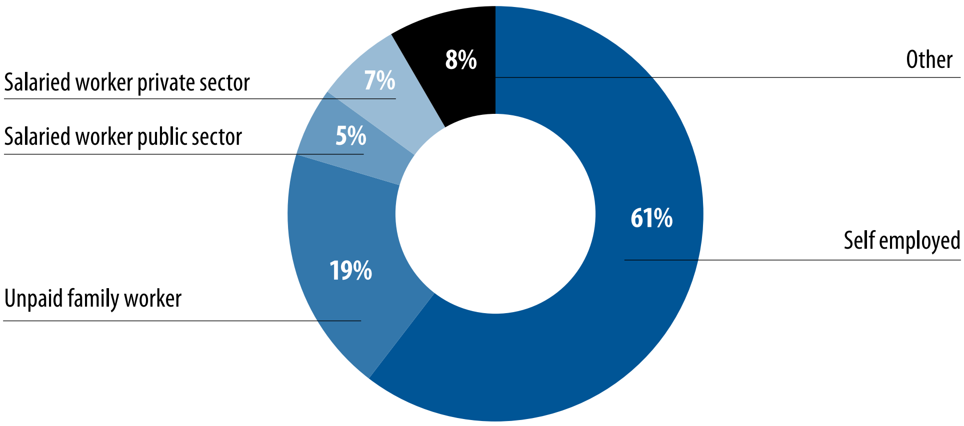


The registration of workers in the SSO subsystem is a legal obligation but one difficult to implement. The first challenge is the high rate of evasion on the part of employers. In the private sector, approximately half of the employees are not registered with the INSS. The lack of knowledge about workers' and employers' rights and responsibilities, familiarity with the benefits of SSO, trade union representation, and enforcement by labor inspectors, are some of the reasons for limited coverage.[22]

The second challenge is the high rate of informality. Less than 15% of the economically active population are formal employees[23] (Figure 9). Most survive from a multiplicity of activities in the informal economy and have never had the opportunity to contribute to the SSO subsystem for a period long enough--240 months in the private sector, and 15 years in the public sector — to benefit from an old-age pension. Given the sexual division of labor, women are disproportionately affected, for they are concentrated in precarious activities in the informal economy (Figure[24]10).

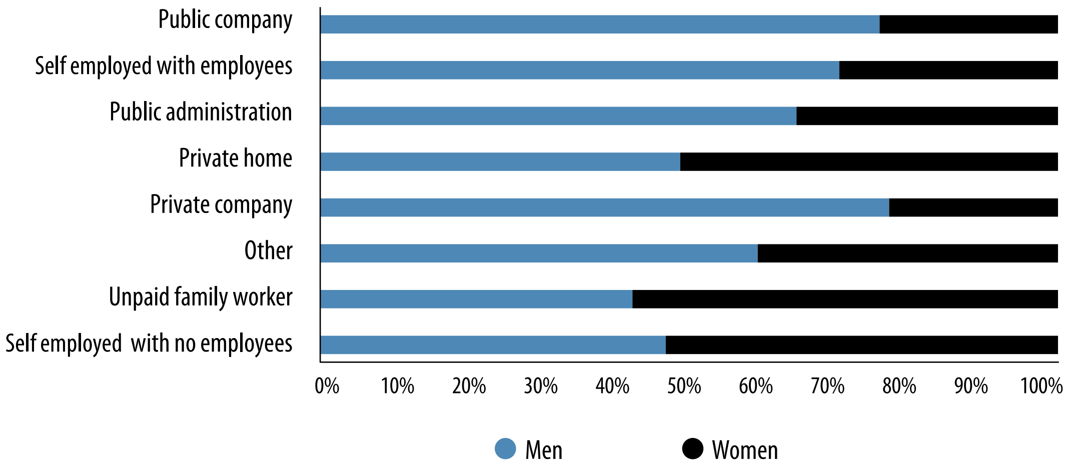
The third challenge is that the bulk of self-employed workers, are highly mobile, and have irregular and reduced incomes. Considering that 80% of the Mozambican population has a per capita monthly consumption that is lower than the lowest minimum wage, most self-employed simply do not have contributory capacity.

Figure 9: Economically active population, by their position in the labor process, 2019



i Based on estimates made in the INSS and INPS actuarial studies in 2014.

Figure 10: Gender distrubution by their position in the labor process, 2019[25]



Universality is a key principle of the SSB subsystem but requires adequate budget allocations to be implemented. Currently, 32% of the elderly receive a pension through INAS. At the current pace, it will take until at least 2035, before the State can guarantee the right to assistance in old age. Recognizing the need to accelerate the pace of expansion, the ENSSB 2016-2024 foresees the application of an individual and "almost universal" selection method, that will allow for the extension of SSB coverage to 1,009,500 elderly until 2024. In order to achieve these targets without jeopardizing the value of the transfer[26], greater prioritization of public expenditure for SSB is necessary. This prioritization is justified in terms of cost-effectiveness, given that the SSB subsystem has a direct impact on poverty and inequality.

International Experiences Towards Universal Social Security Coverage for the Elderly[27]

Country	Selection approach for SSB	Coordination with the SSO pension	SSB pension value	Financing of the SSB pension
Lesotho	Universal Individual 70 years and older	None Incompatibility Rule	$40 (Mt 2600)	2.5 % GDP
East Timor	Universal Individual 60 years and older	None Incompatibility Rule	$30 (Mt 1950)	2.3 % GDP
Cape Verde	Poverty line Individual 60 years and older	Coordination between the two subsystems	$65 (Mt 4225)	0.4 % GDP
Namibia	Universal Individual 60 years and older	None	$78 (Mt 5070)	0.8 % GDP
Mozambique	Poverty line Household 60 years and older	None Incompatibility Rule	$9-17 (Mt 540-1000)	0.3% GDP

Lesotho

In 2004, the Government introduced a non-contributive pension for all citizens 70 years and older, with the exception of civil servants. The value of the pension is equivalent to US $40 per month, is funded by taxes, and represents 2.5% of GDP. Evaluations show that the pension has had a positive impact on reducing poverty and improving food security among the elderly, as well as strengthening their social position. The pension has also had an indirect impact on the lives of orphan children and other dependents. Despite its positive impact, the pension has some limitations including: the high age of eligibility; weak coordination between institutions responsible for its implementation; and an antiquated process of registration, verification and payment.

East Timor

In 2008, after a protracted political-military conflict in East Timor, the Government introduced a universal pension for citizens 60 years and older, with the exception of civil servants. The pension is equivalent to US $30 per month — one third of the minimum wage for civil servants —funded by the State budget and represents 2.3% of GDP. Simulations show that the pension reduced the poverty rate from 54% in 2011 to 49% in 2016 for the general population, and from 55.1% to 37.6% for the elderly. Despite its positive impact there are several challenges including: the stagnation in the value of the pension since 2010; operational constraints which mean that the pension is paid only twice a year; and the limited access to identification documents.

Cape Verde

In 2006, the Government of Cape Verde consolidated the social security system; created a social pension for individuals 60 years and older, with a monthly income below the poverty line; and linked the contributory and non--contributory system. The value of the social pension is equivalent to US $65 per month — the poverty line--is funded by the State budget and represents 0.4% of GDP. Currently, 90% of the elderly have access to some form of social security, 46% through non-contributory means and 44% through contributory means. The key drivers for the rapid expansion of social security coverage include: political will, the harmonization of the contributory and non-contributory system, the establishment of a specialised institution for the management of the social security system, the use of State infrastructure such as the Post Office for its implementation, and the modernization and digitization of administrative systems.

Namibia

In 1998, the Government of Namibia reintroduced a universal pension for all citizens 60 years and older, equivalent to US $78 per month. Approximately 96% of the target group are covered by the pension, which is funded by the State and represents 0.8% of GDP. Evaluations show that the pension has had both a direct impact on wellbeing, by reducing the rate of poverty and food insecurity among the elderly, and indirect impact, because many elderly live with other relatives. The pension has also contributed to social cohesion, and economic development.

Case studies show that universalization is feasible, even in developing countries, if there is political will. A universal old-age pension can contribute directly and indirectly to the reduction of poverty and inequality, improvements in food security and resilience, and even, the promotion of local economic activities. In addition, a universal old-age pension can contribute to social cohesion and political stability.

Towards Universal Social Security Coverage for the Elderly in Mozambique

Currently, Mozambique has 1.25 million elderly people, which is equivalent to 4.5% of the population. Although assistance in old-age, and social security, are rights enshrined in the Constitution of the Republic and the Social Protection Law, 50% of the elderly do not have access to an old-age pension.

The proposed ENSSO 2019-2024 (yet to be approved), aims to strengthen enforcement of the mandatory component of the contributory subsystem for formal sector employees, and to extend the coverage of the SSO subsystem to the self-employed. However, the effective extension of the SSO subsystem to self-employed workers is constrained by the weak contributive capacity of the majority of the economically active population. In addition, access to an old-age pension through the SSO subsystem requires a substantial contributory history and does not constitute a short-term response.

The ENSSB 2016-2024, approved by the Council of Ministers, aims to expand the coverage of the non-contributory subsystem to more than one million elderly until 2024. However, as shown in Figure 1,[28] even if the ENSSB is able to achieve these targets, 10% of the elderly will continue without any access to income security in 2024. Based on the current rate of expansion, it will take until at least 2035, for the State to ensure the right to assistance in old-age, established in the Constitution of the Republic (Figure 12).

Figure 12: Coverage gaps, according to population projections, 2019-2024

	2019	2024
Total number of elderly	1,275,660	464,538
Number of elderly receiving a pension through the INSS	35,572	70,500
Number of elderly receiving a pension through the INPS	185,000	235,932
Number of elderly receiving a pension through INAS	404,000	1,009,500
Number of elderly without a pension	651,088	148,606

An option towards universality is the transformation of the PSSB-Old-Age into a universal pension for people over 60 years and older. This is the approach in East Timor and Namibia. Another option towards universality is the application of a bureaucratic selection approach. This is the approach in Cape Verde. A bureaucratic selection approach is possible through the harmonization of the Information Management Systems of INAS, the INSS, the INPS and Bank of Mozambique. The ENSSB 2016-2024 already foresees the harmonization of the information management systems.

The advantage of a bureaucratic approach is that it decreases the cost of identifying and selecting beneficiaries, reduces errors of exclusion and inclusion, and guarantees the right to social security in old-age. The risk of errors of exclusion is particularly high given the limited differentiation in the lower quintiles of the consumption distribution, the dynamic nature of poverty, and the difficulty of verifying income levels in the context of widespread informality. A bureaucratic selection approach would avoid these errors, because an elderly person who did not receive a pension through the SSO subsystem (INPS, INSS, Bank of Mozambique), would automatically receive one through the SSB subsystem (INAS).

The harmonization of the contributive and non-contributive social security information management systems will require a strict coordination between MITESS, MEF and MGCAS. The National Council for Social Action (CNAS), led by the Prime-Minister, may be an appropriate forum for such coordination. The Center for the Development of Financial Information Systems (CEDSIF), under the tutelage of the MEF, and the National Institute of Digital Government (INAGE), regulated by Decree 67/2017, could play a key role in the technical integration of the various systems and databases.

For coverage to be effective, it is essential to ensure the adequacy of the value of the transfer. The ENSSB 2016-2024 foresees the establishment of a systematic mechanism for annual review of the value, through its indexation to inflation. In 2018, the increase in the minimum value of the PSSB was approved, which in 2014/15 represented two thirds of the individual poverty line. Taking into account the average inflation rate in the last five years, the value of the transfer today, should be equivalent to approximately Mt 840, yet it remains at Mt 540.

In the short term, it will be necessary to increase budget allocations to the SSB subsystem in order to ensure universal coverage for people aged 60 and over. Assuming a simultaneous increase in the value of the cash transfer, according to the average inflation rate, an additional $24 million will be necessary, above the value projected and approved by ENSSB 2016-2024. The impact of the SSB subsystem on poverty and inequality, justifies this increase in budget allocations. In the medium term, the improved enforcement of the mandatory component of the SSO subsystem for salaried employees, along with its extension to the self-employed, may significantly increase the level of coverage of the SSO subsystem, and reduce the burden on the SSB subsystem.

Figure 13: Additional costs towards universal coverage, according to population projections, 2024

	2024
Number of elderly people without a pension	146,606
Monthly level of the PSSB-old age, per capita (MT), indexed to inflation	840
Annual level of the PSSB-old age, per capita (MT)	10,080
Annual cost to cover all elderly without a pension (MT)	480 ,1,497,948
Annual cost to cover all elderly without a pension (US$)	24,000,000*

*Based on the exchange rate MZM/USD published by the Bank of Mozambique of the 31st of July 2019.

The International Monetary Fund (IMF) estimates that Mozambique's GDP per capita will increase 60% by 2024, largely due to the natural gas exploration in the Rovuma Basin in the next five years. From 2021 onwards, it is expected that the State will begin to receive revenues from the gas projects, and that these revenues will increase significantly towards the end of the 2020's[29]. The SSB subsystem is one of the redistributive mechanisms available to the State.

Endnotes

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Authors: Ruth Castel-Branco (ILO Consultant)
Rubén Vicente Andrés (ILO)

Design: Daniela Cristofori
Cover photo: iStockphoto/108175483

Maputo, Mozambique

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