Social Insurance for the Disadvantaged Old

by Shafat A Chaudhuri

The poor have a genuine dread of the old age. Thoughts of facing hunger and misery constantly haunt them. That this fear is one of the prime reasons for wanting many children, especially sons, is well known. It cannot be denied that absence of SI is a very important factor behind the fast population growth witnessed in the countries like Bangladesh.

MOST countries of the world, including many less developed ones, have state-run social insurance schemes of one kind or other. In some countries coverages are wide, in other they are not. But the one cover found present in every SI scheme is old-age-benefit. Why this benefit is considered so important needs no explanation.

In the countries which have introduced SI, the state assumes the responsibility of ensuring that no citizen is left without the basic subsistence income when he is old and no longer able to work. The self-employed are given every kind of incentive for saving from their surplus earnings for the future. The employees have the facilities of saving through various kinds of retirement schemes, such as pension, gratuity etc, which are often liberally subsidised by the employers. But there may still be many families outside these groups who are not privileged enough to be able to save sufficiently for the future. To help these people, the state comes forward. Depending on savings inadequacy, partial or full costs of old-age benefits for the less privileged families are borne by the state.

Bangladesh has no social insurance scheme. Barring the well-off persons and the regular employees who relatively are few, in any case, people here expect their offsprings to look after them when they become old. The poor have a genuine dread of the old age. Thoughts of facing hunger and misery constantly haunt them. That this fear is one of the prime reasons for wanting many children, especially sons, is well known. It cannot be denied that absence of SI is a very important factor behind the fast population growth witnessed in the countries like Bangladesh.

If SI can help curb population growth, surely Bangladesh is one country that must have it. But the question is: can Bangladesh afford SI? If one thinks of a comprehensive type scheme seen in other countries, the answer would be 'no'. But the scheme discussed in here does not fall in that category. This one purports to pay 'modified' old age benefit to a selected group of population. In view of the immense gain that may result to the society, the scheme should merit serious attention.

In the proposed SI scheme, only the very poor would be admitted as members. Those members, when old, find themselves 'disadvantaged', because of weak support-base resulting from unfavourable composition of their children — few, daughters, young — will receive support-money. The more unfavourable is the composition, the weaker the support-base and therefore more the support-money. In short, benefit conditions are carefully tuned to need parameters. This special-version-SI-scheme will not be prohibitively expensive. Despite severe resource shortage, Bangladesh can bear the cost. Here is not outline of the scheme :

Benefits

The selected couples will join the scheme when young (newly married). Membership will continue for 25 years. (But if the wife reaches age 45 earlier, membership will cease at 45.) Benefit will be paid when membership ends.

What kind of benefit? Of the two forms of benefit — onetime lumpsum cash and pension, pension is considered a more suitable form of benefit for the old people. But pension presents a problem in case of an untried long-term project like the one being discussed. The problem is to find what shall be the size of a subsistence income a family shall need after a quarter century from now. Any guess now made may go widely off the mark and an estimate of present cost based on the guess may, therefore, become worthless later. But unless a reasonably correct cost estimate is given, a scheme cannot merit any attention. Therefore, the alternative of 'lumpsum cash' is adopted for this scheme.

Chowdhury Kamal Ibne Ysuf, Minister for Health and Family Welfare, handing over a policy of Delta Life Insurance Company Ltd, "family planning through insurance" at Gazipur recently State Minister for Religious Affairs Prof M A Mannan and Shafat Ahmed Chaudhuri MD of Delta Life Insurance were also present.

That does not mean the idea of pension has to be dropped altogether. Its case may be considered later when the time for cash payment approaches. One has to face the fact that of the families receiving cash benefit from SIDO, many would be found desperately poor — despite the cash. These poor who responded to society's call to keep family small would surely deserve society's attention.

But the moot point is, there shall be no assurance at all as to who will get a pension and how much. The government alone shall decide these matters when the time comes. In selecting pensioners, a 'means-test' will be applied. Those who will fail the test, because their financial situation has improved in the meantime, shall not be considered.

The discussion that follows is about the cash. As mentioned earlier, the cash will depend on 'number', 'age' and 'gender' of the children alive at term-end of the insured couple. There can be many ways of fixing the cash. One chosen for the present scheme is as follows.

The amount will be obtained by subtracting a 'deductible' from a 'ceiling value'. The suggested ceiling is Taka one and a half lakh. The deductible will be Tk 750 for each year of age of the first child, subject to a maximum of Tk 15,000. For the second child, the deductible shall be calculated at three times this rate. If there are three children, benefit will be paid only if all three are daughters. Benefit for a three-daughter family will be half of that payable to a two-daughter family, age of the youngest daughter to be ignored. For over three children, no benefit shall be paid. For a male child, the benefit shall reduce by half. One without a surviving child will get Tk one lakh. A non-fecund mother will get Tk 25,000.

A little calculation would show that the minimum cash benefit for different combinations of children shall be as follows:

Children	Minimum Benefit (Tk)
1D	1,35,000
1S	67,500
2D	90,000
1D, 1S	45,000
3D	45,000
D= Daughter.	S = Son.

For children under the age of 20 years, benefit will be higher than those shown above.

The rationale for fixing the benefit in this manner is simple.

(i) Number: For reason of support parents expect from children, one having more of them should get less from SIDO.

(ii) Gender: Parents' dependence is much greater on sons than on daughters. Hence, the substantial reduction in benefit for the male child.

(iii) Age: The younger a child is, the longer he take to become an earning member. So higher benefit for younger children is justified.

Cost

As is the case with SI in other countries, cost of this scheme shall be borne by the government.

Choice has to be made between a 'funded' and an 'unfunded' scheme. If unfunded, the stipulated benefits will be paid from the country's current revenue as and when they become due. To accept a liability but not to make advance provision for it is not a sound proposition, even for a government. So, a funded scheme is recommended.

Whenever a couple joins the scheme, an immediate liability is created. To cover that liability, the government will pay to the fund one single contribution. (The alternative of annual instalments is also available, but that is not discussed here.) How does one fix the amount of this single contribution? In the calculation three factors will be taken into account, namely the interest the fund will earn, the amount of benefit (claim) and the management expense. Let it be assumed that.

(i) the fund will earn interest at the rate of 10% throughout,

(ii) amount of claim will be such as will arise when 70% of all families shall have less than four children, distribution among one, two and three children families being 15%, 25% and 30% respectively. (It is found that with this kind of distribution of families by children, the total fertility rate in the insured group of families shall be close to three. For comparison, in the similar classes of population, the TFR level is currently over five), and

(iii) there shall be an initial cost of Tk 100 per member and recurring costs of Tk 50 per member per year.

Using these assumptions, it is calculated that for each couple, Tk 3,400 will be required as a one-time contribution, to be paid into the SIDO fund at the time of a member's entry.

One thing should be borne in mind. There is no guarantee that the contributions deposited in the fund plus interests earned thereon will always exactly match, at the end, the amount of benefit outgo. Contribution rate has been calculated on the basis of certain assumptions about interest, claim and expense. No one can say with certainty that these assumptions will hold good. If the actual rate deviates from the assumed, mismatch may arise. For example, the fund may earn interest less or more than 10 per cent. Actual claims may be less or more than the assumed.

How much will a national programme cost? Three lakh seems a close estimate of the number of newly married poor couples in the country who are likely to qualify for membership each year. So, if the government makes an annual contribution of about one hundred crore Taka three lakh newly married couples can join SIDO scheme every year.

Administration

Ordinarily, a SI scheme is run by the government alone. But this one is not an ordinary scheme. It is a special — purpose scheme offering to a select group of people benefits calculated in an unconventional manner. The administrative model that is suggested is also unconventional. In this model, the charge of administration will be handed over to an insurance company. (There can be more than one of them.) The insurance company (IC) will select the couples according to a given guideline, collect from them a nominal rate of premium (Tk 5 per month), keep records of children born to them and finally at the end of the term pay cash, but only a small part of it, say 10 per cent, to the qualifying members.

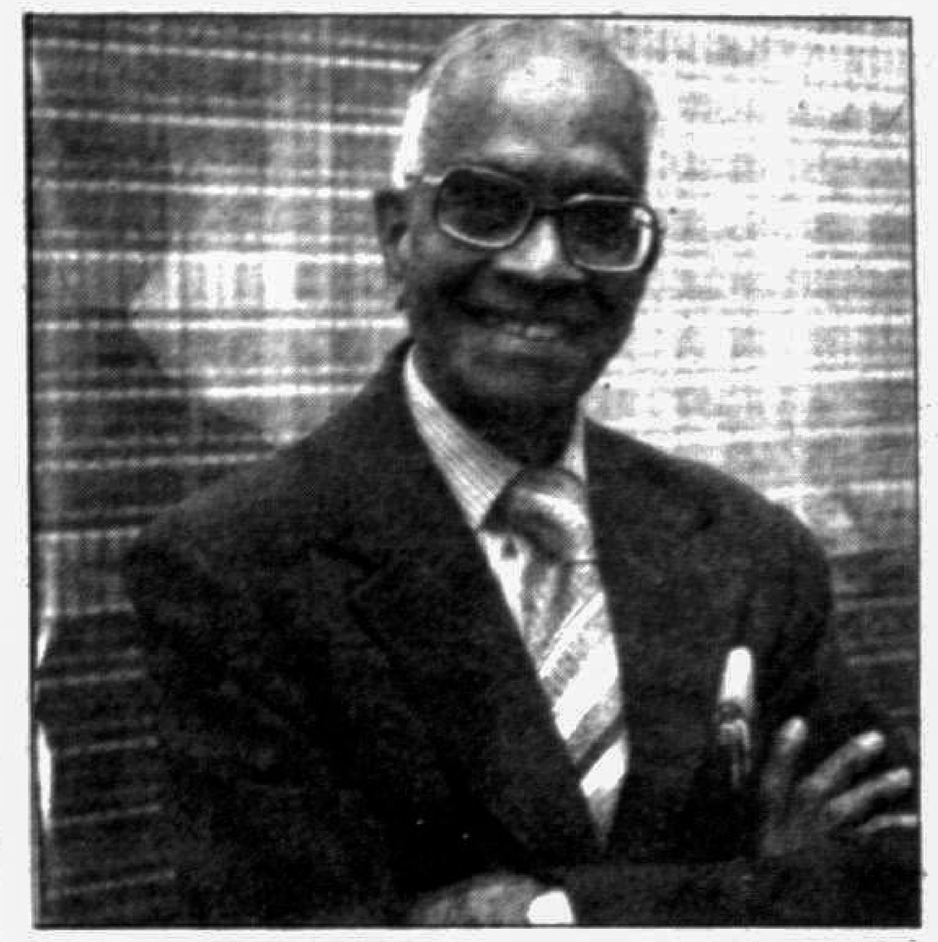
Members' participation

For achieving better results, there should be an arrangement for the members to have some stake, however little, in the scheme's success. As a step to that, a member shall pay a premium of Tk five a month to the IC. Those who will quality at the end for benefit will get back all their premiums plus a 'bonus'. Those failing will lose the premiums.

The IC shall run this part of the scheme on a no-loss no-profit basis. Profits earned, if any, will be distributed to the qualifying members by way of bonus.

Privatization Pundit: Vemuri V Ramanadham

by Christopher McIntosh



UNITED Nations, New York — With the privatization bandwagon gaining momentum daily, experts on the subject are much in demand throughout the world. One of the most sought-after is a spry, softspoken 70-year-old Indian who carries with him the scholarly aura of the Oxford senior common room. He is Professor Vemuri V Ramanadham, a consultant who serves as Co-ordinator of the Interregional Network on Privatization of the United Nations Development Programme (UNDP).

Hearing that he had turned his attention to private enterprise after four decades as an expert on the public sector, a friend once asked him: "Rama, when did you change your religion?" Privatization, he replied, was not his religion. "My aim," he says, "is to help each country elevate itself to its full potential and attain the highest possible quality of life." He sees privatization — or "marketization," as he prefers to say — as one way of achieving that goal.

Many people who know him as the author of numerous books and articles on economic subjects, are surprised to learn that he has also written poetry, novels, short stories, plays, operas and works of literary criticism — all penned in his native Telugu. His operas and dramas have been performed, and some of his literary works have been used as text books in Indian universities.

Professor Ramanadham's recent schedule speaks for itself. In March he was in Panama conducting a privatization workshop. Over the next couple of months he travelled to Nepal, India, Nigeria, the United Kingdom and Venezuela to consult with experts on the formulation his forthcoming Guidelines on Privatization. In June he was in Poland advising the government on their plans for selling state enterprises. Meanwhile, back in New York in July, he was busy revising the Guidelines with the help of an expert group drawn from governments and international agencies. The guide, due to be published in January by UNDP, is expected to influence privatization policies for decades to come.

Hailing from Andhra Pradesh, India, Professor Ramanadham pursued a distinguished university career in economics and business administration before joining the United Nations in 1970 and spending 12 years as a roving adviser on public enterprises. There followed an interval at the London Business School, another three years with the UN in Kenya, then two years at Templeton College, Oxford, where he conducted seminars and organized a UNDP interregional workshop on privatization. He returned to New York last year to take up his present position.

Although he could have had an entirely different career as a literary scholar, he does not regret the choice he made. "My literary interests," he says, "have helped me to develop an understanding of the human factor, which is much more important than just money and technology in the economic growth of developing countries."

— World Development

Rising Int'l Tea Use Perks Colombo's Growers, Exporters

by Mallika Wanigasundara

Tea plantations are performing so badly that some of them are selling their tea below the cost of production

NEXT to water, tea is the most popular natural beverage in the world. Each day, people sip around 3 billion cups of tea.

And Sri Lanka is the world's largest exporter of tea, shipping out in 1990 some 215 million kilograms of tea. Next is India which exported 199 million kilograms of tea in 1990.

So it was with great expectations that the 125 years of the tea industry in Sri Lanka celebrated in February. Tea was introduced to Sri Lanka in 1897 by pioneer British planter James Taylor in his estate called Loolcondera.

In a big tea party, an international convention was held, attended by 175 foreign delegates and 400 Sri Lankan planters, producers, shippers, buyers and sellers, brokers and tea researchers.

The talks were dominated with much enthusiasm over a growing market. With much of Indian production absorbed by its domestic market, Sri Lanka's quality tea face good prospects indeed, despite falling prices.

World tea consumption, after all, is increasing at the rate of 3.5 per cent, according to Bryan Baptist, director of Bartleet and Company, a leading tea firm. This should provide excellent opportunities for the island-state, he said.

Michael de Zoysa, chairman of the Tea Traders Association, struck a note of hope when he said that no other country could challenge Sri Lanka's prime position as the top tea exporter. The country faces its greatest opportunity now, he said.

But Forbes and walker, the foremost tea broking firm in the country, warned against too much optimism. The Indian tea trade, it said, is on the move and is making an aggressive promotional drive. They are exploring new markets, mainly in West Asia.

Forbes and Walker points to the United Planters Association of South India which has sent delegations abroad in search of new markets. If it succeeds, it would be at Sri Lanka's expense.

Global tea production reached 2,516,000 tons in 1990, a new record. Favourable weather conditions in major tea producing countries led to the increase, although significant increases in harvest in India, Sri Lanka and Kenya were partly offset by a reduced tea crop in China.

According to the Food and Agriculture Organisation's Intergovernmental Group on Tea, world tea production in 1991 was only slightly greater than the 1990 crop. An expected increase in tea production in India could be partly offset by smaller harvests in Bangladesh and Malawi. Less favourable weather conditions early in 1991 might have held tea production in Sri Lanka and Kenya at 1990 level.

The FAO noted the decline in world trade in tea during 1990 despite increased production. Both reduced export availabilities and continuing reductions in tea imports by traditional markets in developed countries contributed to the decline.

Early data for 1991 indicated exports would be similar to or slightly below 1990 levels for major exporting countries. FAO has expressed concern on the continuing downward trend in prices during 1991.

Developing countries which export tea have complained that tea production was becoming unprofitable at prevailing price levels. They know fully well the impact of the tea industry on their economies and on smallholder producers.

During the tea conference here, delegates agreed that the market should be exploited to the maximum. Most of Sri Lanka tea (62.5 per cent) goes to the Middle East. But other markets have been shrinking, as in Britain which buys 5.8 per cent of Sri Lankan tea (from 37.5 per cent in 1961).

Many delegates emphasised the need to expand tea consumption, like exploring new venues — for instance, marketing specialty and new tea products. Others stressed the need to highlight the positive health aspects of tea in widespread promotion campaigns.

But for all that, the local tea industry is also at the crossroads, where the only option of this foremost earner of foreign exchange is some kind of privatisation.

Large tea plantations, along with coconut and rubber estates, were nationalised 20 years ago. They have been losing money since then.

Government officials have said that the nationalised plantations swallowed up 40 to 50 billion rupees (US\$933 million-US\$1.2 billion) of taxpayers money and have only losses to show.

For example, the two state-owned corporations which are running the tea plantations are losing as much as 400 to 500 million rupees (US\$9.3 million-US\$11.6 million) a month.

It has been decided that tea estates should be managed by private firms. Plantation ownership will continue to remain with the state, but private firms on contract will manage them — hopefully at a profit.

At the moment, tea plantations are performing so badly that some of them are selling tea below the cost of production.

— Depthnews Asia

Going for the Gold

by Emma Robson

BAMAKO, Mali — In the 15th century, Malian Emperor Kankou Moussa sent world gold prices plummeting by carrying eight tonnes of the yellow metal as a present to Mecca. In the centuries that followed, gold supported thousands of prospectors, who gouged it out of the surface rocks with primitive tools, and artisans who crafted it into jewellery. But it was produced in such small quantities that it barely made an impact on the national economy.

Few visible pickings remain, but the invisible pickings, running through the red, iron-rich soils of Mali, could be vast. "Our potential seems quite considerable," says Hilarion Traore, Deputy Director of Mali's Directorate of Energy and Mines.

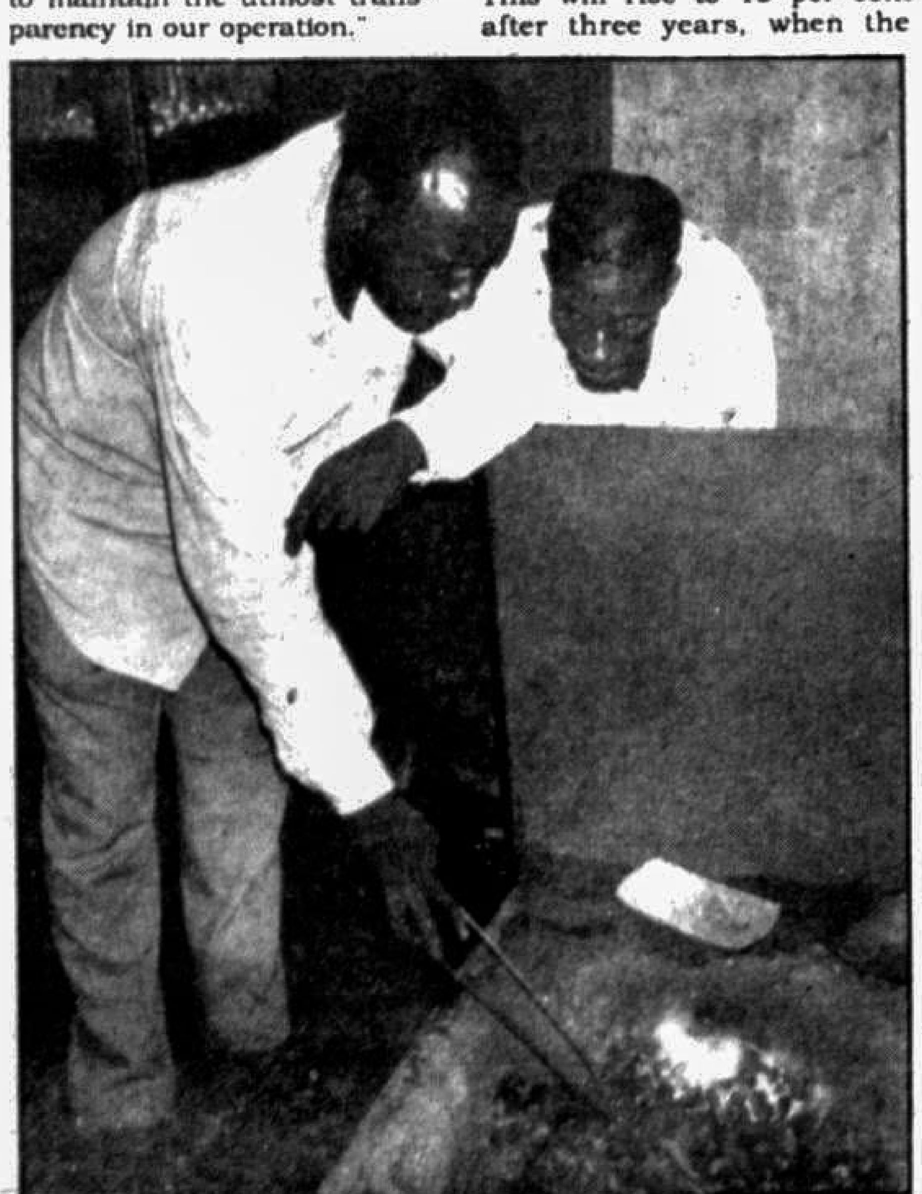
By most accounts, his assessment is on the modest side. The Directorate has been prospecting for ten years under a project financed by the United Nations Development Programme (UNDP), and executed by the UN Department of Technical Co-operation for Development (UN/DTCD). More than \$8 million in UNDP investment has helped pinpoint several promising gold deposits.

In early 1989, BHP-Utah, a subsidiary of Australia's Broken Hills Properties, one of the world's biggest mining firms, started probing a surface mine abandoned centuries ago near the village of Syama in southern Mali. An early feasibility study had estimated the mine's gold yield at two tonnes. Further exploration by BHP-Utah uncovered vast underground caverns, ancient implements, and a much higher gold potential of six tonnes. On that evidence, the company decided to invest US\$34 million in setting up a mine. With the help of lawyers contracted by UNDP, the government drew up a contract that set taxes and royalties on the company's earnings, and a BHP subsidiary was established in which the Malian government invested \$8 million, giving it a 20 per cent stake. "Subsequent research has shown that rather than six tonnes, there are probably 103 tonnes of gold," says David Huggins, Director General of the BHP-Utah subsidiary. "This has the potential to be one of our biggest gold mines."

Mr Huggins now foresees his company spending 20 years or more in Mali, rather than the three years he bargained on staying in order to make the company's required return on investment.

"We plan to invest \$60 million in a second phase which will go up to 95 metres deep," he says. If gold prices remain above \$360 an ounce, in 23 years, the company's total projected investment of \$94 million should produce more than \$ 1.3 billion in gold. The gold is smelted on site and made into ingots, which are more than 99 per cent pure. The ingots are then flown for final refining to Switzerland.

On consignment days, Mr Huggins flies a government official from Bamako, the capital, to Syama to witness the weighting of the ingots. "In Mali, you hear so many rumours about bribery and embezzlement," says Mr Huggins, a British-born naturalized Canadian. "We are determined to maintain the utmost transparency in our operation."



Artisans smelt gold in Bamako's crafts market.

After each shipment, the government is sent a royalty cheque representing five per cent of the gold's market value. This will rise to 15 per cent after three years, when the company's capital costs are paid off. In addition, the government will earn 20 per cent of the profits and a further 45 per cent corporate tax on the company's earnings.

Besides reducing Mali's financial burden — its foreign debt almost equals the value of the country's total annual economic output of \$2.4 billion — gold production is creating jobs and new sources of income. In a desolate region which relies on subsistence farming, the Syma mine has already created work for 200 Malians.

Madani Diallo, who co-ordinates the UNDP project, estimates that there are as many as 20 other mines with deposits similar to the Syama mine. "What's more, we have only thoroughly surveyed a tiny fraction of the country." The surveys undertaken have also convinced Malian geologists that Mali has undiscovered petroleum reserves.

Over the past ten years, prospectors have surveyed 1,000 square kilometres in the Syama region — still less than one thousandth of the country's total surface area. More than 50 Malians were trained to carry out this work by an Italian chemist, a Canadian drilling expert, a Swiss geophysical expert, and Mr Diallo, a Soviet-trained Malian prospecting expert. "We now have technicians as competent as you will find in the US," boasts Mr Diallo.

Armed with advanced equipment and a deeper knowledge of prospecting techniques, geological and chemical analysis and computer programming, the Directorate of Energy and Mines is now preparing further geological maps. To finance the cost of more extensive prospecting, the Directorate is marketing its newly-acquired expertise to foreign companies.

Already, business is starting to trickle into its laboratory, which is flush with state-of-the-art chemical analysis and data processing equipment. "Before, foreign companies were deterred from coming to Mali because they could not do soil or chemical analysis here," says national project director Namakan Damafing Keita.

The Directorate is hoping to attract sufficient business from foreign companies to finance the preparation of an inventory of the entire country's gold potential. To meet this need, UNDP helped set up a mineral resources services unit. This new unit provides information on Mali's mineral potential, acquires business for its laboratory, and handles all legal transactions.

Besides gold, Mali has lower-value metals like copper and iron. But in this landlocked country, where transportation is costly, gold is the mineral that glitters. "Gold is one commodity that can be transported economically by air," says Mr Diallo.

While gold mining offers a rich return on investment in as little as three years, its start up costs are too great for Mali to afford. In order to reach its full gold production capacity, Mali's most urgent need is to attract more foreign investors.