

# Guide to the Governance of Social Security Institutions in the Arab Region



الاتحاد العربي للنقابات  
ARAB TRADE UNION CONFEDERATION



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## Introduction:

In many countries in the Arab region, the overall performance of social security systems has been disappointing. This may be due to a wide range of economic and political factors beyond the control of social security institutions, but it is also often due to weaknesses in the design of the insurance system, plans and mismanagement.

Experience in the Arab region shows the relationship between effective social security management and an enabling economic and political environment. If there are poor economic conditions, political unrest, weak policies and human resources, and the absence of democracy, it should not be surprising that the social security system is not working as it should. But even in light of these negative factors, there is much that can be done to provide more effective governance, ensuring accountability, transparency, disclosure, and even prosecution in the event of corruption and abuse.

It is known that most of the Arab countries that have social security plans based on contributions, the law entrusts their administration to social security institutions, which have a certain financial and administrative autonomy, in addition to a tripartite board of directors (workers, employers, and government representatives). Under the supervision of a government ministry, the aim is to separate social security funds from the government budget.

However, practices do not always match the desired intentions. Governments, being a political authority, interfere with the appointment of the board members and the general manager, thus influencing policies and decision-making according to their interests. In the Arab region, despite all these demands, trade union unions and concerned people are demanding autonomy for social security institutions. However, social security systems independence is declining in a number of countries in the Arab region.

Independence is not the only condition for ensuring good governance, but it creates an environment in which accountability, participation, motivation, and balance of interests can be developed.

Good governance is one of the most important keys to designing and implementing effective social security programs, based on macro-legislations, effective policy and strategy, efficient and effective regulatory arrangements and human resources.

Thus, the development and adoption of a governance guide for social security institutions in the Arab region is of paramount importance, enabling these institutions to apply good governance principles in accordance with international measures, and providing a guide for board members to effectively play their part.

This guide will provide the Arab region's trade unions, civil society organizations, actors and stakeholders with tools to monitor the performance of these institutions, their compliance with governance standards, and the fulfilment of what has been promised. This will ensure that the strategic vision and objectives of social institutions in the Arab region are achieved efficiently and effectively.

# Chapter I: Governance and social security institutions



## The concept of Governance:

There is no general consensus among researchers on adopting a unified concept of governance, but a number of sources and professional bodies, including the International Finance Corporation (IFC) define it as a “system through which companies or institutions are managed and controlled.” However, the Organization for Economic Co-operation and Development (OECD) defines governance as a “set of relationships between the board, the departments of the institution, shareholders, and other stakeholders, and represents the framework within which the organization’s objectives and methods of achieving them and monitoring their performance are developed.”

International Social Security Association (ISSA) refers to governance as a way in which the authority uses its powers to design, implement, and innovate the organization’s policies, laws, regulations, processes, and to require and induce stakeholders to participate. Good governance means that the exercise of power is accountable, transparent, participatory, and dynamic.

Based on these concepts, governance can be defined as systems that govern relationships between key parties in the company or organization, with the aim of achieving transparency and fairness, fighting corruption resulting from poor accountability and transparency, credibility, and protecting democracy, freedom, human rights, and free circulation of information.

## Objectives of the governance of social security institutions:

Overall, the governance of social security and insurance institutions aims to achieve the following objectives:

- **Protection:** To protect the rights of stakeholders, especially those who are insured, continuously and in the long term, so that the best benefits are realized for them, and that each member has the right to vote on the decisions of the institution through its representatives and agents and members of the board of directors.
- **Providing information:** To provide stakeholders with all information and disclose it, be it administrative or financial. The accurate and prompt provision of required information on their activities by these institutions shows the procedures for achieving the objectives of these insurance institutions and proves their clarity and integrity. Also, communication between different departments within the institution is also an important objective of the institutional governance.

- **Financial performance:** Improving the financial performance of social security institutions and reducing their chances of being in: Financial hardship, bankruptcy, or embezzlement and to keep confidence in these institutions.
- **Reputation:** Maintain a good reputation of social security institutions to their societies, participants, employees, other organizations, and anyone who has an interest or relationship with social security institutions.
- **Governance:** The concept is based on a number of foundations that form the basis for governance of social security institutions. Board members must ensure that these foundations are effectively applied. They mainly include:
  - **Legislations:** Legislation is one of the most important pillars of governance in general. The importance of legal frameworks that clarify the rights and duties of all parties is a prerequisite for effective governance. This should clarify the rights and duties of members such as: Voting, electing, monitoring and reviewing accounts, as explained by the duties required by board members.
  - **Strategies:** The strategy is a requirement for the accountability and monitoring of institutions. Boards members must ensure clear strategies that include vision, values, strategic objectives, performance indicators, and real operational plans that ensure sustainable monitoring of institutional performance and ensure that the organization's vision and goals are realized efficiently and effectively.
  - **Administrative structure:** Administrative structures based on scientific standards are one of the guarantees that will help to enforce governance. They define competences, responsibilities, and competencies, thereby controlling the overall performance and fight corruption. Members of the boards of directors should ensure that there are good organizational structures, with their powers and responsibilities, for the purpose of serving the organization and not the interest of people. The absence of effective administrative structures can lead to corruption and to the failure of the organization as a whole.
  - **Internal audit and oversight:** Board members should ensure that the audit and internal control management is efficient, effective, and structured, as well as the special reporting mechanisms to ensure that they do not affect them and their members, and that these reports are clear, comprehensive, and structured according to scientific foundations, ensuring transparency and accountability.
  - **Reporting system:** A clear system of periodic, professional reports to be issued by social security institutions is one of the basic requirements of governance, through which business and decision results, as well as plans and indicators, are disclosed and complied with. Thus, board members should ensure that these reports are issued, analyzed, and published according to professional standards, and board members should enhance their knowledge and analytical capabilities, particularly those related to the financial and actuarial side.

# Chapter II:

## Governance and governing bodies





## Composition of the Governing Council: Balance and parties involved:

The boards of directors in the social security institutions usually have three parties, the government as the regulator, the employer, and the workers. Balance is the most important factor. All members of the Council should eventually work in the interest of the macroeconomics and labor and security system. This perception needs effective board members whose function is not only to be representatives of their own people, but should have have experience, professionalism, strategic dimension, and public interest, away from personal interests.

**Institutions of social security in the Arab region usually have the following components:** The Board of Directors, headed by the President of the Council, who is usually the Minister to which the Foundation is linked. In the Arab region, it usually belongs to the the Ministry of Labor, Finance, or Social Affairs.

**The membership includes:**

**First:** Representatives of the Government, in addition to the Minister and President of the Council and:

- The Director-General is a Vice-President of the Council
- Central Bank
- Ministry of Finance
- Ministry of Labor or Social Affairs.
- Industry and trade.
- Armed forces.

**Second:** Representatives of trade unions:

- Two representatives of professional trade unions, that are called trade union leaders.
- Four representatives of workers, that are called by the General Confederation of Trade Unions.

**Third:** Representatives of employers:

- Four represent the working fees, two of which are chosen by the Chamber of Industry and the other two by the Chamber of Commerce.

In this respect, and in order to ensure that the Council does its job efficiently and effectively, it is important that a clear criterion for the selection of the members of the Governing Council be set. They should also be written and periodically reviewed by an impartial third party. It is also very important that this third party assesses the performance of board members in a scientific manner, with an accreditation issued to each member periodically. These reviews should be publicly available. Passing legislation or a policy that provides for the legal responsibility for the chairman and members of the Council is necessary.

## What should be done by board members: Prerogatives and responsibilities:

Members of the boards of directors of social security institutions should be aware of their roles and powers on the board, the scope of their work, and not transgressing their roles as provided by the law, including non-interference in the executive work of the institution. The legal frameworks define these powers and responsibilities of a board member as follows:

- Adoption of insurance policies.
- Adoption of public investment policies.
- Approval of the General Investment Plan.
- Monitor the investment process to maximize the portfolio, cover and achieve the objectives of the investment policy.
- Approval of organizational structure and the organization's composition, descriptions, and responsibilities.
- Appointment of insurance experts and actuaries to prepare and examine the financial position of the enterprise.
- Approve the annual budget with an indication of the different disbursements and the amounts allocated to each.
- Adoption of the annual report and final financial statements.
- Assign an external legal auditor to audit the organization's accounts

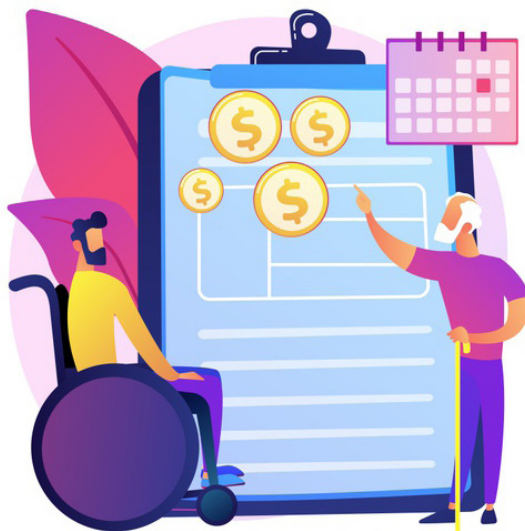
The prerogatives and responsibilities of the Governing Council must be determined by legislation. The powers and responsibilities of the Council shall be completely separate from those of the administration and its responsibilities, and these powers shall be clear and there shall be no room for confusion, ambiguity, or conflict of interest.

If the Council is to delegate some of its functions to a subset of its members or to the Director-General, those delegated posts must be clearly defined, documented, time-bound, and subject to review and approval by the Council. The functions delegated to senior officials by the Director-General must also be well defined, well documented, time-bound and subject to review and approval by the Director-General.

## Legal framework for the work of the Governing Council: Decision making:

Board members should be highly familiar with the Council's working mechanisms, how to make decisions, and the interventions that can occur in this process, thereby ensuring that professional decisions are taken in the interest of both the participants and the institution. The process takes place as follows:

- a) The Council may convene its meetings at the invitation of its President at least once a month and may hold extraordinary general meetings if the President deems it necessary or at the request of members of the Council, indicating the reasons for the invitation to the meeting and the matters to be discussed .
- b) The meeting of the Council shall be legal if it is attended by not less than two thirds of its members, including the President or the Vice-President in case of their absence. Decisions shall be taken by the majority of the votes. If the votes are equal, the side with which the President of the meeting has voted shall be preferred.
- c) The Council shall have the right to invite one or more experts from specialists to attend the meeting for the purposes of their own appeals.
- d) A monthly award to the President and members shall be determined by a decision of the competent authority at the office of the President of the Council and shall be linked to the attendance of the meetings.



## Governing Council Committees:

The council establishes committees from among its members to study and review matters before they are submitted to the it for consideration. In order to ensure the effectiveness of the Board of Directors, certain committees are mandatory:

### a) Monitoring Committee:

Among its members, the Council shall form a committee called the Monitoring Committee from a number of its members, the term of office of which shall be three years and shall be renewable once. The Commission shall elect a Chairman from among its members, meet at least once every two months and whenever necessary. The committee has the following functions and powers:

- Monitor the financial and investment management of the organization and audit its financial reports, including its final financial statements before they are presented to the Council.
- Review the internal audit reports of the firm and make opinions on the financial institution's systems, public financial plan, and accounting assets and submit them to the Board. The Director -General may not be a member of the committee.

### b) Good Governance Committee:

The Council shall form a committee, called the good Governance Committee, headed by one of its members whose term of office shall be three years and renewable only once.

The good Governance Committee has the following functions and powers:

- The governing council establishes the basis for good governance in the company and ensures compliance with it by putting in place dedicated control mechanisms.
- Develops policies to prevent conflicts of interest
- Review the organizational structure in terms of allocation of responsibilities, delegation of authority, and ensuring sound mechanisms and policies for performance and accountability assessment.
- Develop public policies for the disclosure of the business and activities of the enterprise.
- Ensure that a Code of Conduct is in place and that it is circulated to all employees.
- Submit an annual report on good governance in the Foundation to the Board.
- Establish the foundations for the organization's representation in the corporate board of directors and boards contributed by the security institutions, including the assessment of the proposed persons to represent the organization.

# Chapter III: Guidelines for the Governance of Social Security Institutions



## Governance guidelines:

This chapter of the Guide to Governance for Social Security Institutions in the Arab Region is based primarily on the guidelines adopted by ISSA, which contains the following principles:

- **Accountability:** the ability to hold accountable the officials who manage the enterprise under the law. It requires the development of systems and criteria to assess the fulfilment of the enterprise's mission, as well as the establishment of an effective system that protects the interests of employers and prevents any deviation or mismanagement of the enterprise's mandate. Social security managers are responsible, as trustees, and are therefore held accountable for their competence to manage the programme with guidance, effectiveness, and fairness.
- **Transparency:** timely availability and accessibility of accurate and basic information to ensure that stakeholders are aware of the real reality of the social security system and how it is managed. Decision-making urges honesty, integrity, efficiency and the reduction of irregularities.
- **Foreseeing:** means legislative and regulatory stability, policies, regulations, and rules supporting it. For social security programmes, the rights and duties of members and beneficiaries must be defined, protected, and consistently applied, as changes in contribution ratios, usufruct rights or other advantages may undermine the credibility of the insurance system to a large extent.
- **Participation:** effective interaction and commitment by stakeholders to ensure that their interests are protected and their meaningful participation depends on their access to information about the insurance system and their ability to understand and act upon this information.
- **Dynamics:** It's the element of positive change in the insurance system. While the application of the other four governance principles may be possible in maintaining the status quo, the dynamic means changing and improving the status quo itself, by carrying out insurance work more effectively and fairly, and by meeting the changing needs of programme members and beneficiaries, thereby creating new value for the benefit of participants and beneficiaries.

## Role of members of the Governing Council in accordance with the guidelines:

Based on these guidelines, the basic question to be asked in this guide is: What should the members of the board of directors of social security institutions do, under these governance principles and guidelines? The guide will therefore take into consideration a number of key axes directly related to the work of social security institutions and the role of the members of the governing council in their direction, as follows:

**a) Financial sustainability of the insurance system:** One of the most important duties of the Board of Directors of social security institutions in general is to ensure that an adequate and comfortable level of funding is maintained in order to sustain the provision of the promised benefits and insurance services to participants, retirees and beneficiaries, and to ensure cost-effectiveness in the management of the insurance system. One of the most prominent challenges facing management in this area is maintaining the financial sustainability of the programmes it manages, balancing contribution income and investment return on the one hand, and paying current and promised benefits on the other.

**b) Successful investments:** In insurance systems that have and manage investments themselves, the board and management must ensure that collateral funds are invested in accordance with basic rational rules, such as profitability, safety, liquidity, and diversification. Here, emphasis should be placed on the need to establish a framework for investment policy and strategy, portfolio management, asset valuation and effective representation on the boards of companies where social security institutions hold a large share of shares, as well as the importance of considering special policies on investments linked to social and economic services. In this regard, a number of social security institutions in the Arab region have confirmed, in accordance with their legislation, that there should be a special board of directors for insurance and an investment board, as follows: The Social Security Institution shall have a Council called the Social Security Funds Investment Board, whose membership shall include the Chief Executive of Investment, the Director-General of the Foundation, as well as representatives of workers, employers with experience, competence in investing, with the importance of having a number of non-executive members, provided that they are experienced and competent to invest. The Council shall have the following functions and powers:

- Develop the investment policy and plan of the Investment Fund and submit it to the Board of Directors of the Social Security Institution for approval.
- Oversee the implementation of the enterprise's investment policy and develop the necessary plans and programs for its implementation, follow-up and sponsorship.
- Make the investment decisions necessary to implement the enterprise's investment policy and plan and in accordance with the provisions of the Social Security Act and the regulations promulgated therein.
- Placement of the Board of Directors of Social Security by approving the draft annual budget of the Investment Fund, indicating the various amounts allocated to each.
- Submission of the Board's periodic reports on the activity and performance of the Investment Fund.
- Auditing and approval of the annual report on the work of the Investment Fund and the final financial statements thereon and placement of the Governing Council.
- Preparation of draft operational instructions for the Investment Fund to ensure that the purposes of the Foundation are fulfilled and submitted to the Council.

**c) Insurance coverage:** The reason for the existence of social security institutions is the administration of the insurance system, the rights and duties of participants, retirees and beneficiaries. This area includes some key issues, such as: increased coverage, collection of contributions, adequate benefits, quality standards of services provided, and reduction of error, evasion and fraud.





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**d) Resource management:** Human capital, technology and databases: The Board and management must ensure that resources are well managed, especially in terms of availability of qualified human capital, and that effective technology resources are provided in general, with a view to supporting program management, transformation, and operations.

The management of human capital by attracting, retaining, training and guiding it, and rewarding their experts and high performers, who work with their hearts and minds, are key to the success of governance in any organization. Staff selection and motivation, leadership building, replacement and succession plans, merit and performance evaluation and adherence to the Code of Professional Ethics are key policy instruments that must be taken into consideration when stimulating and managing human capital in an enterprise.

In the area of ICT resources, intelligent databases for participants, retirees and beneficiaries constitute an important basis for ensuring that information and demonstration data are built and that distinct insurance services are provided that meet the expectations and needs of the organization's clients, in addition to providing modern technology, electronic platforms and automated integrated and intelligent systems, enabling the organization to make an effective electronic transition, ensuring the texture and quality of the services. All this is combined with the existence of backups to all databases, and the ease with which they can be retrieved in a timely manner.

Therefore, the members of the Governing Council are: Trustees and guardians of social security program, since these institutions are the future of the people, the sum of their fatigue, effort, race and savings, and therefore have a responsibility:

- Act in accordance with the rules of the law and within its framework.
- Act beyond suspicion.
- Acting to avoid conflict of interest.
- Acting in the public interest of the insurance system and its subscribers, considering sustainability and the interests of future generations.
- Request advice when necessary, in particular on technical, substantive, investment, and actuarial issues.
- Continuous learning.
- To act with wisdom, responsibility, professionalism, and conscience.

## Professional conduct of members of the Governing Council:

The member of the Board of Directors represents the voice of his/her member, whether they represent the Government, workers, or employers, which will affect their orientation and vote. However, a successful governance depends on the decision of the Board of Directors based on a broad vision that prioritizes the common good of society and generations, participants and the whole insurance system.

A member of the Board of Directors may become a de jure member or representative. However, if they are unable to develop an acquaintance and information about the nature of the operation of insurance systems, how to manage and how to read financial, investment or actuarial statements, they will not be as effective as they should be and will not be able to express themselves and voice the ones they represent. Therefore, a member of the Governing Council shall request and recognize:

- The rules of procedure, duties and responsibilities of the Council, the scope of its work, and its decision-making mechanisms
- Laws and regulations governing the operation of the insurance system
- Statistical data, annual and periodic reports, and the financial position of the foundation on a periodic basis
- Results of actuarial studies
- Conflict of interest prevention policy
- Governance Guide
- External and internal reports.
- Follow-up and evaluation reports, in particular reports on the strategic plan.



## Relationship of the Board with executive management:

a) **The nature of the relationship:** Board members will undoubtedly build close relationships with the Director-General of the Foundation, as well as its senior staff, although this relationship must remain purely professional, however friendly on a personal level. The Chairman of the Governing Council is also likely to have a working relationship with the Director-General, since the Chairman of the Governing Council will work at a more detailed level than other members of the Governing Council, the President of the Governing Council is likely to hold many meetings with the Director-General that do not include other members of the Governing Council, but this must be professional, documented and shared with the Board. There may also be good reasons for other members of the Governing Council to participate in discussions with senior staff of the institution outside the scope of Governing Council or committee meetings. Thus, good governance requires that such discussions be reported at Governing Council meetings and that the Council be informed of such meetings and activities, ensuring that all Council members are equally aware of what is being done.

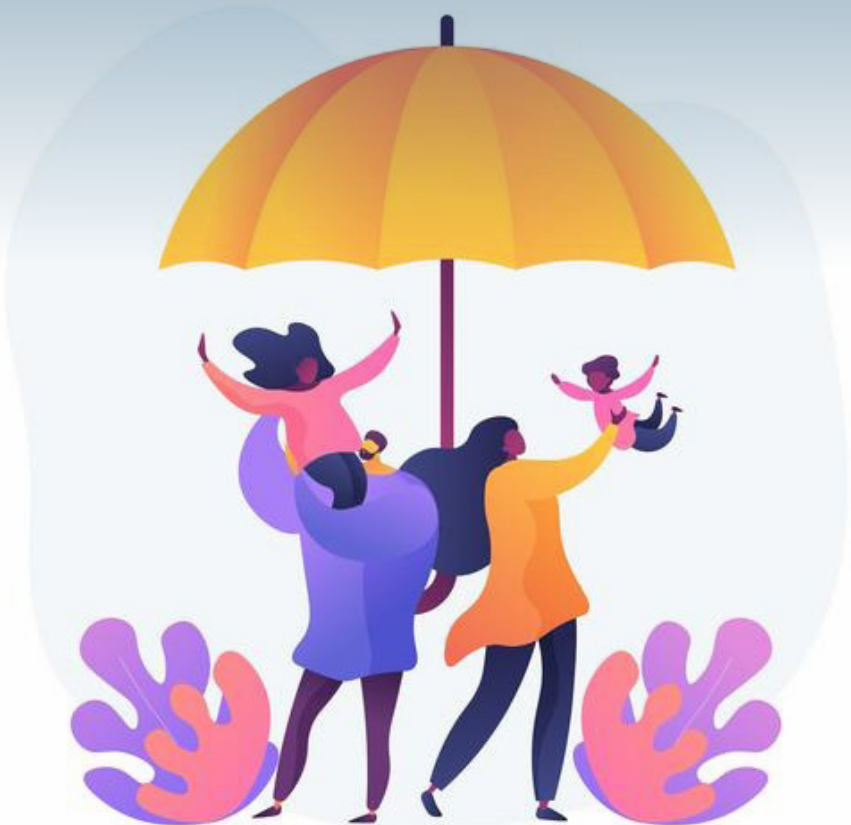
b) **Scope of intervention:** The intervention of the President or members of the Board of Directors in the executive work of the enterprise, or interference in the appointment, or mistreatment of members shall be regarded as unacceptable in the work of the Executive Administration.

c) **Performance by the Director-General:** If there is dissatisfaction with the performance of the Director-General of the institution, it would be better to deal with this issue openly and within the Council.



# Chapter IV:

## Governance and executive management responsibilities



## Strategic planning:

Strategic planning, which is a participatory methodological process in what the institution wants to be in the future, is one of the most important tools for monitoring the work of the institution, and the extent to which it can implement the strategic objectives and indicators to be achieved by social security institutions, such as sustainability, inclusiveness, quality of service, and resource development.

Executive management is therefore required to submit an integrated strategic plan to the Governing Council, through the Director-General, for discussion, adoption and endorsement, and to identify periodic follow-up and evaluation reports that must be submitted periodically to the Council for corrective action, and to submit correct and reliable reports that reflect overall institutional performance at specified times.

In order to arrive at a viable integrated scientific strategic plan, members of the Governing Council must ensure that the plan contains the basic components: With a scientific analysis of the institution's reality, including strengths, weaknesses, opportunities, and threats, as well as vision, values, strategic objectives and performance measurement indicators, this strategy is to be supported by a one-year operational plan that includes the programmes, projects and initiatives to be implemented, the current and target time frame and status, as well as the requirements and task forces, the executive directorate should follow up on the level of progress made in their implementation.

## Risk management:

Risk management, which can be defined as the potential for risks leading to many consequences for the insurance system, and the overall performance of social security institutions, whether financial, operational, technological, investment or other risks, may be referred to as:

- Operational risks: such as failure of automated systems, errors in the preservation of databases, hacking of databases, inadequate personnel, fraudulent transactions, poor management etc.
- Liquidity risk: insufficient or no funds are available to cover benefits payable at any time of the year.
- Compliance risks: Insurance evasion, insurance fraud, non-payment of contributions in time of "indebtedness."
- Insurance liability risks, which can include risks that increase insurance obligations, such as high life expectancy, positive trends towards early retirement, etc.

- Economic risks: periodic changes in levels of growth, employment, salaries, prices, inflation, etc.
- Low asset values, insufficient returns, etc.
- Political risks: Decisions that have negative consequences for the social security system like wars, corruption, terrorism, etc.
- Disaster risk: natural disasters, epidemics, etc.

Social security institutions must therefore have a clear strategy and methodology for identifying, measuring and managing risks and their impact on social security institutions, which is generally implemented by the Director of Risk Management.

### **Internal and external control:**

Legislation must ensure effective internal and external control, ensure effective administrative and financial compliance, prevent errors and abuses, and therefore:

- Internal and external scrutiny reporting directly to the Governing Council
- An internal and external actuary reports directly to the Board.
- Internal and external scrutiny and actuarial examination shall operate in accordance with approved international standards and associations and ensure that findings and recommendations are shared with senior management and the Governing Council.

The Governing Council should have an audit committee, and it is essential that the committee include members of the Governing Council and others with financial and risk management expertise. If the Governing Council is not in a position to do so in the areas of finance and risk management, it can request the President of the Board to use experts to illuminate all aspects related to the subject of scrutiny and risk, without the right to vote. The Audit Committee and the board are therefore responsible for ensuring that the internal audit programme effectively tests the adequacy of the financial and non-financial control systems of the enterprise.

### **Investment:**

With regard to social security institutions that have the task of investing in financial surpluses, it is important that the legislation explicitly provide for an investment board that is immune from interventions, includes a group of experts, as well as representatives of employers and workers, and submits its policy and strategy to the Board of Directors of the social security Institution for discussion and endorsement.

In addition, investments in social security funds must contribute to the social and economic benefit of the country through long-term investments in transport and health, infrastructure and all strategic projects of return.

### **Actuarial examination:**

Legislation must include a provision requiring social security institutions to carry out an actuarial examination by an external professional party, licensed and accredited, by reliable and collated international bodies and associations, to assess the reality of the insurance system, its financial strength and its ability to meet current and promised obligations, and to provide scenarios and recommendations that ensure the sustainability of the insurance system, whether through structural reforms or even through structural reforms.

Board members must be immune to political interference, often imposed by influential outsiders, and not to resort to popular decisions in favour of the government at the expense of escrow funds, in addition to ensuring that social security institutions do not make decisions at the expense of the sustainability of the insurance system, and that those members of the board of directors must be strict on such matters.

### **The digital turn:**

The world is living through the Fourth Industrial Revolution, intelligent systems, and 0G technology. This makes it imperative for social security institutions in the Arab region to keep pace with these changes, all of which are combined with shifts in trends and tastes of people around the world, and to seek rapid services of high quality that meet their expectations and needs. Social security institutions must be present and effective to meet these expectations.

These changes make it imperative for the Board of Directors of Social Security Institutions and the Executive Directorate to initiate and keep up with all issues of electronic transformation in a scientific, thoughtful and expeditious manner.

The Director-General should submit to the Governing Council a clear strategy for digital transformation, which would explain how the organization can take advantage of ICT capabilities, make maximum use of Internet-based electronic and intelligent services, set up the necessary administrative units, put in place safeguards for the ethical and professional use of major data, protect the privacy and security of such data, and prevent risks of all kinds.





