



planning, monitoring & evaluation

Department:
Planning, Monitoring and Evaluation
REPUBLIC OF SOUTH AFRICA

**SOCIO-ECONOMIC IMPACT ASSESSMENT SYSTEM (SEIAS)
FINAL IMPACT ASSESSMENT TEMPLATE (PHASE 2) FOR:**

**COMPENSATION OF OCCUPATIONAL INJURIES AND DISEASES (COID) RISK
ASSESSMENT MODEL.**

The Final Impact Assessment [Insert the Name of the Policy/Bill/Regulations/Other]

The Final Impact Assessment provides a more detailed assessment of the ultimately policy/legislative/ regulations/ other proposal. In addition, it identifies **(a)** mechanisms for monitoring, evaluation and modification as required; and **(b)** a system for managing appeals that could emerge around the implementation process.

1. The problem Statement/ Theory of Change

1.1. Give summary of the proposal, identifying the problem to be addressed and the root (causes) of the problem that will be addressed by the new rule:

a) Summary of the proposal (Summary Background of the proposed policy/bill/regulations/ other):

The Compensation Fund (CF) is currently experiencing problems of fluctuating revenue collections, to some extent even lower collected revenue as compared to projected revenue, increased litigation and fraud. These problems are precipitated by the extent to which companies submit requests for reassessment due to changes in industrial classifications originally allocated to their business activities. Compensation for Occupational Injuries and Diseases (COID) currently has industrial classifications that are not compatible to the International Standard Industrial Classifications (ISIC). ISIC is an International Labour Organisation's classification system used to guide United Nations' member countries on classifying companies since it was adopted in 1948.

South Africa adopted the guide and developed its Standard Industrial Classification (SIC) in 1970, though the classifications are revised from time to time. The main purpose of the guide according to Statistics South Africa is "that public and private institutions, as well as private persons engaged in the classifications of establishments as statistical units, use SIC as a basis as far as this is feasible. The general application of the principles and definitions of this classification will promote the uniformity and comparability of statistics compiled from different sources" quoted by True South 2015 from StatsSA website.

The SIC framework had been used by the Department of Trade and Industry's Companies and Intellectual Property Commission (CIPC) to classify companies upon registration in the South African economy. The Compensation Fund currently has 102 subclasses, which as stated above, are not aligned to the SIC on South African basis. The current classifications are also not compatible to the international guide (ISIC) and furthermore create an immense problem for Compensation Fund as employers often switch their industrial classification to those with lower COID assessment rates. This leads to a loss of revenue as the majority of employers would choose to be classified where it is less costly for them.

According to True South (2015), the extreme outlier of the rating group continuum shows that there are only 2 employers on rating group 'All transnet operations' where average employer contribution to COID is R72 million, while there are 67 342 employers on rating group 'Construction' where an average employer contribution is R8 000,00. A lower rating group was found to be the 'Business of hairdressers, barbers.....' which has 3 376 employers with an average employer contribution of R1500. This scenario indicates that the current industrial categories have loopholes that are being exploited at the expense of the fund.

In addition to the above, CF's industrial classifications had not been adequately reviewed from time to time. In addition, the CF is proposing to change its industrial classification to emulate international best practice. The proposed reclassifications to industrial classifications will result in COID reducing its categories from 102 to 5 classifications. A sixth class will be added for domestic employees when the new COID Act is approved by parliament. This could happen within the next twelve months. However these classifications will be fully mapped to the standard industrial classifications' major categories that are used by CIPC. By moving to a CIPC-based industrial classification system CF would go a long way towards solving classification problems by removing the subjective judgement currently residing with COID.

Specifically, the main problems to be addressed by the proposed reclassifications of industrial classifications are:

- Under-collection of COID revenue due to employers changing industrial classifications of their companies; and
- Inaccurate financial reporting of the fund’s financial performance.

b) Problem/s and root causes that the proposal is trying to address:

Identified Problem	Root causes
<ul style="list-style-type: none"> • Inaccurate reporting of the fund’s financial performance, • An inability to collect from assessment debtors due to a persisting inaccurate debt book. • An increase in fraudulent activities. • Misallocation of industrial classification with nature business. 	<ul style="list-style-type: none"> • Classification of companies under CF/COID was not done in line with the International Standard Industrial Classification (ISIC) as CF did not use Statistics South Africa’s Standard Industrial Classification. (SIC). • COID classification has more room for manoeuvrability by employers as they often submit request for reassessment and classification of companies from high-rates paying classes to low-rates paying classes. This results in frequent complains and delays in processes. • The current classification system is open to fraud, litigation and CF not having any predictable COID revenue collection and ultimately getting audit qualifications because their financial statements and plans often do not tally and are not consistent.
	<p>Avoidance of paying rates at the correct industrial classification level.</p> <p>The risk of allocating employers to the wrong class has materialised on numerous occasions. Because there are many sub-classes to allocate an employer to, COID officials are prone to making errors in the process.</p>

Identified Problem	Root causes
	The aforementioned risk creates an opportunity for the COID officials to collude with Employers and engage in corrupt practices.

1.2. Describe the intended outcomes of the proposal:

The proposal’s main outcome is for CF to establish a more accurate funding stream to ensure a sustainable Compensation Fund. The Compensation Fund will also be able to continuously pay for employees that contract diseases or get injured at work without fear of bankruptcy. Furthermore, the classifications will be streamlined to avoid shifts from one category to the other with the introduction of only 5 major categories. Specifically, CF will have the ability to adequately project and collect COID revenue that correspond with the number of companies by SIC classification. This will improve efficiency in the administration and collection of funds by the CF

The proposal will also provide CF with comparable best practices both internationally and nationally which is necessary for projections and analysis of compensation for work safety. In addition, the rationalisation of SIC categories to 5 will contribute towards the ease of doing business and reducing red tape by potentially introducing an integrated client database for all relevant registrations such as SARS, CIPC, UIF and COID.

1.3. Describe the groups that will benefit from the proposal, and the groups that will face the cost. These groups could be described by their role in the economy or in society. As a minimum, consider if there will be specific benefits or costs for the poorest households (earning R 7000 a month or less); for black people, youth or women; for small and emerging enterprise; and /or for rural development. Add more rows if required.

Groups that will benefit	How will they benefit?
Compensation Fund	<p>CF revenue will be more predictable and stable.</p> <p>CF financial reporting will be more accurate.</p> <p>CF registration of companies will be simplified, transparent and aligned to other systems that deal with company registration.</p>
Employees	<p>Their payments in times of insured incidents occurring will be accurate and realistic. The reduction of categories from 102 to 5 will ease classification process, prevent incorrect categorisation and reduce disputes.</p>
Employers and mutual associations	<p>Easy and accurate registration once classifications are standardised.</p> <p>Their insurance premiums will be based on accurate rates and therefore payments in times of insured incidents happening will be based on contributions made against the real levels of risk. This reduces the turnaround time when it comes to registering a company and resolving a classification related query.</p>

Groups that will bear the cost or lose	How will they incur the costs or lose?
Employers	<p>The reclassification to 5 main SIC categories may result in some employers having to bear a higher cost due to new and higher assessment rates</p>
Mutual associations	<p>Mutual associations may experience reduction in membership due to amalgamation across current industries that</p>

Groups that will bear the cost or lose	How will they incur the costs or lose?
	they represent. This may result in loss on mutual earnings that is gained from a number of companies they represent. Reclassification may result in fewer companies aligned to a mutual association than the case had been before reclassified.
CF	<p>Change management that will involve reviewing operating licences of mutual associations.</p> <p>Introducing IT systems or reconfiguring of the current IT to be compatible with the new classifications in the process of actual reclassification.</p> <p>CF will also bear the cost of awareness campaigns and further training of staff on the administration of the proposed model.</p>

1.4. Describe the behaviour that must be changed, main mechanisms to achieve the necessary changes. These mechanisms may include modifications in decision making process systems; changes in procedures; educational work; sanctions; and or incentives. Also identify groups inside or outside government whose behaviour will have to change to implement the proposal. Add more rows if required.

Groups inside Government	Behaviour that must be changed (Current Behaviour)	Main mechanism to achieve the necessary changes
Compensation Fund	Discontinuation of the old COID classifications when CF introduces the usage of new industrial classifications. CF had	Mapping current COID classifications to the SIC framework that StatsSA adopted since 1970. CIPC

Groups inside Government	Behaviour that must be changed (Current Behaviour)	Main mechanism to achieve the necessary changes
	been comfortable with the classifications that are not compatible to SIC.	categories in particular will be used to match with new COID ones.

Groups outside Government	Behaviour that must be changed (Current Behaviour)	Main mechanism to achieve the necessary changes
<ul style="list-style-type: none"> • Mutual Associations (Rand Mutual Association- responsible for class 4 – mining, and 13- iron and steel and Federal Mutual Association (FEMA), responsible for class 5- Construction). • All other companies that have employees and are not covered by mutual associations. 	<p>Mutual Associations may be restructured to accommodate new companies and to let go of others in their previous group due to the mapping and reclassification aligned to the SIC.</p> <p>Companies would have to adopt new identities in new industrial classification system.</p>	<p>Relicensing of Mutual Associations based on new clusters they will be representing.</p> <p>The reclassification of companies from existing industrial categories by aligning them to SIC & CIPC.</p>

1.5. Report on consultations on the proposal with the affected government agencies, business and other groupings. What do they see as the main benefits, costs and risks? Do they support or oppose the proposal? What amendments do they propose? And have these amendments been incorporated in your proposal?

Table on consultations:

Affected Stakeholders	What do they see as main <u>benefits, costs and risks?</u>	Do they <u>support or oppose</u> the proposal?	What <u>amendments</u> do they propose?	Have these amendments been <u>incorporated</u> in your proposal?
1. Government Departments and Agencies in NEDLAC.				Government departments that form part of the tripartite relation within NEDLAC engaged on the proposal and their individual concerns were addressed within the task team meetings.
2. Business Associations representation that are in NEDLAC such as Business Unity South Africa and Black Business Association. 3. Rand and Federal Mutual Associations.				Business representatives that form part of the tripartite relation within NEDLAC engaged on the proposal and their individual concerns were addressed within the task team meetings.
Organised Labour representation in NEDLAC				Organised labour that form part of the tripartite relation within

Affected Stakeholders	What do they see as main <u>benefits, costs and risks?</u>	Do they <u>support</u> or <u>oppose</u> the proposal?	What <u>amendments</u> do they propose?	Have these amendments been <u>incorporated</u> in your proposal?
such as FEDUSA. COSATU.				NEDLAC engaged on the proposal and their individual concerns were addressed within the task team meetings.
4. Civil Society				
5. The Public				Still to be consulted after Cabinet approval.
6. Other groupings: COID Board that is represented by employers, labour , academics and government				COSATU, Mutuals, BUSA, FEDUSA, have representatives on the board of Fund and also they form part Assessment and Benefits Committee of the board dealing with review of the assessment model.

1.6. Describe possible disputes arising out of the implementation of the proposal, and system for settling and appealing them. How onerous will it likely be for members of the public to lodge a complaint and how burdensome and expeditious is the proposed dispute-settlement procedure?

Dispute resolution mechanism:

Possible disputes may arise out of disagreement with the results of the assessment of the new model, especially where employers believe that their assessments put them in high rates. Such disputes arising out of this regulation will be handled through the directive of the chapter IX of the Compensation for Occupational Injuries and Diseases Act. Specifically, the employers who are aggrieved by the decision of the Director General can lodge an objection and appeal to the Commissioner within a prescribed timeframe; this should be heard by the presiding officer.

2. Impact Assessment

2.1. Describe the costs and benefits of implementing the proposal to the groups identified **in point 1.5 above**, using the following chart. Add more rows if required

Group	Implementation Costs	Costs of changing behaviour	Costs/Benefits from achieving desired outcome	Comments
CF	Migration and mapping of current companies classifications to SIC. Developing new systems that will be aligned to	Awareness campaigns informing employers about the change. Preparing employers to be accommodative	The reclassification will result in a system that will improve: <ul style="list-style-type: none"> • on the ease of administration, • the level of understanding by employers, • the level of objectivity 	This model will be simpler to understand by both internal and external stakeholders. Enhanced predictability of downward

Group	Implementation Costs	Costs of changing behaviour	Costs/Benefits from achieving desired outcome	Comments
	SIC.	to changes, especially the ones that will result in increased rating categories.	<p>of determining the rating class to which each individual employer is allocated; and</p> <ul style="list-style-type: none"> the objectivity with which the rate for each rating class is determined. <p>The proposal might also eventually allow SARS to collect the assessment income from employers.</p> <p>Sustainable financial flows of the CF would be ensured through implementation of the proposal.</p>	<p>and upward trends.</p> <p>Simplified collection system (alignment and to SARS collection system).</p> <p>Eventual reduction in number of assessments as employers.</p> <p>Improved efficiency and service delivery.</p> <p>The model will be less costly to administer.</p> <p>Improved Reporting and reduce negative audit Outcomes.</p> <p>Reduced instances of</p>

Group	Implementation Costs	Costs of changing behaviour	Costs/Benefits from achieving desired outcome	Comments
				Fraud. Reduced number of litigations against the Compensation Fund.
Mutual Associations (Mas) and other companies not represented by MAs		Reclassification will bear costs for mutual and employers as they may find themselves in different classifications with Mutual Associations running the risk of having lesser number of employers to represent. Employers might bear the cost of paying high rates due to		

Group	Implementation Costs	Costs of changing behaviour	Costs/Benefits from achieving desired outcome	Comments
		reclassifications.		

2.2. Describe the changes required in budgets and staffing in government in order to implement the proposal. Identify where additional resources would be required for implementation. It is assumed that existing staff are fully employed and cannot simply absorb extra work without relinquishing other tasks:

The Compensation Fund will still rely on current staff complement in implementing the proposed reclassifications. The proposed classification will not have any impact on the current staffing of the Fund as there is currently staff responsible for the functions. The cost is expected in the improvement of IT system and actual classification of industries from COID to SIC. These costs had been foreseen and budgeted for without the need for additional funds allocation from the National Treasury.

2.3. Describe how the proposal minimises implementation and compliance costs:

The CF will have less qualified audits that emanate from discrepancies between their financial statements, collected revenues and projected revenues because after reclassification there will no longer be changes on classifications of companies and on their premiums.

The CF will have less number of industrial classifications (6) to monitor and manage once reclassification is done. At the end, follow ups with companies would be reduced as the proposal will cater for clearer classifications and lesser misinterpretations that used to lead to costly measures of enforcing compliance.

3. Managing Risk

3.1. Describe the main risks to the achievement of the desired ends of the policy/bill/regulations/other and/ or to the national priorities (aims) that could arise

from adoption of the proposal. Also describe the measures taken to manage the identified risks. Add more rows if necessary.

Identified Risk	Mitigation Measures
Increase in litigations due to aggrieved employers.	<ul style="list-style-type: none"> • Thorough consultation and Implementation of detailed dispute resolution process. • Clear communication strategy in implementation process that will keep stakeholders up-to-date.
Putting employers to unreasonable financial burden caused by reclassification to high-rating groups. This may result in some employers being pushed out of business due to high operational costs.	CF would determine the impact on employers and they will be informed timeously of any material impact the new structure could have on their assessment. The Fund will be assisted by actuaries to ensure that the implementation has minimal negative effect on employers.
Changing to a new structure might render the two mutual associations' current classification conditions defunct.	Investigation on the current mutual classification for companies will be done intensively and then determine their new classification, in case where the classifications now move mutual companies somewhere else, mutual licences would be reviewed.

3.2. Describe the mechanisms included in your proposal for monitoring implementation, evaluating the outcomes, and modifying the implementation process if required. Estimate the minimum amount of time it would take from the start of the implementation process to **identify a major problem and remedy it:**

As implementation roll out data will be collected continuously through developed systems, continuous analysis of the impact will be done quarterly. Analysis will inform amendments where necessary, which the CF will study and implement. Specifically, the CF will monitor contributions and collections of COID after reclassifications to see if the intended objectives are actualised. Careful monitoring will be ensured monthly with quarterly analysis of the data and decision will be informed by analysis findings for CF to ensure amendment of the classifications after 4 quarters where deemed necessary.

4. Summary

4.1. Summarise the impact of the proposal on the main national priorities

National Priority	Impact
1. Social Cohesion	South Africa has a high number of employed people who are less educated. This is a group of people who are vulnerable to incidents that need COID. These people do not have comprehension of the role of COID when occupational incidents happen and they end up resenting employers and blaming them when they have lost their capacity to earn a living. Through the proposed reclassification, CF would be in a better financial position to compensate workers fairly when the need arise and this will close the depth of resentment workers may have towards employers, blaming them for the incidents.
2. Security (Safety, Financial, Food, Energy and etc.)	The proposal have impact on employers as they might get new assessment risks based on new classifications, in some cases the impact might be higher that their pre-revised rates. This may further have impact on employment and investment.

National Priority	Impact
3. Economic Growth	Accurate classification and rates would result in CF's sound financial position to an extent that increases collections result in increased investments. The outcome impact of CF's sustainable financial status might have positives spills in economic growth through investment.
4. Economic Inclusion (Job Creation and Equality)	The proposal contributes to economic inclusion of those who perceive themselves as excluded from the economy because of occupational injuries and diseases. The fact that their employers contributed fairly to the fund guarantees them fair claim pay outs. CF investments may result in job creation indirectly depending on projects in which they invest in.
5. Environmental Sustainability	N/A

4.2. Identify the social and economic groups that would **benefit most** and that would **bear the most cost**. Add more rows if required.

Main Beneficiaries	Main Cost bearers
Compensation Fund (CF)	Employers
	Mutual Associations
Employees	

4.3. In conclusion, summarise what should be done to reduce the costs, maximise the benefits, and mitigate the risks associated with the policy/bill/regulations/other.

- a) Potential financial impact identified on some employers due to reclassification would be communicated to employers in fair time to avoid economic shocks that may lead to companies not being able to operate,

- b) Awareness campaigns will also be done intensively to inculcate new thinking and a different culture in managing finances knowing that COID classifications may change,
- c) Mutual Associations will be supported towards new amalgamations and their licensing would be reviewed accordingly there by striving to maintain economic stability.

4.4. Please identify areas where additional research would improve understanding of the costs, benefits and/ or risks of the policy/bill/regulations/other:

Further research is needed on the impact of reclassification of all economic industries to 6 categories to understand hidden implications hidden on the different risks each subcategory has when treated individually.

For the purpose of building SEIAS body of knowledge please complete the following:

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