

PENSIONS FOR WOMEN IN THE INFORMAL ECONOMY: OPTIONS FOR DEVELOPING COUNTRIES

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There are three contingencies for which pensions provide social protection: old-age, disability and death. The personal coverage of these pensions is low in many developing countries, but particularly in low-income countries. More than 90 per cent of the labour force in sub-Saharan Africa and South Asia typically do not contribute to statutory pension schemes, and this proportion ranges between 50 and 90 per cent in most middle-income developing countries. Most of these people work in the informal economy - a trend that is also observable in the developed countries, where various new forms of exclusion from social protection have emerged.

The aim of this paper is to explore how women in the informal economy can have greater access to pensions. The paper will start by defining the concept of social pensions (section 1), and examining the impact of pensions on gender relations (section 2). The third section will then analyze why workers in the informal economy - and in particular women - do not have access to statutory pension schemes and how this protection can be extended. Since there are only limited possibilities for extending coverage under statutory pension schemes, other options, such as contributory schemes and social assistance will be explored in sections 4 and 5. This paper will end with some conclusions.

1. Pensions and social protection

Pensions are long-term benefits for old-age, disability and death and that are provided within the context of social protection, i.e. social security (consisting of social insurance and social assistance) and various non-statutory schemes. In general, *social security* is defined as the protection which society provides for its members, through a series of public measures (ILO, 2000):

- ▶ to offset the absence or substantial reduction of income from work resulting from various contingencies (notably sickness, maternity, employment injury, unemployment, invalidity, old age and death of the breadwinner);
- ▶ to provide them with health care; and
- ▶ to provide benefits for families with children.

Social security is defined to include social insurance (i.e. contributory schemes), social assistance (i.e. tax-financed benefits provided only to those with low incomes), and universal benefits (i.e. tax-financed benefits, provided without being income- or means-tested). *Social protection* is defined to include not only public social security schemes, but also private or non-statutory schemes with a similar objective, such as mutual benefit societies and occupational pension schemes. Under "social protection" all sorts of non-statutory schemes are included, formal or informal, provided that the contributions to these schemes are not wholly determined by market forces. These schemes may feature, for example, group solidarity, or an employer subsidy, or perhaps a government subsidy.

In the discussion on pensions and other forms of social protection, the term "social safety net" is often used, in particular by the World Bank and the IMF. The World Bank uses a very wide concept (Subbarao et al., 1997) which includes social services (health, education), all what is defined here as social protection, as well as food security measures, labour-intensive public works, and credit schemes for micro-enterprises. The IMF uses a somewhat narrower concept, excluding social services and credit schemes for micro-entrepreneurs (Chu and Gupta, 1998). The advantage of a relatively broad concept is that it expresses the need for an integrated package of measures, but the term "social safety net" is ambiguous because it traditionally refers to basic protection of last resort, and in particular to social assistance. However, social protection systems aim to provide more than just basic, and often means-tested, benefits. This paper will therefore

not use the term social safety nets, and concentrate on pensions provided in the context of social protection.

2. Pensions and gender relations

In most developing countries, the family is the traditional social institution for the care of the elderly and is expected to continue the role of care-giver as the principal source of support and security in old-age. The most crucial aspect of living arrangements of the elderly is co-residence with adult children in extended families or multi-generational households where kin provide income, personal care and emotional support to the elderly. This traditional value system seems to be gradually diminishing, because of a whole range of factors, such as smaller family sizes, increased labour participation of women, migration of young family members, and a gradual breakdown of common ownership arrangements for land and other means of production. These social, economic and demographic changes are having profound implications for the circumstances under which the elderly will live in the future. In the developed countries and various middle-income countries, these changes have led to the situation where the elderly do not live together with their children.

Some women working in the informal economy may be covered through their husbands' contributions to (statutory) pension schemes. These entitle women to derived pension rights which are typically lower than those for men. In addition, these entitlements are often conditional on the continuation of the marriage, which leaves women in a potentially vulnerable position. In some developed countries, a formula of "pension splitting" has been devised, and/or contributory credits are given to women who interrupt their career for looking after their children. Such solutions have so far not been considered in developing countries.

In the developing (and most developed) countries women provide the largest part of care activities within the household. In addition, women are increasingly involved in economic activities, often without building up their independent pension rights, and without a corresponding redistribution of care activities between men and women within the household. As a result, there is greater pressure on women with regard to care activities, not only for the nuclear family but also for the elderly.

In traditional rural areas, such as in Orissa (India), the majority of the elderly live with their married sons. However, a recent study in this area finds that living arrangements of the elderly are not homogeneous, but differ significantly in terms of age, gender, marital status and economic status. For instance, poor elderly women are much more likely to live alone as compared to poor elderly men. This is partly due to the higher life expectancy of women, but also to the fact that, in a patrilineal society such as Orissa, women do not inherit land (Panda, 1998). In addition, the most critical test of the living arrangements comes when one of the parents dies and the other becomes struck by some serious ailment requiring constant nursing (Shah, 1999).

The first role of pensions is therefore to provide income security to the elderly, particularly the most vulnerable amongst them. In addition, basic pensions for the elderly will give people greater freedom to reduce family size. This is especially beneficial to women, but is also critical to overall development goals. It is quite clear that pensions are not sufficient to adequately deal with the situation of the elderly, because apart from income security and family care, the elderly also need access to health security, shelter and possibly institutional care (Subrahmanya, 1999). This paper will discuss the latter three aspects only in passing.

3. Extending statutory pensions to women

The fundamental reason for low pension coverage in developing countries is that many workers outside the formal sector are not able or willing to contribute a relatively high percentage of their incomes to finance social security benefits that do not meet their priority needs. In general, they give priority to more immediate needs, such as health and education, in particular because structural adjustment measures have reduced or eliminated access to free health care and primary education. Within the range of pension benefits, they seek protection first of all in case of death and disability and after that for old-age as well. In addition, they may not be familiar with, and/or distrust, the way statutory pension schemes are managed. As a result, various groups of workers outside the formal sector, including women, have set up schemes that better meet with their priority needs and contributory capacity. Moreover, there are also a host of factors that restrict access to the statutory pension schemes, such as legal restrictions and administrative bottlenecks (van Ginneken, 1999a).

The coverage of women workers under statutory social security schemes is poor even in the formal sector. This results from the employment status of women workers. Women more than men are found in casual or contract work. The poor and the workers in the informal economy have to resort to multiple and concurrent economic activities for their survival either because of the irregularities in the availability of work or because of low wages. A similar problem relates to the shifting of employers over time, which is the case of construction workers for example. As such workers often change employers, their accounts will have to be transferred from one establishment to another. If not transferred, subscribers do not get their benefits and eventually the balances in the accounts may lapse. As a result, such workers are often opposed towards contribute to social security schemes.

Another problem targeting the informal sector women workers relates to the invisibility of their work. In agriculture women tend to be lumped in the category of unpaid family labour, which disguises more than reveals their actual labour input and contribution to the household. In construction, it is often the male head of household, who is hired and who will arrange for the availability of labour of the rest of the household, women and children included. As a result women do not get paid, nor do they get access to social security benefits in their capacity as workers. Similarly, the Fishermen's Welfare Fund Scheme in India does not recognize the workrole of fisherwomen as vendors, curers and peelers. Only the vendors from active fishermen's families are recognized and entitled to the benefits, thus also excluding female heads of households and widows (Kelles-Viitanen, 1998).

A first requirement is to improve the eligibility to pensions for women in both the formal and informal sectors. Women workers need to be recognized in pension schemes as workers in their own right and not only as wives, mothers or destitutes.

Another group of recommendations would concern measures to extend and improve pension benefits to vulnerable groups of women workers, such as casual, contract and home-based labour. In some cases, pension benefits need to be tailored better to the specific needs of these groups. However, the emphasis should be on improving access to statutory pension schemes, which is often denied, either because their employee status remains obscure or because the employer - employee relationship is particularly tenuous and shifting. One practical proposal would be to improve the registration of workers by assigning them a unique social security number, which could solve the problem of eligibility of workers when shifting employers.

One way to adapt pensions to the priorities and contributory capacities of different groups of workers would be to design special pension benefit packages for the self-employed and the informal sector, which would range from a basic core of social protection obligatory for all gainfully occupied persons, through to a more comprehensive provision that would be optional but subject to certain tests of membership. As noted earlier, survivors' and disability benefits would be the first candidates for such a core package. Statutory pension schemes would have a comparative advantage to deal with such benefits, because insurance against these risks requires a large pool of contributors (van Ginneken, 1999b).

4. Promoting contributory non-statutory schemes

In most developing countries the population has depended on traditional social solidarity relations to meet their social protection needs. In most African countries for example, and especially in rural areas, social relations of production are still principally of the classic kind in which an element of reciprocal obligations ensures that each member of a clan can in the last resort count on an irreducible guarantee of social protection (Kane, 1997). However, with socio-economic change, the traditional social protection systems have gradually been replaced by private social protection arrangements. The latter are mainly mutual aid schemes or collective arrangements set up by the people to provide social protection for themselves.

In general, the extension of coverage to the self-employed is easier to achieve in respect of those persons who have a well-established business or profession which is readily identifiable, and which produces a sufficiently high level of regular income for contributing to statutory pension schemes. Even for this group, it may be difficult to reconcile the contributory basis within a scheme which is dominated by the circumstances of employees, and in respect of whom contributions are also paid by employers. In addition, self-employed persons may prefer to invest in their own business as a form of future social protection, or may see better opportunities for investing any spare resources. As a result, some informal sector entrepreneurs may insure themselves with private sector companies (Kamuzora, 1999). Many other self-employed workers prefer to set up their own pension schemes, which often include people who have chosen not to participate in statutory social insurance pension schemes.

The example of China (Hu, Cai and Zhai, 1999) shows that specific pension schemes for farmers can be designed which are voluntary and adapted to the needs and circumstances of the rural population (including coverage for rural migrants to urban areas). In the rural pension insurance schemes, farmers themselves contribute most of the insurance premiums, in addition to some subsidies from the collective economy. The state offers policy support. The contributions made by farmers themselves and the subsidies provided by the collective economy are put into individual accounts. The rate of pension benefits is determined by the accumulated total amount in the individual accounts and by the relevant regulations. The insurance fund is now both regulated and managed at the county level.

There are also various other examples of informal sector pension schemes. Some of them are described in the background document for this seminar (Lund and Srinivas, 1999). Most of them are life insurance schemes, which - as noted earlier - are more in tune with the social protection priorities of informal sector workers. Only one (SEWA) out of the four life insurance schemes are focused on women. Only two schemes provide old-age pensions. Most of these schemes are related to employment and income-generating activities, in which women so far have been in the minority.

The key question with regard to these and other contributory non-statutory pension schemes is how and to what extent they can be replicated on a wide scale. There are various characteristics on the basis of which groups of informal sector workers can organize themselves for employment and incomes, as well as for the provision of pensions. People can organize themselves because they share the same occupation, live in the same area or belong to the same gender, cultural or religious group, for example. Each of these characteristics has its own advantages and disadvantages with regard to group factors such as trust, leadership, as well as financial and organizational capacity. These characteristics also have a major impact on the extent and speed with which contributory schemes can be replicated.

In most countries, work-based organizations have been at the origin of social insurance programmes. Informal sector workers - to the extent that they are organized at all - are principally organized in occupation- or sector-based associations and cooperatives. Their first priority is to improve their economic base, in terms of credit, marketing and production technology, but when that is ensured, their organizations can often constitute a foundation for the establishment of contributory social protection schemes. This is also frequently true for women's organizations, whose purpose often includes raising consciousness with regard to the position of women in the family, work and society. Finally, some of these organizations have set up savings and/or credit bodies which significantly improve the chances of successfully organizing contributory social protection schemes. It seems likely that women are generally more interested in and committed to the provision of health care and education to their family, rather than in occupation-based (and often male-dominated) schemes, which tend to consider pensions as a greater priority. Most work-based schemes are characterized by a high level of group cohesion, but they take a long time to mature. For the time being, it is probably most realistic to link the setting up of non-statutory pension schemes with the extension of credit for informal sector and small-scale entrepreneurs.

5. Social assistance pensions

Some developing countries have set up statutory social assistance schemes aimed at people in need, who cannot be reached by employment or other social policies, and who have not been able to protect themselves through social insurance. Such schemes are predominantly contingency based, as they limit means-tested support in cash or in kind to specific needy groups, such as widows, orphans and old people without income and family support. There is a relatively small number of developing countries that provide social assistance benefits, because governments have fewer tax resources at their disposal. In addition, social assistance usually takes a relatively low priority among the other social policies, such as health, education and employment. As a result, social assistance coverage is usually low and benefits are fixed well under the poverty line.

In Latin America and the Caribbean, about 10 countries have legally established social assistance pensions for the poor, but the scarce data available suggest that they do not cover the majority of them (Mesa-Lago, 1999). South Africa has a relatively well-developed social assistance scheme for which the vast majority of the black population qualify. One interesting characteristic of this system is the fact that delivery of benefits in the rural areas has been outsourced to the private sector, which uses automatic teller machines housed in mobile vehicles which stop at fixed points (Lund and Srinivas, 1999). In Asia there are a variety of social assistance schemes, such as in China, India and Mongolia. In mid-1995 the Government of India introduced the National Social Assistance Programme, which - amongst others - provides a

pension of between Rs.100 and Rs. 200 (between 2.5 and 5 USD a month) for people over age 65, with low incomes and generally without relatives. More than 10 million old-age pensioners - most of whom are women - receive this benefit, which in spite of being very low appears to be a welcome supplement to family income.

There are various difficulties associated with the administration of a social assistance scheme. These commence with the design of the system and the basis for distinguishing those persons among many who are poor who should be potentially entitled to help and then determining to what extent account should be taken of support provided (or expected) from other members of the household and family. A recent field study on the application of the Indian old-age social assistance scheme in Gujarat, Orissa and Uttar Pradesh (Sankaran, 1998) showed various cases of patronage, for example at the selection stage, and of abuse, in particular in the case of cash payments. It also highlighted the various problems in determining a suitable means-test. There are three implementation issues that merit special attention (van Ginneken, 1999b).

(i) *It is essential to determine criteria for eligibility.* The so-called means tests can be based upon various criteria, such as consumption, income and/or assets. Other tests are also applied, such as residence, nationality and the availability of potential family support, as well as the availability for work and training. In India for example, the application of both the income and the "Niradhar" (presence of an adult son) status of a pensioner leads to ambiguities and administrative problems. Statutory social assistance programmes have conventionally emphasized the notion of relatives' responsibility to require family members to care for dependent relatives. However, the notion of relatives' responsibility has relied on a punitive rather than incentive approach, and it fails to recognize that in many poor countries, relatives are themselves often too poor to assume additional responsibilities (Midgley, 1994).

Another issue concerns the types of institutions that need to be involved to determine whether someone is eligible or not. In China and India, local government officers decide on eligibility, but it may also be worth considering the use of community-based procedures. In general, it is best to leave the determination of eligibility to the lowest level of administration (at the Panchayat or block level in India for instance), but in participation with the local community so as to guarantee maximum transparency.

(ii) There are *various tasks at the state and central levels* that require better implementation, such as:

- assessing what are the best modes of payment,
- designing a rigorous poverty assessment method that will be the basis for fixing budget ceilings at the district level,
- defining a mechanism by which benefits can be adjusted for inflation.

(iii) It is necessary to *link up social assistance programmes with other anti-poverty programmes*, such as employment guarantee and food security schemes. There is significant scope for coordinating social assistance with other promotional anti-poverty measures. Pensions and survivor benefits to widows for example, can be combined with training and loans to improve their earnings. In addition, pensions for the physically disabled can be linked with rehabilitation therapy and suitable employment.

6. Conclusions

This paper has reviewed three types of pensions that can potentially benefit women working in the informal economy: statutory and non-statutory contributory schemes as well as social assistance programmes. Particularly in low-income countries, only a small minority of the labour force contributes to statutory pension schemes, mainly men. Women are only indirectly protected by such schemes - and generally at lower benefit levels. There is an upsurge in a variety of contributory non-statutory schemes for workers in the informal economy. Most of them are linked to cooperatives, mutual benefit societies and other associations, and women are usually far in the minority. Finally, some developing countries provide social assistance pensions - at low benefits levels and covering only part of the eligible elderly.

Given their increased participation in the labour force, women will be more and more able to contribute to statutory and non-statutory pension schemes. Various ways are open to improve the coverage of women under statutory pension schemes. First of all, women need to be recognized as workers in their own right and not only as wives, mothers or destitutes. Secondly, statutory contributory schemes need to become more flexible to deal with cases where the employer - employee relationship is particularly tenuous and shifting. One practical proposal would be to improve the registration of workers by assigning them a unique social security number. A third option would be to design special pension benefit packages for the self-employed and the informal sector. Survivors' and disability benefits would be the first candidates for such a core package, since statutory pension schemes with a large pool of contributors have a comparative advantage to deal with such benefits.

Non-statutory pension schemes are normally well in tune with the needs and contributory capacity of workers in the informal economy. There are also a number of disadvantages with such small-scale schemes. First of all, they are often based on occupational affiliations, which can have the advantage of strong mutual trust but the disadvantage of limited scope for extension and replication. Secondly, informal sector associations have very limited management capacities, with the result that self-financed schemes can be fragile and short-lived. They therefore need support from larger institutional structures.

- (i) The State should create a favourable legal and institutional environment for contributory schemes, for example by defining accounting principles, as well as transparent and participative governance structures.
- (ii) There should be greater - direct or indirect - participation from local-level government. This is particularly relevant for area-based schemes.
- (iii) The social protection partnership should be widened, with the participation not only of the Government and the social partners but also of cooperatives, NGOs and other groups of civil society.
- (iv) In certain cases or for certain benefits, informal sector associations can collaborate with statutory sector social security agencies. One fundamental condition here is that informal sector associations trust such agencies. As noted earlier, they could offer benefits (such as for disability and survivors) that meet the priorities of informal sector workers and correspond to their contributory capacity. Social security agencies could also provide technical assistance or provide re-insurance options.

There are various difficulties with the design and administration of social assistance pension. Thus, in assessing their cost-effectiveness some of the following questions need to be addressed:

- What are the responsibilities of the central and local Government levels in the financing,

administering and fixing of the social assistance benefits?

- What should be the criterion for the means test (income, land, assets) and for family responsibility; at what level should eligibility be determined (local government, local community)?
- How to design corruption-free delivery mechanisms?
- The estimation of the implicit administrative costs incurred by the Government.

The last conclusion is more of a conceptual nature. This paper has shown that the design and administration of pension schemes is based on particular assumptions with regard to the roles of women and men at work and at home. These roles can vary quite considerably between different parts of the world, and depend on a series of traditions, norms and values. In most parts of the developing world women are more likely to be poor than men, and it is therefore necessary to rethink social protection measures so as to reduce levels and gender differences in poverty. This may be an intermediate step towards the achievement of gender equality, the concept of which needs further development (Nussbaum, 1999).

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