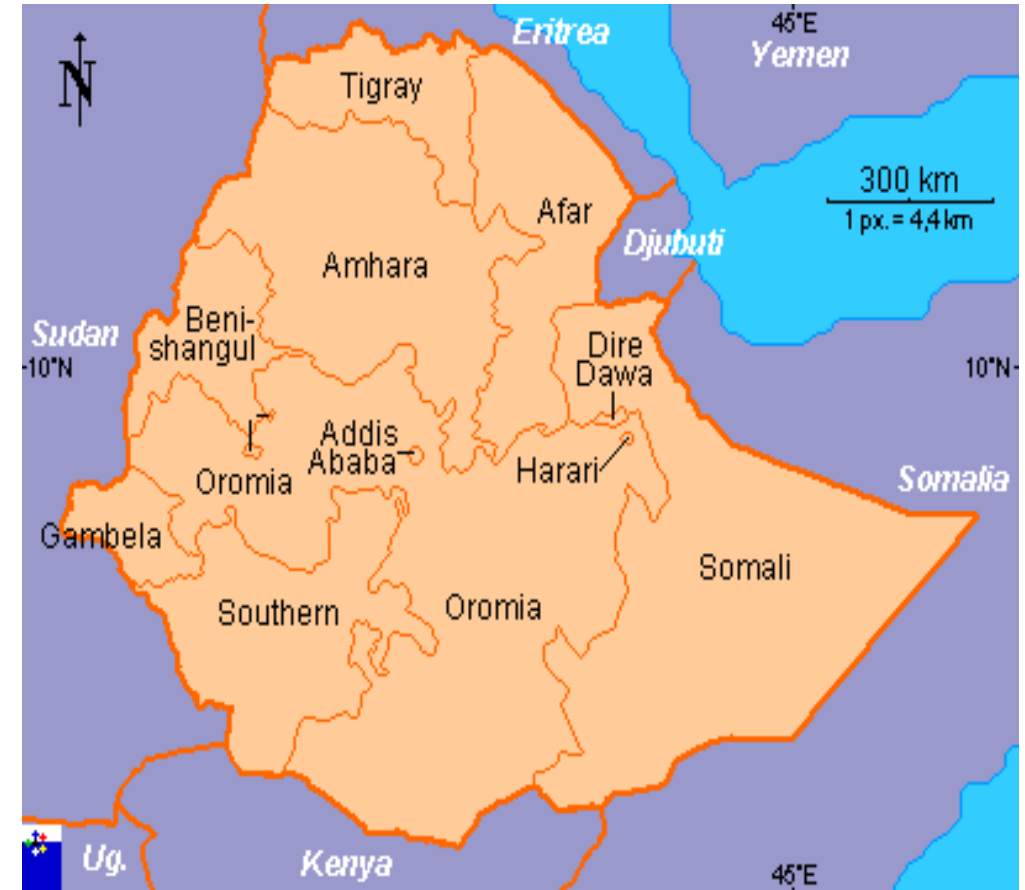


Social Protection and Pension Scheme in Ethiopia

Presentation by Ethiopia Team

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Brief Description of the Country Demographic and Economic Characteristics



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ECONOMIC:

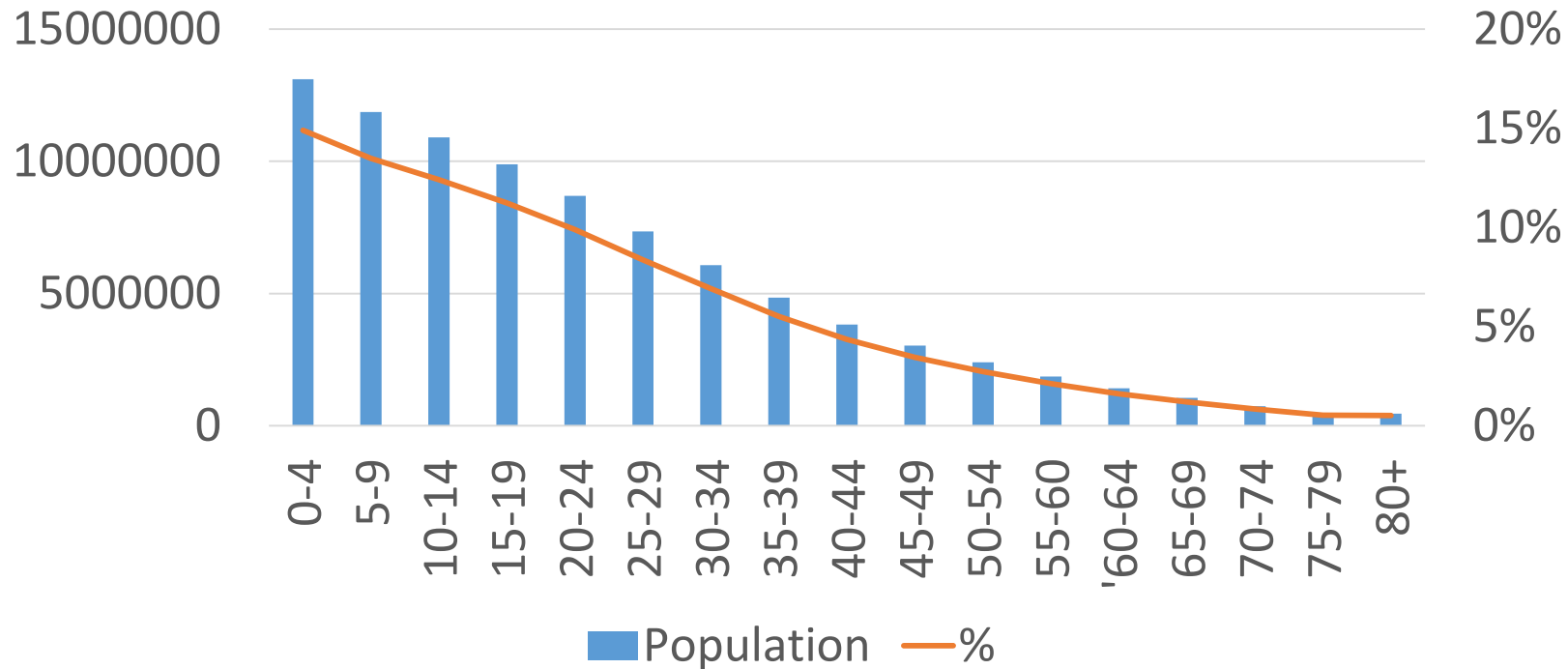
GDP 56 billion (2015 estimate), 8.5% growth rate

- GDP Per Capital \$600
 - Agriculture: 47%
 - Industry: 10.8%
 - Services: 42.2%
- Inflation rate 9.1%

DEMOGRAPHIC:

- Total population 94.1 mill
- Urban population 19%, rural population is 81%
- The proportion of poor people (poverty head count index) in the country is estimated to be 29.6% (2010/11)
- Life expectancy at birth is 64
- Retirement age is 60 for both male and female
- Life expectance after retirement is 17
- People over age sixty make up around 6 per cent (over 5.6 million) and most have no reliable income sources

Population by age category (2014)



Population below 15 is 40%

Working age population is 54%

Population over 60 is 6%

Background of Pension Scheme

- With consolidation of central government starting from the last quarter of nineteenth century those served in government army and office were given land grants
- This practice continued until early 1950s
- With expansion of government offices, business enterprises and use of monetary economy the demand for statutory social insurance scheme began to appear
- The first pension decree was issued in 1960

Ethiopia: The Existing Pension Schemes

- There are two pension schemes in Ethiopia with three separate funds
 - Public Servants' pension scheme was established by decree No .46/1960 (later renamed as Public Servants' Pension Proclamation No.209/1963 amended several times)
 - Civil service
 - Military and police
 - Private sector organizations employees pension scheme was established by Proclamation No. 715/2011

The Existing Pension cont'd

- The pension scheme covers the public servants (which includes the civilian, employees of public enterprises, armed forces, the police and their survivors)
- The private organizations' employees pension scheme covers all employees of the private sector and also the informal sector employees on voluntary basis
- Currently there are about 800,000 beneficiaries getting regular pension payment
- Covered population: 3 million Public and private sector employees
- Informal sector not yet covered (1.3 civil servants and 1.7 private)

Contribution and Replacement Rate

Pension scheme	Contribution rates (%)		Replacement rates after 30/40 years
	Employer	Employees	%
Civil service	11	7	55/68
Military and Police	25	7	63/80
Private employees	11	7	55/68

- Contribution rate was raised from 10% to 18%
- The replacement rate is calculated by multiplying the average salary of the last three years preceding retirement by 30% for the first 10 years plus 1.25% for all subsequent years for public servants and private sector employees, and 1.65% for the members of military and police.
- Minimum Replacement rate (service of 10 years is 30%) and the maximum is 70%.
- The retirement ages for civil service and private sector employees is 60 and 55 for military
- Pension can be adjusted every five years to account for inflation

Contribution and Replacement Rate continued...

- Minimum replacement rate (10 years of service is 30% and the maximum is 70% of the average salary of the employee for the last three years Retirement age for public servants and private sector employees
- The minimum service requirement for an employee to be eligible for pension is 10 years and the pension will be effective when s/he attains retirement age
- There is a minimum pension benefit set to protect the low income pensioners
- Life expectancy at retirement is estimated to be 17

Management of the Pension Scheme

- The pension schemes are managed by Federal:
 - Public Servants' Social Security Agency and
 - Private Organizations Social Security Agency
 - Both are accountable to the Ministry of Labor and Social Affairs
- Both agencies are supervised by separate Boards of Directors

Reform Needs

- The scheme looks generous which has consequences on financial sustainability
- Low coverage is another area of reform need
- As the population is aging gradually, we need to look for strategies to accommodate them
- Diversify investment portfolio (new areas –equity, real estate, etc) gradually, which currently is restricted to government treasury bills by law
- The pension administration system is inefficient because of lack of automation

Enabling Condition

- The government of Ethiopia has recently adopted its Social Protection policy and strategy
- Two digit economic growth for the last ten years
- Inflation rate with one digit
- Government is heavily investing to expand IT infrastructure
- There is government bill/bond
- There is a clear strong legal system

Reform Objectives

- Improve financial sustainability
 - Looking for investment alternatives for the pension fund
- To improve pension data and account administration
 - by digitalization of pension records and introducing information technology for both collection and payment which will help to reduce leakage
 - Introducing e-payment and collection
 - Introducing national identification/biometric system that is integrated to the pension system
- Extending the coverage of national pension schemes
 - Incorporating the informal sector, self employed and the immigrant into the pension system

Reform Options

- Improving financial sustainability:
 - Extending the retirement age from 60 to 62, and also using the opportunities of fast growing economy, improve tax collection, and look for expanding the tax base which is currently only 12.5% of GDP
 - Introducing non-contributory social pension schemes –targeted mean testing
 - Relaxing the regulation to enable alternative investment options, establishing investment management office for the pension fund
- Strengthening the ID project office and reaching consensus with stakeholders for design and implementation
- Improving coverage.- informal sector employees, self employed and the immigrant

Technical Feasibility of the Reforms

- Attaining financial sustainability requires to go step by step- creating awareness and consensus on the need to diversify the portfolio of the pension fund
- The reform idea of digitalization and introducing biometric ID system is also feasible as a project office is already established to assess needs and requirements
- Improving coverage – the role of incorporating the informal sector in the pension scheme is assigned to the Private Organizations Pension Administration Agency which needs to design favorable incentives and approaches to attract the informal sector

How Does the Reform Proposal Fit with Broader Social Protection and Growth Objectives

These reforms are intended to enhance main objectives of Social Protection Policy of Ethiopia:

- Protect poor and vulnerable individuals, households, and communities from the adverse effects of shocks and destitution;
- It suggests the improvement of the efficiency in tax collection which is now only 12.5% of GDP
- Improves the efficiency of pension administration- collection, payment, record keeping, minimizes leakage

How Does the Reform Weigh Support to the Elderly Verses Support to the other important fiscal and social priorities

- Traditionally, old persons, persons with disability, ill health, destitute due to different contingencies were supported by:-
 - family members, neighbors,
 - the community members (kinship obligation)
 - As extended family system still exists, such traditional support is practiced in the rural areas particularly in the pastoral societies,
- Government acknowledges social rights as defined in the constitution and reaffirms its intent to continue to expand the progressive realization of those rights according to the availability of resources
- Extending coverage helps to support more people

Proposed Coalition/Consensus Building Strategy and Communication/public information strategy

- There is a National Social Protection Policy and Strategy Platform established to coordinate and oversee the various elements of the SP programs which can be used as a discussion and consensus building of the proposed reform agenda
- Communication/Public information strategy
 - Need to discuss with different stakeholders (government agencies, development partners, non-governmental organizations, etc)
 - Strengthening public-private partnership
 - Communicate changes to the public periodically

Summary

- Three reform areas are proposed
 - Improving financial sustainability
 - Expanding coverage
 - Modernizing the ID system
- These reforms are more or less feasible but need to pass through different stages