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# Pensions arrangements for informal workers

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# Background

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1. Only one in five workers is covered by adequate social security schemes (ILO 2002) and 85% of the world's population over 65 years old has no retirement benefit (Holzman et al 2001)
2. Breaking down of traditional social safety nets based on family and community-based arrangements (HIV-AIDS, decrease in fertility rates, migration rural-urban)
3. Expansion of the informal economy together with economic growth
  - Africa: 90% of new jobs created in the last decade were formal,
  - Latin America (1990-2005): 60% of the new jobs were informal and 90% were created in the services sector
  - Asia: Informality has increased together with economic growth (except Japan, Korea, Singapore and HK)



**1 + 2 + 3 + aging process = social insecurity**

# Few words about informality and social protection in developing countries...

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- Labour markets have not demonstrated capacity for greater inclusiveness (ECLAC)
- Contributory systems have been undermined by lower coverage and contribution density
- Informal workers are not always poor... but certainly unprotected
- Labour history: workers migrate between formal and informal economy (effects of contribution gaps)
- Correlation between poorness and informality is stronger for women








## Attributes of the informal worker (household's surveys)

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- Low income;
- Employment relation: self-employed, domestic and house workers; temporary employees
- Small and micro enterprises' workers;
- Economic sectors: services, transport, construction and agriculture;
- Migrants;
- Young workers and disabled.

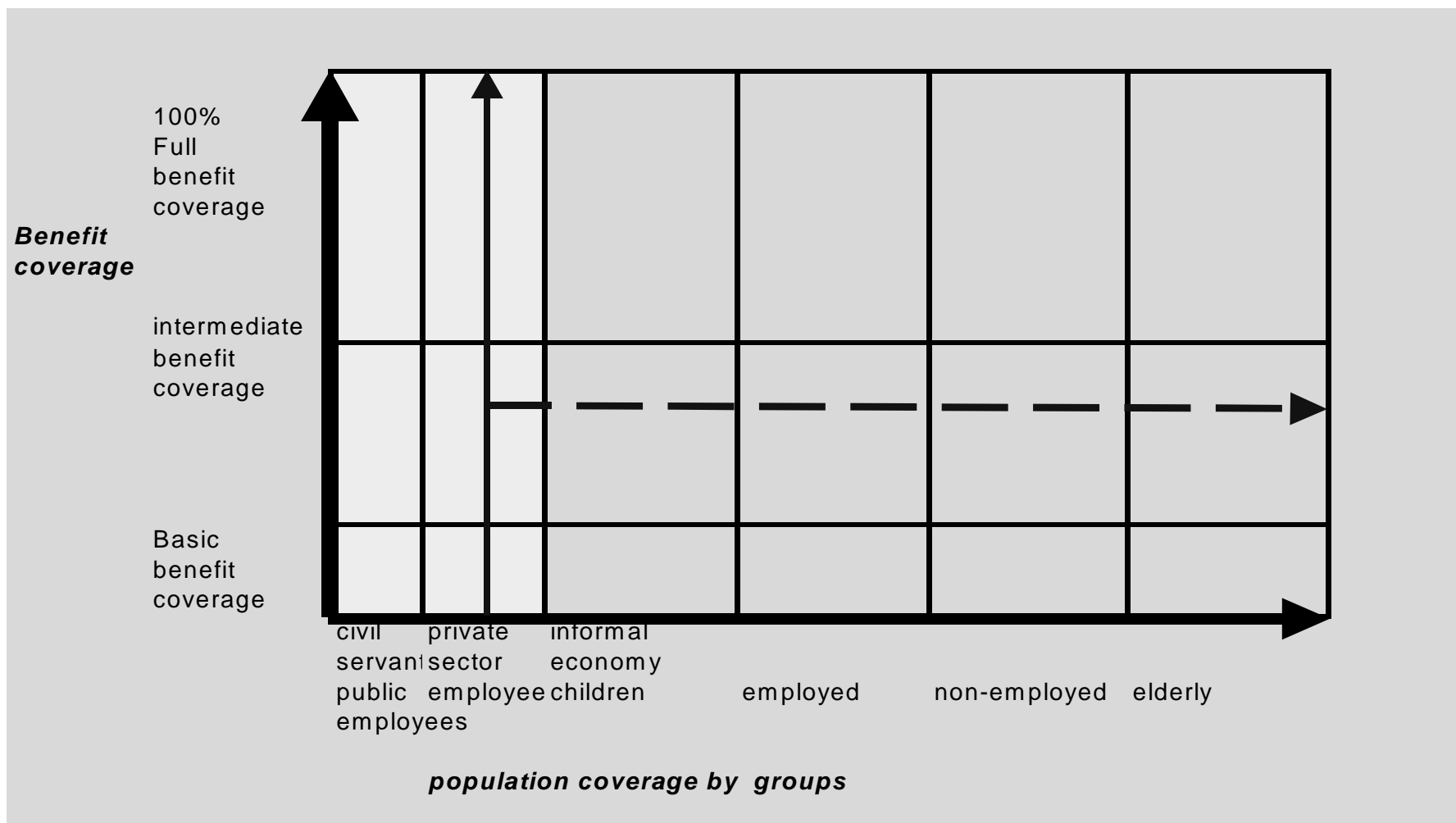


# Implications for the coverage of social protection schemes

- A progressive universalism approach should be adopted 
- Social protection floor should be promoted: 
  - Universal
  - Social assistance and conditional cash transfers
  - Minimum pension and contribution subsidies
- Community-based arrangements should be reinforced and linked to national schemes 
- Contributory schemes (public and private) need to be attractive, flexible and adapted to different forms of employment 
- Policy consistency 



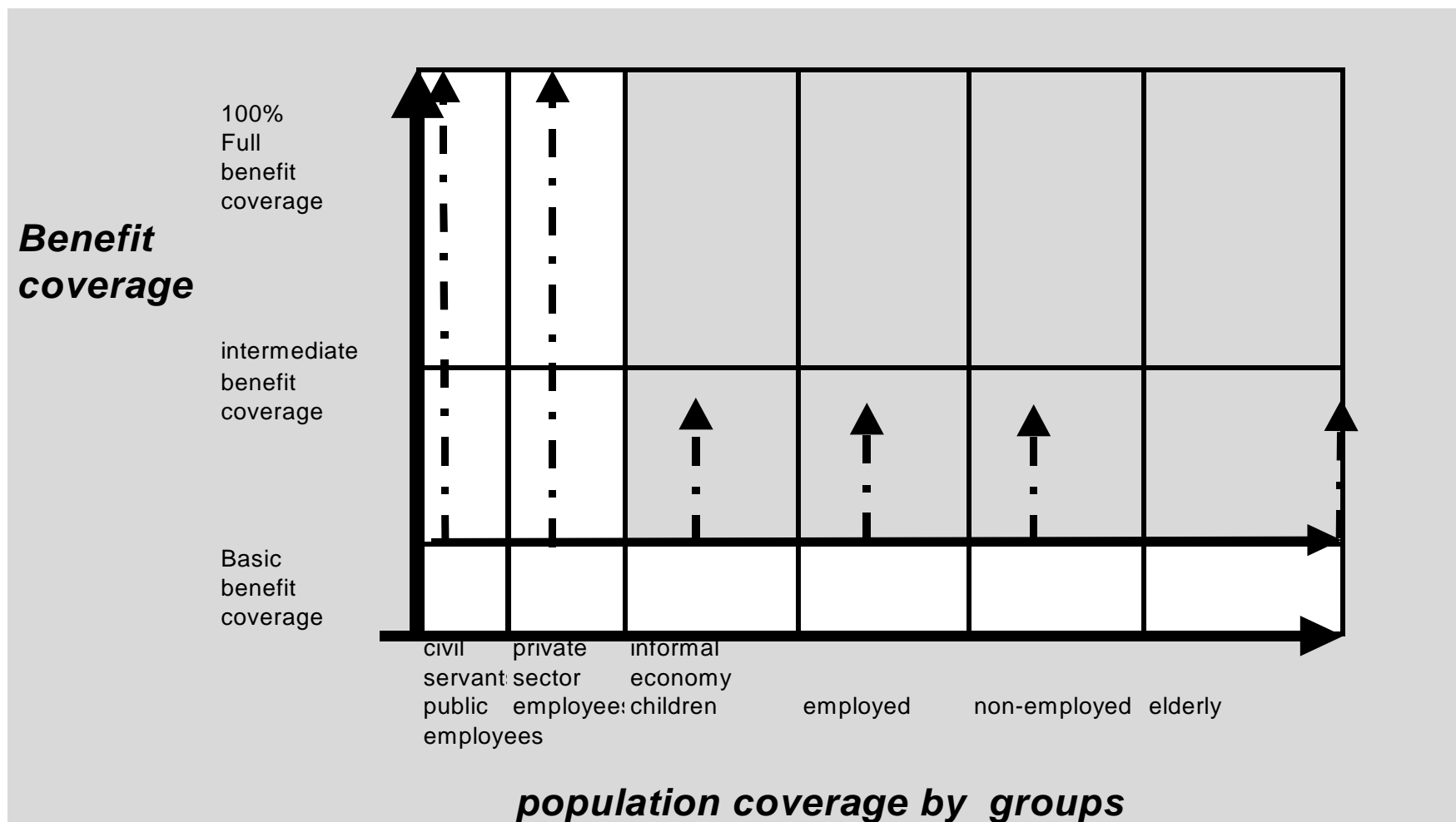
# The traditional developmental social protection



Sources: Hagenejer, K. Social Security as Social Investment. Presented in the ITCILO Workshop on Pension Schemes (A900623), 10/2006.



# Policy vision: The new developmental paradigm: towards progressive universalism



Sources: Hagenejer, K. Social Security as Social Investment. Presented in the ITCILO Workshop on Pension Schemes (A900623), 10/2006.



# Shaping the social protection floor...

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	Contributory	Non-contributory
Targeted	Minimum pensions Contribution subsidies	Social assistance Conditional Cash transfers
Non targeted		Universal pensions





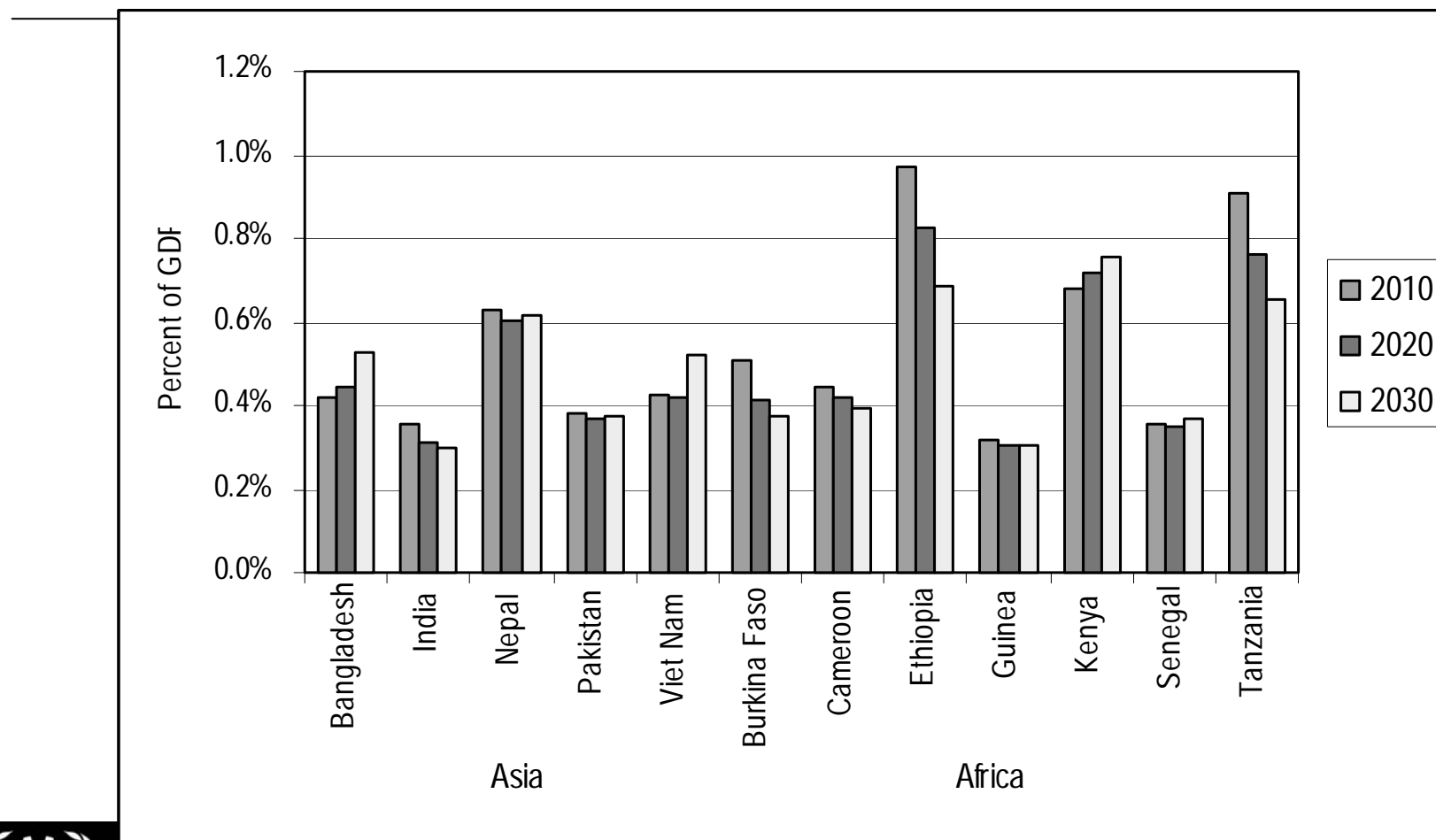
# Shaping the social protection floor...

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- Universal benefits: easier to administrate, high fiscal costs, low redistributive capacity;
  - Social assistance targeted to the poor may have a lower fiscal burden, but has higher administrative costs and mistargeting risks, reduce incentives to save, work and participate in the contributory schemes
  - Conditioned Cash Transfers (conditioned to poverty status + behavioral assumptions) may break intergenerational poverty circle human capital investment and articulate social policies (pensions, health and education)
  - Minimum pensions and contribution subsidies: fail to reach the poor



# Is the social protection floor affordable?

Cost of universal basic old age (65) and disability pension (benefit = \$0.5 per day)

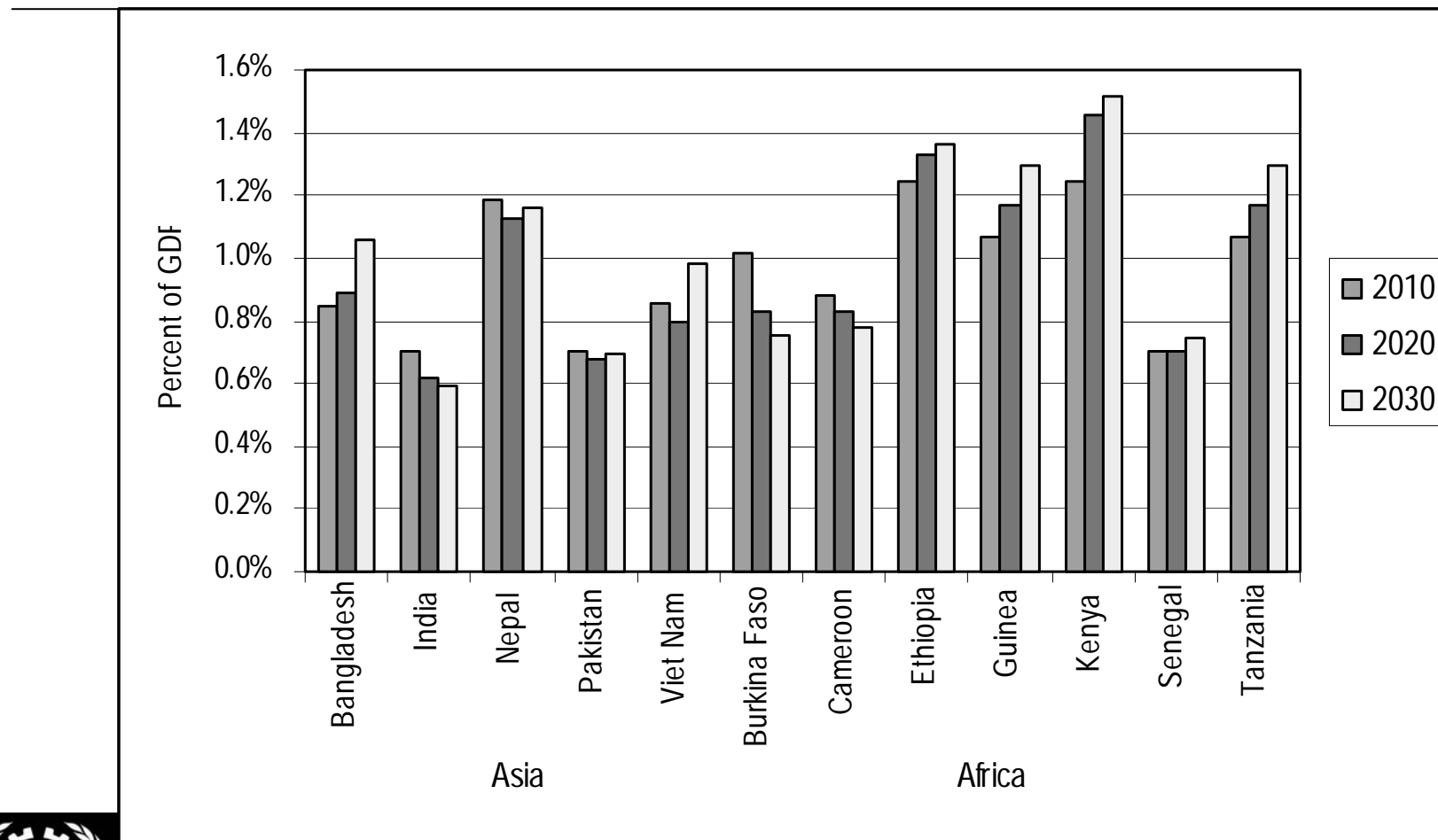


Sources: Hagenejer, K. Can low income countries afford social security? Presented in the ITCILO Workshop on Pension Schemes (A900623), 10/2006.



# Is the social protection floor affordable?

Cost of universal basic old age (65) and disability pension (benefit = 30% of GDP per capita)



Sources: Hagenejer, K. Can low income countries afford social security? Presented in the ITCILO Workshop on Pension Schemes (A900623), 10/2006.



# Examples of universal and means tested schemes

	Age limit	US\$	% of GDP	
Bangladesh	57	2	0.03	means tested
Bolivia	65	18	1.3	universal
Botswana	65	27	0.4	universal
Brazil (Rural)	60 (M) 55 (W)	140	0.7	means tested
Chile	65	75	0.38	means tested
Costa Rica	65	26	0.18	means tested
India	65	4	0.01	means tested
Mauritius	60	60	2	universal
Moldova	62 (M) 57 (W)	5	0.08	means tested
Namibia	60	28	0.8	universal
Nepal	75	2		universal
South Africa	65 (M) 60 (W)	109	1.4	means tested
Thailand	60	8	0.005	means tested
Vietnam	60	6	0.5	means tested



Source: Willmore (2006). Universal pensions for low income countries



# **Assessing potential impact and costs of universal social pension in Senegal and Tanzania:**

## **Costs (excluding administration):**

- Senegal:
  - 1.2% of GDP -> reduces 22% of total poverty gap reduced
- Tanzania:
  - 1% of GDP -> 20% of total poverty gap reduced



Source: ILO (2006). Cash benefits in low income countries: Simulating the effects of poverty reduction for Senegal and Tanzania



# Social and economic impacts of the social pensions

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- Poverty reduction among elderly (Brazil, South Africa, Chile)
- Increase in school enrolment ratios of children in pensioner households (South Africa). Intergenerational care.
- Reversal migration rural-urban (Brazil)
- Liquidity: households shifting from subsistence to surplus agriculture, investments in rural production and increase consumption (Bolivia), credit for pensioners (Brazil)
- Decrease in birth mortality rates (Brazil)



# Improving contributory schemes...

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- Flexibility to include workers with seasonal income (self-employed, domestic, temporary workers, etc)
- Specific treatment for some economic sectors (services, construction, tourism, agriculture, small and micro enterprise )
- Differentiation according to contributory capacity (social insurance income redistribution)
- Incentives to affiliation of self-employed and young workers
- Management improvement (affiliation, recordkeeping, collection and service delivering)
- Communication and social awareness



# Promoting community-based schemes

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- Developed to manage credit and risk in a context of low contributory capacity and small scale to face medical expenses and cover other emergencies
- Adapted to local needs and possibilities
- Low administrative costs
- Based on community and family links
- Non substitutive with respect to the national scheme
- Vulnerable to risks related to the dynamic of the community





# ILO survey on microinsurance schemes in India

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- 60 schemes, 5.2 million people
- Coverage: life, health, disability, death, funeral, housing, etc
- Implementation
  - 33% by micro finance organizations
  - 31% by NGOs
  - 23% by community-based organizations
  - 12% by health care providers
- 60% are based in rural areas
- Mostly annual contributions
- 70% operate in partnership with private and public companies
  - India legislation mandates insurance companies to offer insurance products for rural and informal (unorganized) sector



# Conclusions: Policy consistency

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- Consistency of Parameters
  - Benefit value, coverage, targeting criteria, indexation, management
- Incentives and crowding out effects
  - Non contributory pensions and incentives to participate in the contributory system
  - Social pensions x informal private transfers (in South Africa pensions have reduced 37% the private transfers to elderly Jensen (2003))
- Fiscal and social trade offs
  - Tax incentives for private pensions x contribution subsidies x non contributory schemes expenditures (how much? To whom? social impacts? economic impacts?)
  - Poverty reduction via pensions x other type of cash transfers



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# Thanks

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