

# Harmonisation of contributory and non-contributory programmes

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**When discussing contributory and non-contributory** social protection schemes, it is important to understand their target population, because while poverty is real, the concept of ‘the poor’ is a construct. Depending on the metric used, the majority of the world’s population could be classified from poor to insecure, with a vast number of people within developing countries depending on very little to survive. The webinar ‘Fiscal Space for Social Protection: Harmonization of Contributory and Non-Contributory programmes’ explored options and insights in favour of broader social protection coverage.

‘The poor’ does not represent a static group—on the contrary, it is extremely dynamic. Social security schemes, which aim to protect people from the incidence of poverty, can be generally classified into two types: tax-financed and contributory schemes. Tax-financed schemes typically aim to provide individuals and families with a minimum guaranteed income, contributing to the goal of a social protection floor. Conversely, contributory schemes aim to provide people of working age with programmes and means of consumption smoothing to shift income from active periods to periods when their capacity to provide for themselves and their families is temporarily or permanently reduced.

The combination of these two types of schemes can potentially offer insurance against risks that people may face throughout their life-cycle. However, as Stephen Kidd from Development Pathways has argued, we need to reframe the way we think about tax-financed schemes. In particular, these schemes are often indirectly contributory, given that social contracts typically drive citizens to contribute to the State through labour (formal or informal) and taxation (direct and indirect). These accumulated resources are reverted, in turn, to social benefits and services.

Regarding contributory pensions, the explicit (and often implicit) eligibility criteria typically exclude people outside the formal economy, who in large part have low or no income. Stephen Kidd illustrates that only a handful of developing countries offer coverage to more than 75 per cent of their working-age population; in many, particularly in Asia and Africa, this rate is less than 25 per cent. Furthermore, according to him, contributory schemes help perpetuate a strong gender bias, as women often find themselves outside the formal economy.

In the same vein, Rebecca Holmes, from the Overseas Development Institute (ODI), added that informal workers are vulnerable to many risks, with women typically being more exposed, especially to health-related issues. According to her, despite recent progress in expanding social protection coverage in countries such as Brazil, South Africa, China, Rwanda and Ghana, challenges still persist, most notably regarding gender issues. The contributory capacity of women is extremely low, given their lower and typically more precarious income patterns. Women are often engaged

in less empowered employment positions, which makes it difficult for them to conceptualise the importance of gains from this type of ‘investment’.

For Rebecca Holmes, for a social protection scheme to be gender-responsive, programme complementarities and an assessment of appropriateness must be developed—building on mechanisms that adjust themselves to the needs and risks faced by informal workers. For example, this could be accomplished by providing social assistance services to complement pensions according to the specific needs of individuals. In addition, new design and implementation formats should be considered, leading to broader coverage for women, offering better incentives for them to contribute and stimulating transformative changes in social norms towards the elimination of discrimination against women in the labour market.

For Stephen Kidd, the key challenge remains the ‘missing middle’ embedded in many countries’ current social protection policies. In Indonesia, for instance, the provision of social insurance is limited to those in the formal labour market, while social assistance targets ‘poor people’. Those ‘in between’ are excluded, with many stranded in poverty and insecurity. He showcased a variety of simulations for developing social schemes aimed at covering all citizens, highlighting the simplest strategy: a comprehensive social security system that provides a tax-financed pension scheme to all elderly people, complemented by a contributory pension system. This latter component allows individuals to accumulate higher retirement benefits and thus contributes to reducing—if not completely eliminating—perverse incentives, while encouraging more people to contribute.

Stephen Kidd suggested that tax-financed social security schemes, as entitlements, are essential to ensure a guaranteed minimum income for all. This is to be complemented by contributory schemes that provide people with extra income in case of shock and to cope with different needs throughout their life-cycle. Therefore, both contributory and non-contributory schemes are appropriate for developing countries, given their different and complementary roles. However, only through tax-financed schemes can people in the informal economy be provided with a guaranteed income.

## References:

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This One Pager is a summary of a webinar which is part of the ‘Fiscal Space for Social Protection’ series, a joint initiative between the International Policy Centre for Inclusive Growth (IPC-IG) and HelpAge International. It was held on 8 September 2016 and featured presentations by Stephen Kidd (Senior Social Policy Specialist, Development Pathways) and Rebecca Holmes (Acting Head of Programme, Overseas Development Institute).