

## Why Mozambique Still Does Not Have a Universal Pension For The Elderly?

António Francisco\* e Gustavo Sugahara§

If the title question is sufficiently inquisitive not to leave the reader indifferent, the answer is no less incisive. According to the recent study on social protection held by IESE, Mozambique does not have a universal old age pension chiefly because the benefits for those who are already covered and those who are implementing the current social security system, are higher than the costs in not opting for a more effective and inclusive alternative. In other words, there are not enough incentives to replace a selective, fragmented, discriminatory and charitable system, by a universal, inclusive and potentially new structuring system of intergenerational relations towards an effective social cohesion.

This result was recently presented and discussed in one of the panels of the IV International Conference of the IESE, held in Maputo, on 27 and 28 August last (Francisco and Sugahara 2014). It is known that international conferences with an all too heavy agenda, as the IESE's latest, serve primarily to promote debate and share research hypotheses and some of their results. Interestingly, what was most regretted in that panel was not the lack of time for debate; it was the absence, as stressed by the moderator, Dr. Terezinha da Silva, of representatives and technicians of public bodies such as the Ministry of Finance and the Ministry of Women and Social Action, among others.

For the authors of this text, the referred absence may, in this case, have been mere coincidence. What seems to be no coincidence are the successive omissions on this theme in the programmatic documents and recent studies undertaken by the Government and its international partners. It is not by chance or mere ignorance that organizations like the International Labor Organization, the International Monetary Fund and the World Bank have overlooked the research and proposals put forward by civil society, on the relevance and possibility of a universal old age pension in Mozambique. Especially when such entities are intended to document "...the key elements of the ongoing policy reform and exploring the technical and financial arguments underlying the Government's policy options" (Cunha et al., 2013, p. iv).

In the presentation at the last Conference of IESE, we did not try to convince participants of the merits and advantages of a

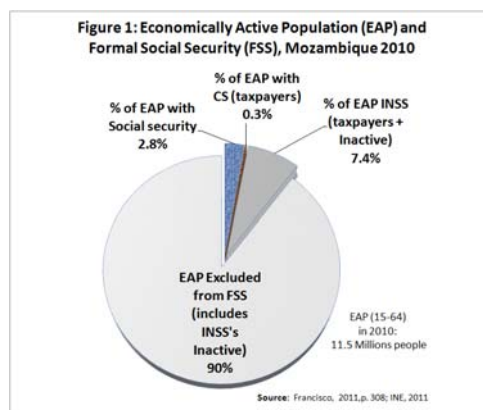
universal old age pension. Instead, we focused our attention on the reasons for its denial. This text focuses on the final section of the first part of the presentation on "Current model of Formal Protection" and the second part that answers the title main question. For that we used a much more specific and operational dual question: who benefits and who pays the current formal system of Mozambican social security and assistance? Moreover, in this brief text we highlight one of the most relevant data sources for this theme - the World Bank study conducted by Marques and colleagues (2012). First, however, it is worth clarifying what is meant by universal pension for the elderly in this research.

provisions on social protection, the fabric and the contents of the Mozambican social security and assistance system, only marginal and even accidentally, obey the proclaimed principles: universality, progressivity, fairness, inclusiveness, efficiency, solidarity, transparency, among others. It would be surprising if it were otherwise. The architecture of the formal system of Mozambican social protection reflects the characteristics and the nature of the demographic system, the state and national economy, as well as several institutional weaknesses and the weakness of citizenship. These aspects were mentioned in more detail at the conference and should be included in the lengthier text soon to be published by IESE.

At this level, the important thing to stress is that from the point of view of the Mozambican formal social security, the conventional framework of the Social Protection Act (4/2007) is divided into three main sub-systems: 1) Compulsory Social Security (CSS); 2) Basic Security (BS); and 3) Complementary Security (CS). Each of these three sub-systems covers a specific group of recipients, that we here designated as: *compulsory beneficiaries, vulnerable elected and independent remedied*.

### Compulsory beneficiaries

Due to the enforcement of existing legislation, the CSS includes financial contributions obtained compulsively from employees and employers in both the private and public sectors. In 2010 the CSS accounted for 38% of the formal social protection budget. However, as illustrated in Figure 1, in the same year the universe covered by the compulsory sub-system was around 10% of the Economically Active Population (EAP) only. Less than 5% of about 11.5 million people in the labor force had access to the private contributory sub-system. A similar situation was observed with the elderly population, of which 88% (approximately 900 000) remained excluded from any formal security service. Furthermore, although pensions managed by the Ministry of Finance cover all public employees, these workers and their dependents account for less than 3% of the total population popula-



Universal pension for the elderly is the provision granted (in monetary value or other, such as exemptions or discounts on public transport, access to health and other basic services), for all Mozambicans aged 60 or more, regardless of gender, race, region, health status, income, or wealth.

The international literature on the merits and demerits of a selective and discriminatory provision versus a universal alternative is extensive (see the long text). Strangely, in the case of Mozambique, the insistence on the selective provision, never received an explicit and convincing reasoning in analytical and empirical terms, as well as taking into account the rich international debate on this issue.

### From the Rigor of Law to Reality Faced?

Despite declarations of principle, either in the Constitution or in several specific legal

\* IESE Research Director, Associate Professor, Faculty of Economics, University Eduardo Mondlane.

§ Associate at IESE and Instituto Universitário de Lisboa (ISCTE-IUL), DINÂMIA'CET-IUL.

tion (Marques et al., 2012, p. 123).

### Vulnerable elected

The persons chosen among millions of Mozambicans likely to be identified as vulnerable people are the ones elected to enjoy the formal social assistance. Although generally corresponding to 30% of public spending (or 44% excluding subsidies), in the end, however the smaller the individual provision given, it is always more than nothing (Marques et al., 2012, pp. xii, 120).

### Independent Remedied

The "independent remedied" are so called because they generate voluntarily their own social security, using modern services, such as life and health insurance. They are independent from the compulsory or non-contributory sub-systems. It is a group not included in the current state budget, because it is assumed that people will create their own social security at their own risk. However, not less important, in practice the beneficiaries of subsidies outside of the complementary sub-system seem to be more the group of "independent remedied" than the so-called vulnerable or "poorest of the poor".

On this, the current research has found to be precisely the complementary sub-system that seems to have more potential in terms of expansion and coverage in the future. But for this purpose, contrary to conventional wisdom dispensed to the complementary social security, we must admit that it is in this sub-system that may be the key to designing realistic and sustainable alternatives, adapted to the characteristics of the demographics of the state and of the Mozambican economy. One such alternative may be a universal pension for the elderly.

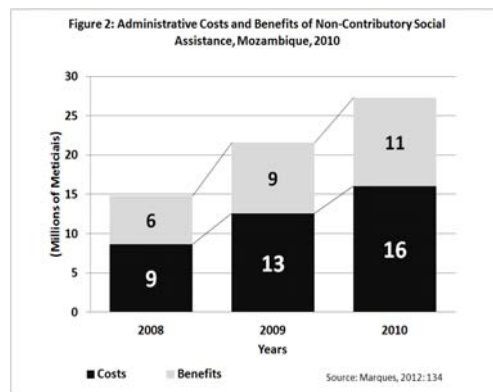
### Who Benefits and who pays?

The brief overview of the formal social security and assistance sub-systems, described above, helps answer the first part of the double question, stated in the subtitle of this section. The answer to this double question deals with the actions, operations and motivations that allow answering the main question of this research.

#### Who benefits?

The formal system covers and benefits, albeit in a piecemeal, selective and discriminatory manner, about 10% of the Mozambican population. Whether they are the compulsory beneficiaries, or vulnerable elected, or yet the independent remedied, as a whole, this small group turns out to be the main beneficiary, and perhaps one of the most influential as far the allocation of public resources is concerned. It is enough to recall who won and who lost in the 2013 strike of doctors and nurses; or, more recently, the outcome of the controversy generated by the salaries and retirement benefits that Members from all sides in Parliament have proposed for themselves (OSC 2014).

A second group of beneficiaries of the current system covers the complex scheme set up to operationalize the existing sub-systems of social security and social assis-



tance, particularly the latter. Figure 2 shows that the administrative costs of the programs of the National Institute of Social Action (INAS), between 2008 and 2010, are noticeably larger than the benefits provided. Such administrative costs, usually more than 20% of total program costs, derive from the huge apparatus involved in the provision of benefits: administrative staff, daily services and subsidies for officials of travel, transportation and security, among other benefits. In extreme cases, such as in Maxixe, for each Metical given to beneficiaries, another Metical was spent to reach them.

In a context of low wages, high unemployment and extensive informality, the current system ends up encouraging a group of people to live more of redistributed income than of the income produced by themselves. A third group of beneficiaries, perhaps the most perverse, derives from the nature of the state and institutional weaknesses and citizenship; it involves unspeakable schemes, lack of transparency and confusion of criteria in the selection and identification of beneficiaries, among the millions of potentially eligible persons. This in itself is an important incentive for not wanting, or even blocking, the search for more efficient, inexpensive and modern financial and electronic mechanisms. Moreover, as reported Selvester et al. (2012), in this way the passivity and political and social achievements are fostered through patronage, paternalism and subservience. The benefit ends up being used as a gift, provided by political leaders and bureaucrats, both domestic and foreign, or donors and investors, as an expression of their superior altruism and generosity.

#### Who pays?

A first aspect to consider about who pays the real costs of the current formal social security and assistance system is closely related to the benefits described above. In general, the direct and primary beneficiaries of the prevailing system are chiefly those who do not support their costs.

Mozambique has the second highest participation rate of older people in the workforce, in the world (Francisco et al., 2013). Most elderly people work to death, but because from their contributions to the national economy, during youth and adulthood, no system ensures savings for retirement, they are not eligible for the current system during old age. Eventually, the allegedly possible and cheapest solution is chosen; that is, the so-called "vulnerable" are elected, while the rest, the majority, are left to their own

luck.

However, international donors are the ones who mostly supported and paid for the maintenance of the current formal system. Two thirds of the financial resources allocated to the Basic Security come from external savings. On the other hand, indirectly, the whole system of foreign aid that finances current activities and social investments, significantly contributes to the existing social protection and even political stability in Mozambique. Without the possibility of opting for modern forms of social protection, the majority of households resort to child labor and expects older people to sustain themselves until they die.

### Conclusion

Most likely, the Mozambican state will only assume a progressive and positive stance on the living conditions of the elderly, when the risk and cost of their marginalization become larger and more harmful than are the current benefits, especially for policy makers and administrators of public affairs. Ironically, the more systematic analyzes have arisen over the allocation of public resources to targeted social assistance programs, implemented in Mozambique, the more they confirm their ineffectiveness and inability to become "pro-poor". Is this a cause for surprise? Not so. It makes no sense to expect something to become universal and inclusive when, from the outset, is designed to be selective and discriminatory.

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