

Capacity Building Seminar on Enhancing Social Spending In Support of Inclusive Growth in Asia, Colombo, Sri Lanka on July 14-15, 2016.

Session II. Implications of Ageing, July 15, 2016, 11:00-13:00

Expanding Insurance with Large Informal Sectors

Presented by

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1. Brief on Informal Sector

- ❑ The concept of informal sector was first introduced by the ILO in 1972.
- ❑ The ILO characterizes informal sector as-
 - (a) Ease of entry
 - (b) Reliance on indigenous resources
 - (c) Family ownership
 - (d) Small scale operations
 - (e) Labor intensive and adaptive technology
 - (f) Skills acquired outside of the formal sector
 - (g) unregulated and competitive markets
- ❑ Broadly, the informal sector can be categorized into three groups:
 - i. Owner of micro enterprises
 - ii. Own-account workers
 - iii. Dependent workers

Informal Sector Statistics

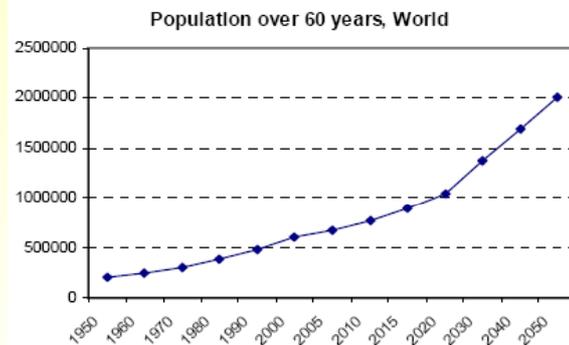
- ❑ The size of the informal sector varies from 4-6% in the high income countries.
- ❑ It is estimated over 50% in the low income countries.
- ❑ In the South Asia, informal sector stands at 80-90%.
- ❑ In Bangladesh, 87% of the labor force is employed in the informal sector.

Source: World Bank

Aging Statistics

- The global share of older people (aged 60 years or over) increased from 9.2% in 1990 to 11.7% in 2013 and will reach 21.1% by 2050.
- About two thirds of the world's older people live in developing countries.
- By 2050, nearly 8 in 10 of the world's older population will live in the less developed regions.

Population aging trends 1950-2050



- Following other regions in the world, the share of elderly population of Bangladesh is expected to reach 9% by 2025.

Source: Population Division, United Nations

Pension System to the Informal Sector

- Recently both the international community and national governments have realized the increasing importance and urgency of extending the pension system to the informal sector.
- Different policy initiatives are underway to tackle this problem given the country-specific conditions and environments. Some are-
 - i) Non-contributory pensions (Means-tested and Universal)
 - ii) Contributory pensions
 - iii) Compulsory participation
 - iv) Alternative routes (utilization of non-pension infrastructures and Micro-finance)

2. Country Experiences

India

- India launched Atal Pension Yojana (APY) with effect from 1st June 2015 for largely uncovered informal sector workers.
- Under APY, the central government co-contributes 50% of the subscriber's contribution or Rs. 1000 per annum to each subscriber for a period of 5 years (2015-16 to 2019-20).
- State governments can also co-contribute under APY.
- Members of any statutory social security scheme and income tax payers are excluded from APY.
- The minimum age of joining APY is 18 years and maximum age is 40 years.
- The subscribers of APY would receive minimum pension of Rs. 1000 to Rs. 5000 per month, at the age of 60 years, depending on their contributions.
- APY has low costs and has access in rural areas via existing networks of post offices and banks- Point of presence (POP).
- APY ensures increased coverage of the informal workforce under the pension and provides social and income security for citizens in their sunset years.

Sri Lanka

- Sri Lanka is a leader in making an effort to involve the informal sector.
- The informal sector pension schemes include-
 - Farmers' Pension and Social Security Benefit Scheme (FMPS)
 - Fishermen's Pension and Social Security Benefit Scheme (FSHPS)
 - Self-employed Persons Pension Scheme (SPPS)
- The FMPS is a defined-contributory and voluntary scheme subsidized by the government.
- The farmer enrolls in the scheme between 18-54 years of age, if the farmer enrolls between age 55 and 59, he will receive monthly pension on completion of 5 years of contributions.
- Eligibility: Paddy cultivator- less than 10 acres, Tea/Rubber/Coconut- less than 2 acres, Mixed crops- less than 3 acres.
- A monthly pension is payable to the beneficiary at age 60.
- The pension amount ranges from a minimum of LKR 1,000 to a maximum of LKR 4,167.
- The FSHPS is same as the FMPS.
- Eligibility: Fisherman owns fewer than three merchandized boats weighing less 6 tons or less than 5 acres fish farms.
- The SPPS includes 'Surakuma' programme.
- Surakuma is a voluntary, contributory scheme.
- Members are eligible for a monthly pension starting at age 60.

Philippines

- The Philippine's pension system is considered successful in that it provides pensions to millions of elderly population.
- The social security law enacted in 1997 mandated compulsory social security coverage for the informal sector workers.
- Eligibility: Individuals with an income of at least 20.1 USD a month and not over 60 years old.
- In order to reach informal sector workers, government is working through cooperatives and people's organizations.
- In collaboration with the government, the Philippines' Saving Bank and the Development Bank of Philippines introduced a voluntary daily deposit program for informal sector workers in 2002.
- Through this scheme, workers are encouraged to make daily deposits to both banks.
- After accumulation an amount equal to a monthly social security contribution, both banks remit it to the social security agency as a contribution on behalf of the worker.
- The Senior Citizens Act of 2010, which includes a provision for a monthly allowance of Php500 to the elderly poor.

Indonesia

- ❑ The labor force of Indonesia is over 100 million, of which about 65 million are in the informal sector.
- ❑ Pension arrangements in Indonesia have remained unchanged since 1992.
- ❑ The Indonesian government has undertaken an initiative to create a National Social Security System or Jamsosnas based on a law named Law 40 enacted in 2004.
- ❑ A new mandatory defined-benefit scheme that will cover both formal and informal sector workers.
- ❑ The contributions will be shared between employers and employees.
- ❑ A tripartite board of government, employers and workers will govern the scheme.
- ❑ Under this scheme, contributions from formal sector workers will be set at a much higher rate than those from informal sector workers.

3. Bangladesh as a Case Study

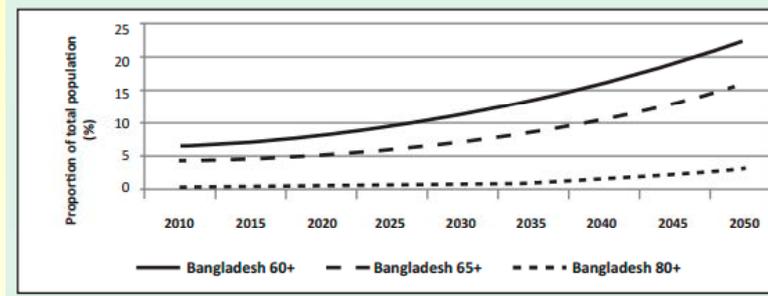


Figure-2: Proportion of Population Aged 60 Years and Above

- Figure shows that the population of Bangladesh is gradually ageing.
- Currently, around 7% is over 60 years and this will increase significantly in the coming decades, reaching almost 12% by 2030 and 23% by 2050.
- Bangladesh will reach the 10% threshold- when countries are considered as ageing- in around 2026 according to the National Social Security Strategy of Bangladesh.
- On the other hand, due to urbanization and number of nuclear family is also rising, which increases future risks of financial and social insecurity for ageing population.
- At present only 5% of the working age population are enjoying pension benefits (employed in government services).
- About 8% of remaining 95% people employed in private sector receive gratuity benefits.
- In this context, introduction of an inclusive and robust pension scheme for all working class people including the aged is now a demand of the day.

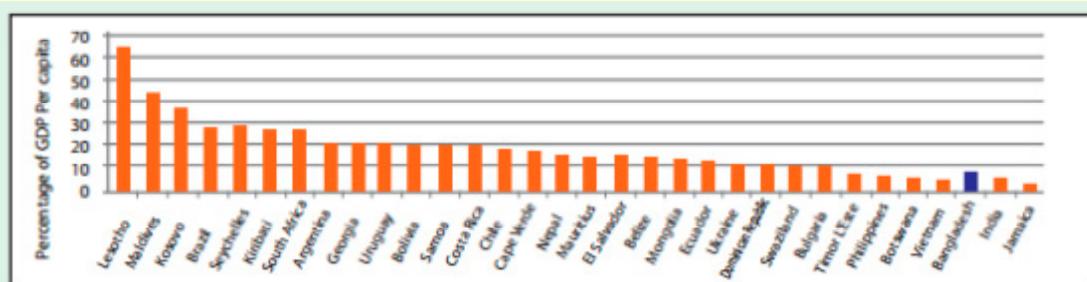
Public Sector

- Govt. of Bangladesh introduced a means-tested non-contributory pension scheme- Old Age Allowance Program- for the informal sector in 1998.
- It is totally government financed.
- It covers low income citizens aged over-63 years for women and over-65 years for men.
- Only one member from each family is entitled.
- Total number of beneficiaries are 3.15 million.
- Each receives BDT 500 (USD 6.4) monthly allowance.

Private Sector

- In 2000, the Grameen Bank in Bangladesh (the microfinance institution founded by Prof. Muhammad Yunus in 1983) introduced the Grameen Pension Scheme (GPS) for the poor people.
- The GPS is specifically designed for the purposes of old-age pensions.
- All borrowers of Grameen Bank with a loan above BDT 8,000 are required to deposit a minimum of BDT 50 each month in a personal pension savings account.
- First three years the interest rate is 8%, 10% if three to five years, and 12% if longer than five years.
- Two types:
 1. **Red GPS:** Red GPS (Grameen Pension Scheme) is only for its members. It is for 10 years tenure. Member can pick the money any time. Within 1 year of starting she will not get any profit.
 2. **GPS for 10 Years:** If any member wants to save more money, this scheme for them.

Compare with other Developing Countries



Source: Pension Watch Database

Figure-3: Comparison of the Value of Bangladesh's Old Age Allowance, with similar schemes in other Developing Countries

- It compares the transfer value- as a percentage of GDP per capita- with other developing countries.
- Bangladesh's Old Age Allowance has one of the lowest transfer values in the world.

Recent Reform Initiatives

As stated in the National Social Security Strategy (NSSS) of Bangladesh (published July 2015), government of Bangladesh is planning to introduce a three-tiered pension system:

Tier 1: a public expenditure-financed benefit that provides senior people that belong to the poor and vulnerable group with a minimum income guarantee.

Tier 2: a contributory pension scheme for the formal sector workers to be explored by designing a National Social Insurance Scheme (NSIS).

Tier 3: voluntary pension schemes- managed by the private sector (often employment-based scheme)- into which people can opt if they desire an additional income in old age.

- In the budget speech of 2016-17 Hon'ble Finance Minister announces to bring fundamental changes to the existing pension system.

“We plan to introduce, in phases, under an integrated government-run framework, a comprehensive pension system for all including the self-employed as well as those formally or informally employed in semi-government organizations and the private sector. DPS system has created an opportunity for establishing pension system in the private sector; the new universal pension plan will center around this concept.”

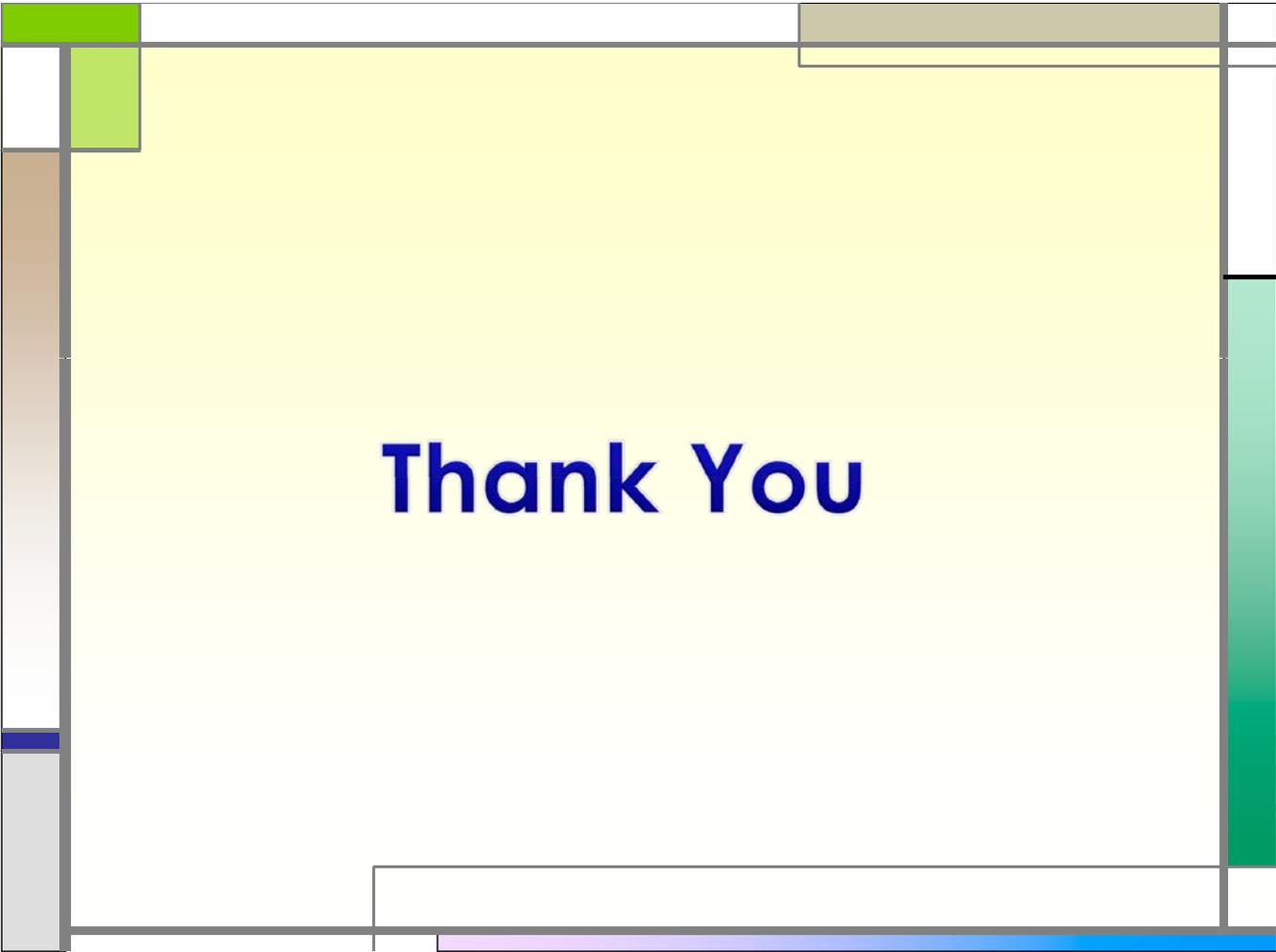
(Budget Speech 2016-17, page-64)

4. Challenges to Expand Pension Coverage

- Lack of knowledge on pensions in general and the scheme in particular.
- Strict criteria in terms of contribution requirements, vesting policies and requirements on governance structure of pension fund.
- Low financial affordability and financial savings.
- High default rates.
- Unstructured working arrangement.
- Administrative costs, particularly costs of collection in rural or remote areas, are very high.
- Arrangements for the informal sector are fragmented and cover only a fraction of the population.

5. Policy Recommendations

- Introducing financial education campaigns
- Allowing more flexible contribution and withdrawal terms
- Contribution can be made by the government in case of external shocks
- Using existing infrastructure
- Applying low-cost electronic infrastructure
- Building trust and confidence of people in the institutional framework
- Creation of a centralized administration agency
- Designing country-specific scheme, not 'one-size-fits-all'
- Above all, a rapid forward-looking response from governments is necessary



Thank You