



Working Paper

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**DREAMS THAT DO NOT COME TRUE:
RE-ADDRESSING SOCIAL SECURITY TO EXPAND
OLD-AGE SOCIAL PROTECTION:
The Case of Informal Workers in El Salvador**

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ABSTRACT

This paper focuses on old-age income security, with the objective to explore obstacles and opportunities to expand social protection for informal workers in El Salvador. It first introduces the main concepts and debates on social security, social protection, coverage and informality, to later assess the extent to which the social security system – and particularly the pension system – is handling the challenges to include the excluded. The paper reviews formal attitudes, risk assumptions, legal frameworks and official indicators as well as informal workers' opinions on topics related to work, income, savings and security to highlight the existing gaps between formal and informal worlds and visions. Bearing in mind these differences and some particular context factors, the paper rules out the short-term possibility that old-age social protection in El Salvador will be expanded through social security measures. As a result, it explores ideas on how, in spite of the obstacles and unfulfilled obligations, other institutions can come forward so that old-age social protection for less favored workers is no longer delayed.

Keywords

Informal sector, aged, social security, pension schemes, El Salvador

ABBREVIATIONS AND ACRONYMS

AFP	Administradora de Fondo de Pensiones (Pension Fund Administrator Company)
ASAFONDOS	Asociación Salvadoreña de Administradoras de Fondos de Pensiones (Salvadoran Pension Fund Administrators' Association)
CIP	Certificados de Inversión Previsional (Pension Investment Certificates)
CFW	Contributing Family Workers
CONAMYPE	Comisión Nacional para la Micro y Pequeña Empresa (Micro and Small Enterprise National Commission)
CT	Certificado de Traspaso (Transfer Certificate)
DIGESTYC	Dirección General de Estadística y Censos (General Direction of Statistics and Census)
IVM	Invalidez, Vejez y Muerte (Disability, Old Age and Death)
EAP	Economically Active Population
EHPM	Encuesta de Hogares de Propósitos Múltiples (Multi-Purpose Household Survey)
FUSADES	Fundación Salvadoreña para el Desarrollo Económico y Social (Salvadoran Foundation for Economic and Social Development)
IDB	Inter-American Development Bank
ILO	International Labour Organization
INPEP	Instituto Nacional de Pensiones para Empleados Públicos (Public Employees' National Pension Institute)
IPSFA	Instituto de Previsión Social de la Fuerza Armada (Armed Forces Social Prevision Institute)
ISSS	Instituto Salvadoreño del Seguro Social (Salvadoran Social Security Institute)
MFI	Micro-Finance Institution
MSME	Micro, Small and Medium Enterprises
OAW	Own-Account Workers
PAYG	Pay-As-You-Go System
SIP	Superintendencia de Pensiones (Superintendency of Pensions)
SAP	Sistema de Ahorro para Pensiones (Savings for Pension System)
SPP	Sistema Público de Pensiones (Public Pension System)
WB	World Bank

DREAMS THAT DO NOT COME TRUE: RE-ADDRESSING SOCIAL SECURITY TO EXPAND OLD-AGE SOCIAL PROTECTION: The Case of Informal Workers in El Salvador

1 INTRODUCTION

1.1 The Protection Problem

Designing social protection systems is a challenge for any nation, whether it is regarded as developed, in transition or developing. There are no blueprints or models that guarantee equity, quality, coverage, effectiveness, efficiency and sustainability at once. On the contrary, countries are faced with external pressures, internal demographic changes, budget constraints, short-term priorities and long-term needs to address that are not always compatible. In essence, the complexity derives from achieving a balanced interaction among saving habits, growth prospects, employment creation, fiscal discipline and demographic factors (United Nations, 1997: 1-2)

Developing countries' economies show particular profiles when compared to other economies (Saith 2004: 16). One area of major concern for the development of social protection is the high level and degree of informality. Almost by definition, being "informal" means either not being covered by national labour legislation, or lacking any form of social security. Given the heterogeneity of the informal economy, informality does not always equate to poverty; yet, when formal employment is minor, and the majority of the population is excluded from social security schemes, vulnerability to both foreseen and unforeseen contingencies and risks becomes a crucial issue, with important social and political implications.

Ageing is a common human contingency. Although ageing is a certainty, it is associated with potential risks derived from reduced capacity or opportunities to work, which in turn increase the probability of falling into poverty by diminishing individual or family incomes. Pension schemes are mechanisms that States use to provide social security to workers, to protect them or their families against vulnerabilities arising from old age, death or disability. Informal workers around the world are normally excluded from these schemes.

Providing some sort of old-age income security for all workers, regardless of their labour arrangement, is essential for alleviating poverty, reducing inequalities and enhancing the long-term well being of people. As occupational and labour markets' structures change – showing increasing levels of informality and self-employment; and as these trends do not seem to revert, the importance and relevance of expanding social protection to informal workers also increases, for they are or will soon be a majority.

El Salvador is placed among the countries with lower social security coverage in Latin America (Mesa-Lago, 1998). This should not come as a

surprise since El Salvador's labour market is highly informal. Although there are no precise data on the real dimension of the informal economy, it is estimated that almost fifty percent¹ of those who are working are not covered by any form social security.

As implied, workers in the informal economy in El Salvador have limited or no access to pensions, due to insufficient coverage, straightforward exclusion, or workers' own lack of awareness, long-term planning, financial inability and/or personal unwillingness. Mesa-Lago identifies three main factors for low coverage in Latin America (Ginneken, 1999:8): heavy contributory burden, high administrative costs and reduced incentives. Exclusion from these systems, on the other hand, not only responds to a larger context of social exclusion, but is also explained by the fact that informal workers are regarded as "risky" for they face high levels of uncertainty and instability, and particularly, low, irregular and unreliable earning (Ginneken, 1999: 11) and saving patterns.

So, in spite of the objective needs and rights that informal workers have in respect to access to social security, their associated risks, instability and low returns discourage insurance provision. As Saith (2004:11) states, "the problem here is that market insurance systems tend to exclude the needy who are perceived to take out more than they put in to the scheme". But, their dispersion also discourages social assistance, due to potentially high administrative costs.

Recent economic and institutional reforms in El Salvador have shifted the nature and provision of pensions for old age, to private companies, *Administradoras de Fondos de Pensiones* (AFPs), under private saving schemes and close State supervision. Under the current pension system – *Sistema de Ahorro para Pensiones* (SAP), pensions are determined by individual contributions, and therefore, by the workers' lifelong level of earnings and the return of the investments of the pension fund. The SAP offers a voluntary saving contributory modality for independent workers. This mechanism, however, does not seem attractive and is not succeeding in expanding social protection for informal workers. In short, neither markets seem to have incentives to provide special forms of retirement insurance for informal workers; nor do current pension schemes seem appealing to informal workers.

According to Ramírez and Solórzano (1999:166), the contributory trait of the SAP poses certain constraints to the expansion of coverage, since it implies monetary contributions that not everyone can afford. Nevertheless, there is in reality little reliable information about informal workers' capacity, interest or potential to contribute or save, and about additional and relatively stable sources of income (remittances, for example) that may serve them for income or consumption smoothing purposes.

In light of the changes in labour markets, the dilemmas that arise between the principles of social protection and risk management costs, and the resulting exclusion from social security schemes, this research attempts to answer the following question:

¹ www.spensiones.gob.sv

To what extent does the social security system in El Salvador contribute to break the vicious cycle of informality-exclusion-risk of old age poverty?

By addressing this question, the research aims to add to the efforts of identifying opportunities and obstacles for expanding old-age social protection for informal workers in El Salvador.

The sub-research questions are:

- How do current pension legislation and regulations promote or hinder expansion of social security for informal workers?
- What are the different institutions in the pension system doing in order to expand social protection for informal workers? How high or relevant is this issue in their agendas or their working programs?
- Why are not informal workers taking advantage of the voluntary contributory modality to save for their future social protection? What kind of incentives are missing or what kind of changes can be introduced to this modality in order to expand social protection?
- What kind of “pension arrangements” or related strategies, if any, do informal workers currently have in order to face future risks?

1.2 Research Methodology

This exploratory and qualitative research relied both on primary and secondary data. Sources of primary data included a total of twenty one interviews: six semi-structured interviews² with key pension system and MFIs representatives (see Table 1), and fifteen³ structured interviews with informal workers, who were informally sampled in three different areas of urban San Salvador (see Annex B: Informal Workers’ Sample Distribution). Given the nature of this research, there was a preference to select poor elderly street workers.

Table 1
List of Interviewed Representatives

Pension System	<ul style="list-style-type: none">▪ Superintendent of Pensions▪ General Manager, AFP Confia▪ General Director, ASA FONDOS⁴▪ General Manager, Unit of Pensions ISSS
MFIs	<ul style="list-style-type: none">▪ General Manager, ProCredit Bank▪ General Manager, Apoyo Integral S.A. de C.V.

² See Annex A: Research Tools.

³ Results are not meant to be generalized. Rather, they intend to provide a “feeling” about workers’ views on particular topics.

⁴ ASA FONDOS is integrated by members of AFP Confia and Crecer.

Secondary data analysis incorporated comprehensive literature reviews of international organizations' conceptual frameworks on social security; relevant research and publications on pension systems reforms, risk management, social protection and informality; official statistics about population, labour markets and pension coverage; as well as recent reports about MSME⁵ and domestic and agricultural workers in El Salvador.

1.3 Limitations

Pensions are a sensitive topic in El Salvador due to political reasons and conflicting opinions about privatization of public services. Some of the required information was restricted, confidential or not easily available. Since the private pension system is fairly new, the institutions are still learning, sometimes by trial-and-error. Thus, there are constant changes and reforms to legislation and procedures, also for political, social or technical reasons.

In January 2006, new changes were introduced to the legislation, and these came into effect in June. These affected AFPs' actions and profits, and forced companies to undergo certain organizational re-structuring, which may continue further. New reforms were expected and indeed took place this year, coming into effect in September. Although these issues did not affect the disposition of the representatives to participate or to provide information that was relevant for this study, it did somehow restrict them as to the level of detail that could be provided, since reform discussions were simultaneously taking place. It was also necessary to constantly review comments or recommendations to confirm their relevance or validity, in light of the expected and confirmed changes.

1.4 Structure of the Paper

The paper has been structured in seven chapters. This first introductory chapter presented the protection problem of social security schemes, pointed out the main questions, and described both the methodology and the limitations encountered during the research process. The second chapter establishes the conceptual and analytical framework of the research. The third chapter highlights relevant issues about the context of the pension system in El Salvador. The next two chapters analyze the pension system, in light of its principles, practice and informal workers' needs and realities. The sixth chapter explores experiences and ideas, ranging from social pensions to micro-pensions, to determine possibilities for social protection expansion in El Salvador. The last chapter presents the general conclusions.

⁵ See Annex C

2 CONCEPTUAL AND ANALYTICAL FRAMEWORK

This chapter establishes the framework in which the problem of exclusion from social protection schemes can be analyzed. The first part introduces general definitions of social security and social protection. The second part stresses the dynamic cycle of human lives that is used to justify the need for social protection. These two aspects are then integrated in a third section to describe how social protection schemes are “constructed” in theory and in practice. The fourth part uses some of the elements of this construction to explain pension systems, and particularly, the multi-pillar model that is behind current reforms. General discussions on the complexities of informality follow, and special emphasis is placed on the coverage issue, both as key element and important challenge to social protection schemes in developing countries.

2.1 Social Security and Social Protection

Social security and social protection are both contested terms. In general, both terms refer to the set of social measures designed to help individuals face their needs, manage risks better and prevent them from falling into poverty. Yet, the main agreed difference between the two relies on the statutory nature of the first; that is, social security is necessarily enacted by law or regulated, whereas social protection can include social security, but also non-statutory or private mechanisms. Some authors, however, do not make such a distinction and instead use the term social security in a wider sense, specifying that there are statutory social security schemes, when established by legislation, but that not all schemes may be so.

The ILO defines social protection as the “set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or a substantial reduction of income from work as a result of various contingencies; the provision of health care; and the provision of benefits for families with children”. (Bonilla and Gruat, 2003: 13-14). Based on this definition, the ILO identifies three key objectives for the concept of social protection (*Ibid*: 22). These objectives are: to guarantee access to essential goods and services; to promote active socio-economic security; and to advance individual and social potentials for poverty reduction and sustainable development.

The IDB, in turn, defines social protection as the set of “public interventions that lessen the impact of sudden events on the incomes and living conditions of the poor, as well as on long term development trends” (2000:1). Social protection can include labour market measures, social safety nets, pensions systems, calamity funds, and even broader issues, like education. According to this institution, the objectives of social protection are: to guarantee minimum consumption levels and access to basic services; to strengthen asset base to reduce vulnerability to shocks; to ensure investment of human capital in periods of crisis; and to reduce risk exposure by improving return-to-risk profile of economic choices.

Ginneken (2003: 279) defines social security in a wide sense, as the “benefits that a society provides to individuals and households –through public

and collective measures – to guarantee them a minimum standard of living and to protect them against low or declining living standards arising out of a number of basic risks and needs”.

These definitions emphasize the active and preventive features of social protection, and place it in a broad context of development. They differ slightly, however, in the implications, scope and permanency of the concept.

For the purposes of this paper, the term social protection will be used in the broader sense, to include both social security – understood as all statutory measures and schemes – and other collective or voluntary arrangements that may take place in a given country, that are not enacted by law or regulations.

2.2 Life-Cycles, Risks and Needs

Having needs and facing risks is inherent in the lives of all human beings. Nevertheless, the level and availability of resources to face those needs, the degree of exposure to idiosyncratic or aggregate risks, and the diversity and effectiveness of coping mechanisms varies greatly due, among others, to individual, physical, economic, socio-demographic, geographic, political, and even circumstantial conditions and characteristics.

The life cycle approach is useful to understand the changing and dynamic ways in which needs and risks are present along a person’s life, and it basically replaces the more linear and predictive presentation of life events (birth-education-work-marriage-family-retirement-death) (Bonilla and Gruat, 2003: 3) previously applied for these purposes.

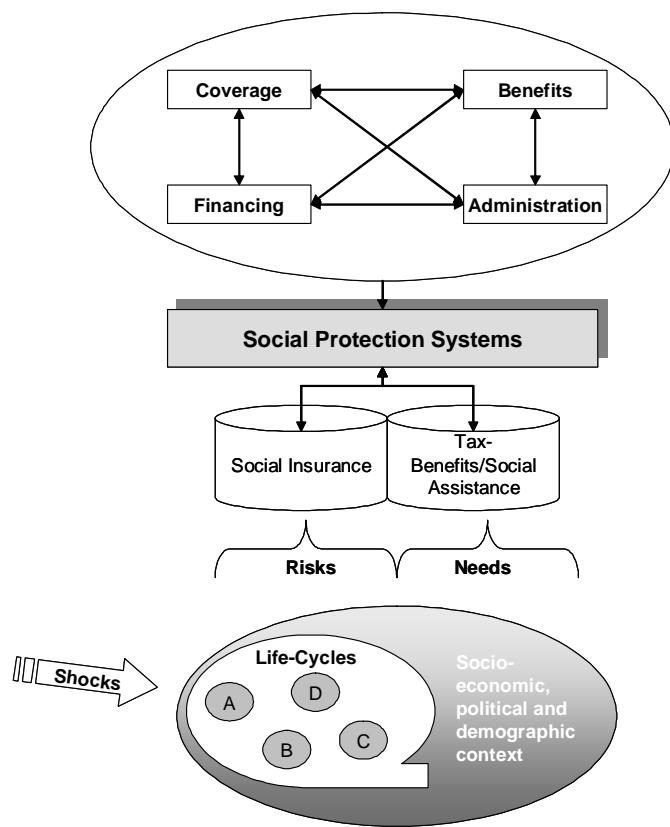
A life-cycle is “the period when for an individual, the whole set of risks and certainties to which he or she is exposed remains constant” (Bonilla and Gruat, 2003: 32). Individuals can therefore have many life-cycles, and shift to more positive or negative ones, depending on the level of vulnerability that they have. This approach is based on the premises that risks are present at all ages, do not remain constant, and that, social protection measures are always necessary to guarantee that a “majority of the population transits successive life cycles of lower vulnerability” (Bonilla and Gruat, 2003:38)

The life-cycle approach organizes the individual’s life along the line of the working years, and across social protection dimensions or objectives, in three phases: before, during and after working years. Each phase requires sufficient investment either to promote personal and social potential and opportunities, maintain and enhance them, or contribute to active ageing and guarantee a humane and decent quality of life. More general investments and efforts in participation, gender mainstreaming, and compliance with the international normative framework are deemed essential and crosscutting in this approach to social protection (Bonilla and Gruat, 2003: 39-45).

Among the risks and needs that individuals face along their life-cycles are: sick-ness, disability, old-age, survivorship, housing and unemployment. Social protection has specific functions to cover for each one of these aspects.⁶

⁶ See Annex D: Needs, Risks and Social Protection Functions

DIAGRAM 1:
Constructing Social Protection



Source: Own elaboration based on Bertranou (2005 and 2006), Ginneken (1999 and 2003), IDB (2000) and ILO (2003)

2.3 “Constructing” Social Protection

As mentioned before, social protection is intended to help individuals through their life-cycles' needs and risks. As shown in Diagram 1, social protection can take the form of *social assistance*, when the objective is to redistribute income to face needs; or *social insurance*, when the purpose is to smooth income and consumption (IDB, 2000), when the risks become a reality.⁷ Ginneken (1999:5) defines social assistance as the “benefits in cash or in kind that are financed by the State, and that are mostly provided on the basis of a means or income test”; and social insurance as that which is “financed by contributions and is based on the insurance principle” to eliminate risks of losses by pooling.

Based on a combination of these two forms of providing protection, and on the balance of responsibilities among the traditional protection pillars – family, market and State (Bertranou, 2006: 36) – governments design specific social protection schemes, programmes or systems. For example, in the case of

⁷ Some authors apply these two forms to the term of social security.

needs and risks derived from old age, social assistance programs would be put in place to support the elderly who have been poor throughout their lives; whereas social insurance programs would be designed for those with the capacity to make provisions or save for their old age during their economically active years (IDB, 2000: 109)

According to Bertranou (2006:37), most developing countries – and particularly those in Latin America – lack an integrated “protection system” *per se*; rather, they apply a combination of measures, schemes and programmes that are weakly structured and related. In spite of this, and regardless of the differences between integrated systems and isolated measures, there are four main constituent and highly inter-related parts of any social protection⁸ effort (Ginneken, 2003: 281-282): *coverage*, which refers to the number of persons affected or beneficiaries, and the scope in terms of basic needs and contingencies that are contemplated in the arrangements; *benefits*, which define entitlements’ conditions and types (cash or kind), as well as amounts and levels of repayments and settlements in periods of need and risk; *financing*, which refers to economic sources, resources, and contributions’ mixtures and levels (contributory or not-contributory) that support the benefits; and *administration*, which refers not only to the delivery of benefits, but also to the public-private combinations of contribution collection, management and organization. These components are also integrated in Diagram 1.

2.4 Pension Systems

Pension systems constitute one way in which States organize social security for its members, especially the elderly. Basically, pension systems cover three types of contingencies or risks for workers: old age, disability and death (survivorship).

As any other form of social security, pension systems’ designs vary around the world, in terms of coverage, financing, administration and benefits.

Other authors identify three main features of pension design and implementation: funding, actuarial fairness and risk sharing (Corbo, 2004: 262). *Funding* refers to the way liabilities are financed. Systems can therefore range from being “fully funded [...] backed by explicit pension assets or reserves, to totally unfunded systems that lack any reserves, with pension benefits typically financed on a pay-as-you-go basis, with continuing payments from currently active to currently passive population cohorts” (Corbo, 2004: 262). *Actuarial fairness*, in turn, refers to the degree of relationship between individuals’ present value of pension contributions to the present value of pension benefits at relevant discount rates. And last, *risk sharing* refers to the types of risk (market, political, demographic, economic, and individual, among others) that are to be covered by the benefits, but also, how these are borne by participants, governments and insurance companies (Corbo, 2004: 264).

⁸ The author makes reference to “constituent parts of social security schemes”, yet the classification can be applied to social protection schemes.

Funding, actuarial fairness and risk-sharing are extremely related to each other, and somehow overlap with the four main components of social protection schemes presented in Diagram 1. They are also used as important criteria for the pension reform debate, since “ideal” pension systems are meant to be financially sustainable, fair and equitable.

According to Bertranou (2005:5), “retirement and pension systems are the most visible and controversial of the programmes designed to cover specific social risks which have undergone reform in the past two decades”. This holds true for the case of Latin America, where several countries have been undergoing deep reform processes. In most cases, the WB model and the Chilean privatization experience serve as important references for these changes.

The WB model is based on a multi-pillar approach, which promotes transitions from pay-as-you-go-systems to fully funded systems, in order to reduce fiscal burdens, diversify government responsibilities and financial roles, redistribute individual and social risks (Bertranou, 2005:10) and extend the individualization of social security (Gill et al., 2005:11).

Initially, the WB recommended three pillars: a *mandatory publicly managed pillar (1)*, a *mandatory privately managed pillar (2)*, and a *voluntary pillar (3)* (WB, 1994: 15). Pillar one refers to social protection mainly in the form of social assistance, but also social insurance through pooling certain risks. Pillars two and three refer to social protection mainly in the form of social insurance, through savings (a type of self-insurance) for the risk of old-age, but also insurance through pooling to cover the risks of disability and death. Each pillar has different objectives that governments should achieve. For the first, second and third pillar, respectively, governments: *define benefits* “to facilitate the sharing or losses associated with old age poverty”, *define contributions* “to ensure adequate consumption smoothing over the life-cycle”, or *define incentives* “to encourage the maintenance of a reasonable standard of living during old age” (Gill et al., 2005: 122)

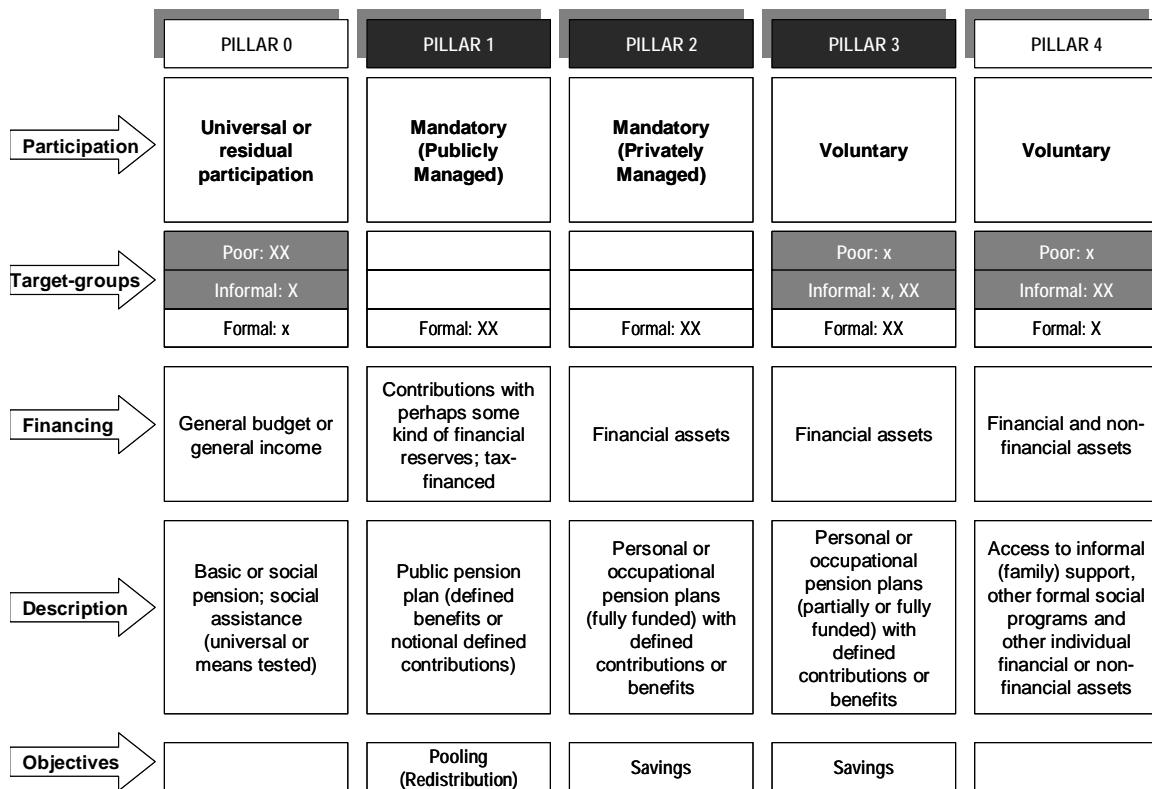
Eleven years after the original publication, given the lessons learned and persistent challenges faced by pension systems around the world, especially in low income countries; two pillars (zero and four)⁹ were added to emphasize the need that vulnerable old people have to a basic income provision, and the role of market tools to smooth consumption in or out of mandatory schemes (Holzmann and Hinz, 2005: 16). Diagram 2 briefly summarizes the new pillar structure, indicating each pillar’s general objective, its main characteristics and financing sources, as well as the intended target groups and the levels and types of participation.

The inclusion of Pillars Zero and Four stems from the recognition that the main objective of pension systems are poverty alleviation, consumption smoothing and broader social protection (Holzmann and Hinz, 2005: 15); and that the emphasis on a second pillar relying largely on contributions was openly excluding or jeopardizing the poor and the informal economy, thus thwarting further solutions to these systems’ coverage problems. Since this report is

⁹ Gill et al. (2005: 205) find the distinction between Pillars Zero and One unnecessary.

relatively new, it is yet too soon to assess its influence on local reforms in countries where social assistance pensions have not been discussed.

DIAGRAM 2
Multi-Pillar System – From Three to Five Pillars¹⁰ of Old Age Income Security



Source: Own elaboration based on Gill et al. (2005), Holzmann and Hinz (2005) and World Bank (1994)

2.5 The Complexities of Informality

Informalization refers to the process in which labour conditions become less institutional or regulated. Although this process is not new and its existence in developing countries is partly associated with the effects of Structural Adjustment Programs that “modified state-centred regimes of accumulation and distribution” (Saith, 2004:16) and “downsized” the governments’ structures, the call for greater flexibility required to face globalization has made it more evident.

There is no general consensus as to what being an “informal worker” really means, for the term takes into account several factors, including size of

¹⁰ Pillars 1, 2 and 3 highlighted in black refer to the old model. The size and emphasis of the “x” indicate the relevance of the pillar to the specific target group.

the business, existence of regulations, legislation compliance, access to social protection, among others. There is also great debate as to what causes informality, and whether it should be immediately associated with negative working conditions, underemployment, vulnerabilities and higher exposure to risk. While some positions state that informality is the result of labour market failures and rigidities, that force people into precarious forms of employment, others, like Maloney (2003: 14) argue that much of it “represents a healthy, voluntary small firm sector” that chooses not to be formal, and that it develops its own informal strategies to manage risk. Although no real agreement has been reached as to what kind of strategies should be implemented to address informality, it is no longer regarded as residual and peripheral (Jhabvala, 2003: 21), but rather central, for in one way or another, significant shares of the labour force around the world, and particularly in developing countries, are not formal.

The persistence and growth of informality, and the final recognition of its permanency rather than its temporality, have led to shifts in terminology and approaches. Previously, the term “informal sector” emphasized the characteristics of the units of production. Thus, employment in the informal sector implied employment in informal enterprises. Currently, the term “informal economy”¹¹ is used to refer to “all economic activities by workers and economic units that are – in law or in practice – not covered or insufficiently covered by formal arrangements” (Trebilcock, 2005:14). Hence, it includes other forms of informal employment than those found in the traditional informal sector, and stresses the two levels in which informality takes place: enterprise and job (Trebilcock, 2005:2), both in urban and rural areas. It also acknowledges the heterogeneity, complexity and diversity of the phenomena.

This new framework depicts a continuum of production and employment relations that emphasize the dynamic linkages, grey areas and interdependencies between formal and informal activities. The five criteria used to construct this continuum respond to socio-economic security indices, which are: regularity, contract, workplace, employment protection and social protection status (Trebilcock, 2005: 17).

The last two criteria mentioned above imply that being “informal” means either not being covered by national labour legislation or presenting any social protection deficit. Although in appearance simple, this immediate and automatic association between informality and lack of coverage in terms of social security or protection is a bit complex. It states some “circularity” with crucial theoretical implications and debates, for informality is seen simultaneously as an outcome but also as a cause. On the one hand, informal workers are defined as those who are outside a given system of social security or protection. On the other hand, the growth of informality is seen as a structural constraint to the expansion of social security and protection; or in other words, social security and social protection can not be expanded because

¹¹ Adopted in 2002 by the International Labour Conference. Alternative models are being developed now.

large part of the labour force works for the informal economy (Ginneken, 2003:286). In short, people are informal because they are not covered; and they can not be covered, because they are informal.

This paper is based on the notion that informality is not an ideal employment condition, and that it affects workers' rights, security and quality of life. It acknowledges the complexities of defining it and the existing challenges that economies and States have to face in order to break the cycle of informality and exclusion from protection systems.

2.6 The Coverage Issue

Enhancing the coverage and effectiveness of social protection for all is one of the main objectives of the ILO's Decent Work Agenda. This objective implicitly and explicitly links, yet does not restrict, social protection to work. The link is very straightforward: work is the most important source of income for the majority of households and individuals, and income allows for the provision of goods and services to satisfy needs and face risks. Hence, social protection is very closely related to labour markets (Bertranou, 2005: 5), and their structures, dynamics and conditions clearly promote or hinder access to it. Those outside formal, stable and more regulated sectors are negatively affected because social protection is normally designed – due to financial reasons – around contributory schemes. So, in spite of the intentions of universality, there is an implication (Bertranou, 2005:7) that access to social protection in practice depends on employment conditions throughout the cycle of working life, and comes only as a result from certain types of work.

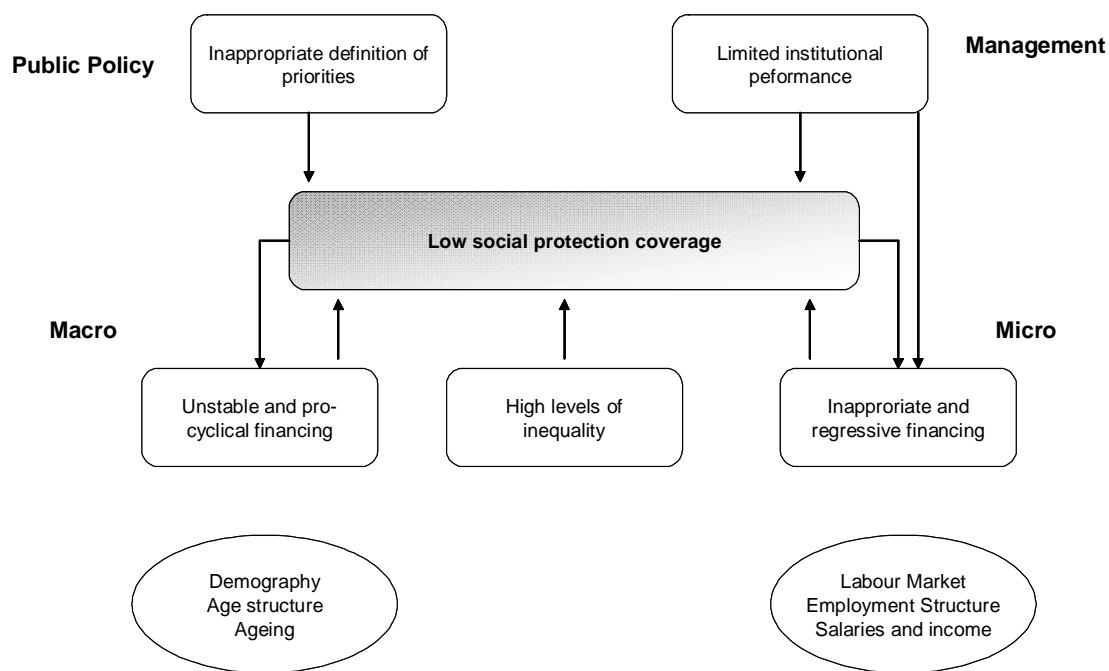
Many authors agree that extending coverage is the main challenge of social protection systems in developing countries. The ILO, however, points out that the challenge "does not lie so much in identifying ways to enhance the coverage and effectiveness of social protection, but rather in securing the resources to achieve them" (2003: 15).

According to Bertranou (2006: 35), coverage deficits lead to the "protection paradox", which refers to the fact that the least vulnerable groups have more and better access to protection. In other words, coverage is regressive, in terms of income and in terms of risk. The author does not only regard coverage as the central and crucial problem, but also as an outcome and a cause. Diagram 3 is used to summarize the coverage problem in Latin America.

This diagram places the coverage problem in a larger economic, social, political, organizational and institutional context, and stresses, the close and two-way relationships that in practice take place among the constituent parts of social protection systems described earlier. For example, public resources – including low budgetary allocations for social development – and financial aspects are very relevant, both at macro and micro levels. They are also linked to political commitment – which is in itself an important factor that determines coverage (Ginneken, 2003: 291). This, in turn, also shapes the problem of inappropriate definition of priorities, which helps explains why in reality designs or tools do not adapt to the heterogeneity of labour markets, employment and demographic structures (Bertranou, 2006: 35). For example,

Matijascic and Kay (2006:14) argue that pension insurance was designed around a model of a stable-salaried male breadwinner engaged in formal employment with a long-term labour contract. Naturally, this profile does not correspond to the reality of developing countries' labour markets. In addition, the issues related to institutional performance have impact on the levels of confidence and trust of the insured population (Bertranou, 2005: 12) and may motivate the search for alternative means of protection, hindering the development of the protection system. And last, the problem of inequality does not refer only to social processes, but also to practical inequities in the access and quality of benefits.

DIAGRAM 3
Social Protection Restrictions and Problems in Latin America



Source: Bertranou (2006: 38)

One aspect that is regarded as determinant factor for coverage (Ginneken 2003: 291), but which is not considered in the diagram, is a mobilized labour force.

Coverage is both a static and dynamic term, and therefore, has short and long term considerations and implications. According to Packard (Gill et al., 2005: 96), coverage is a “stock” and “flow” concept. When applied to pension schemes, the stock of population would include “all those people of retirement age and older who are receiving a formal retirement pension”; whereas the flow would refer to “those individuals of working age who are members of the workforce and currently are accumulating rights toward a retirement pension”. The coverage gap, in turn, also has these two dimensions: on the first hand, it would refer to the “current mass of elderly people with no formal income

protection; on the other hand, to the “likely stream of current active workers who could fall in the former category year after year”.

According to Ginneken (2003: 291), there are three interlinked basic policy approaches to extending social security:

- To extend and adapt statutory social insurance schemes, including the adaptation to needs of informal workers.
- To foster contributory – often community based – schemes for workers in the informal economy (area based social security schemes).
- To promote tax-financed social benefits for vulnerable groups which may not be able to benefit from contributory schemes

There are several reasons that justify the expansion of social protection, some more evident than others. First, it is regarded as a universal need and a basic human right (Ginneken, 2003: 277). This is a normative reason, founded on principles of equality and social justice. There are also economic and governance arguments that clearly support the extension of social protection. Nevertheless, there are counterarguments about the negative impacts that such systems have on economic growth.

Barr and Packard (Gill 2005: 95-96) identify other economic reasons, related to efficiency and costs criteria, at individual, micro and meso levels that support the argument in favor of social protection. At an individual and household level, lack of protection implies the absence of acquired rights to receive benefits, which in turn may force workers and their dependents into poverty when facing unemployment, disability or death shocks. At a social level, the failure to save or to insure can be considered an externality, for the shocks' costs and losses fall on others, including current and future tax-payers. Finally, at an institutional level, low participation weakens social institutions' capacity to pool risks efficiently, increases administrative costs and therefore affects participation incentives.

3 THE CONTEXT IN EL SALVADOR

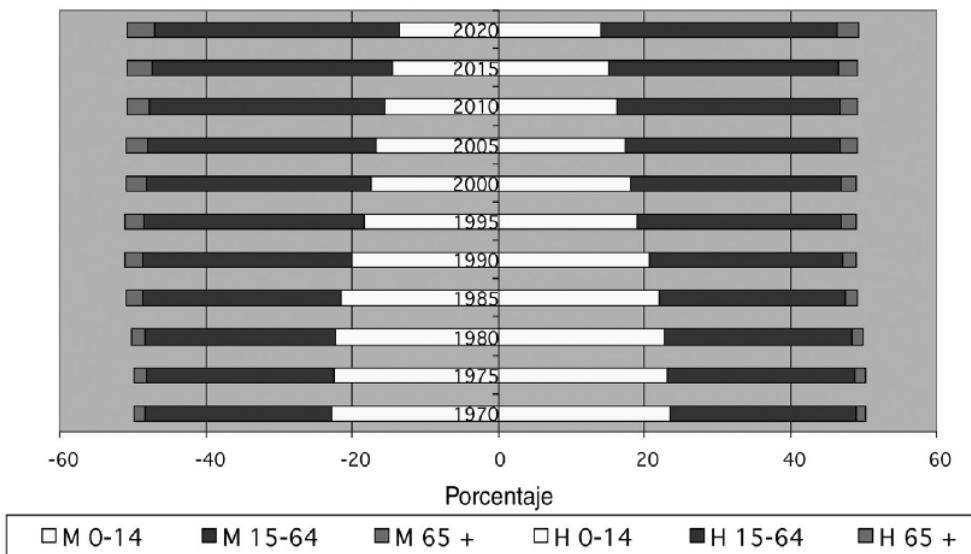
This chapter presents the general context in El Salvador. The first two sections refer to particular dimensions that are relevant to old-age social protection systems: national demographic trends and labour market concerns regarding the extent and degree of informality. The third section briefly depicts El Salvador's pension system structure, while the last one addresses the specific pension coverage deficits, challenges and debates.

3.1 Demographic Trends

Demographic trends are often solid arguments for pension reforms. El Salvador's population is ageing, although at a lower pace, when compared to other Latin American countries. In fact, it is classified as a “moderate ageing country” in terms of demographic changes. In 2004, the dependency ratio was

11.70%.¹² This is still an advantage for the country, but at the same time, an attention call to start designing more effective old-age protection systems.

CHART 1
Projected Population Structure according to Age and Gender¹³ (1970-2020)



Source: Alvarenga, L (2004), based on data from CELADE.

Chart 1 presents a projection of the population change in El Salvador, and shows not only the decreasing participation of the youngest age-cohort along the years, but also a larger and increasing percentage of women in the oldest age-cohort. This is explained by the decreasing fertility rates, longer female life-expectancy, and higher death ratio among men given the specific situation of social violence in the country.

According to the SAP Law, the retirement age for workers in El Salvador is 60 for men and 55 for women. In 2004, out of the total population of 6.7 million, approximately 11% had either reached or exceeded this threshold: 40% were men and 60%¹⁴ were women. In spite of being “officially” out of the working age, the average activity rate for this group reaches almost 36%, with strong differences according to gender. Male and female activity rates are 53% and 25%, respectively.

¹² Using <http://laborsta.ilo.org> data (2004) and formula in Bertranou (2006: 42):
 $(\text{Population of 65 and above} / \text{Population 15-64}) * 100$

¹³ M = Female, H = Male.

¹⁴ Total: 742,973 (Men aged 60+: 294,518; women aged 55+: 448,445)

3.2 “Guesstimates”: The Extent and Degree of Informality

Operationalizing and quantifying informality are extremely difficult tasks. The criteria established by Trebilcock (2005)¹⁵ are helpful, but it can not be denied that reality is more complex. For example, the spectrum of employment security and protection is very broad and this can result in different levels and dimensions of informality. For example, a person can work in a formally registered business unit, hold a contract, have access to social security in terms of health insurance, and not be affiliated to any pension system; or a person can be self-employed, and be totally excluded from any kind of regulation or system. Therefore, any quantitative estimate of the informal economy is just that, an estimate, and hides the diverse shades and degrees in which informality takes place in any specific space and moment in time.

Informality can be approached and measured in several manners. One way to have a national approximation to the phenomena is through the number of own-account or self-employed workers, as well as contributing family workers, who are not covered by any regulation and are less likely to be part of any formal protection system. Table 2 provides relevant data of these two categories.

TABLE 2
Total Employment, Own Account Workers (OAW) and Contributing Family Workers (CFW) – El Salvador (1995-2004)

Year	Total Employment			Own Account Workers (OAW) plus Contributing Family Workers (CFW)					
	Total	Men	Women	Total		Men		Women	
		%	%	Total OAW+CFW	% of Total employment	% of OAW+CFW employment	% of Total Men employment	% of OAW+CFW employment	% of Total Women employment
1995	1,973,017	62%	38%	722,147	37%	53%	31%	47%	46%
1996	2,056,450	62%	38%	773,937	38%	54%	32%	46%	46%
1997	2,076,034	62%	38%	774,775	37%	54%	32%	46%	45%
1998	2,227,471	60%	40%	840,671	38%	53%	33%	47%	44%
1999	2,274,728	59%	41%	793,920	35%	50%	29%	50%	43%
2000	2,322,697	59%	41%	867,777	37%	50%	32%	50%	46%
2001	2,451,317	60%	40%	939,368	38%	51%	33%	49%	46%
2002	2,412,785	58%	42%	948,119	39%	50%	34%	50%	47%
2003	2,520,060	58%	42%	924,917	37%	49%	31%	51%	45%
*2004	2,526,363	59%	41%	901,352	36%	48%	29%	52%	45%

Source: Own elaboration based on <http://laborsta.ilo.org> (Table 2D: Status in Employment) and EHPM (2004)

*Data corrected using EHPM 2004

As the table shows, during this decade, between 35% and 39% of total employment in the country had some traits of informality. When comparing

¹⁵ Chapter 2.

the percentages between genders, it is evident that although women participate less in the labour market than men, their degree of “informality” is consistently higher, which confirms the association between feminization and informalization. For example, in 2004, 41% of the working population was female; but 52% of the population working as OAW or CFW was female. In addition, nearly half of female employment is created in segments that are loosely regulated. The table suggests increasing absolute numbers of potential “informal” workers as defined in these two categories of employment status, but does not provide sufficient indications to state trends of their significant growth in relation to total employment in the country. In addition, the data show both an increase in the female activity ratio, and in the female participation as OAW and CFW along the years.

It should also be noted that some economic sectors portray higher levels of informality than others. In El Salvador, the commercial sector captures almost 30% (DIGESTYC, 2004) of total employment, but of very low quality and productivity. Almost 60% of commercial workers are reported as “self employed” (or OAW) or “unpaid family workers” (or CFW), against 36%, when compared to total employment. In other words, the average incidence of informality in commercial activities is higher than the national average.

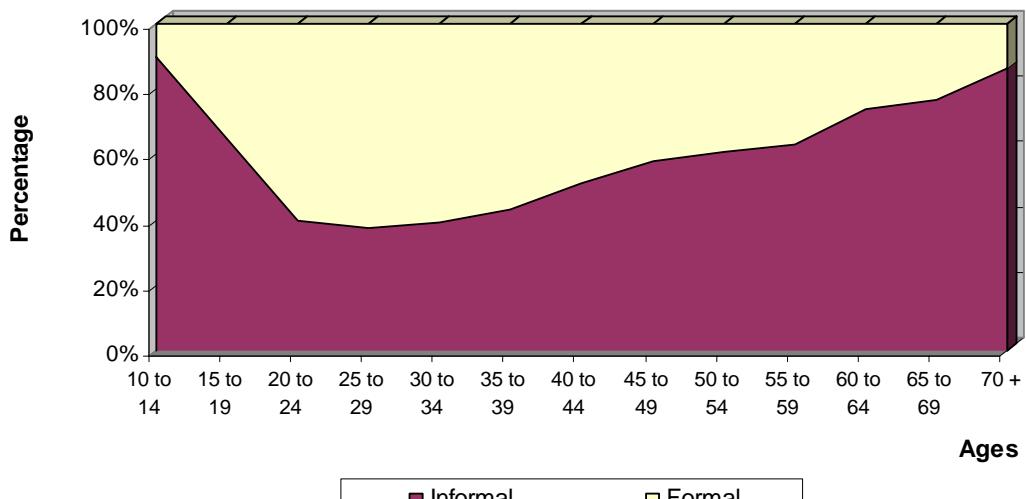
In El Salvador, official publications still make reference to the “informal sector” as the segment of *urban* labour markets, made up of wage employees and workers in establishments of five or less workers; own account workers, and employers of enterprises comprising five or less workers in non-professional, technical, managerial or administrative activities (DIGESTYC, 2004). This definition does not consider rural areas, and therefore clearly underestimates the extent to which workers are not legally or socially protected in the country, especially when 38% of the economically active population resides in rural areas, 36% of total employment takes place there, and when almost 20% of the economically active population performs agricultural activities.

Based on this more narrow definition, El Salvador’s informal sector accounted for 772,407 people,¹⁶ constituting 49.81% of total *urban employment* in the country in 2004. Chart 2 illustrates the distribution of formal and informal workers according to age.

The chart shows that there is a potential link between the age range and the sector of employment: up to a certain age, the older the workers, the higher the level of participation in the urban informal sector. It makes sense to argue that children and teenagers tend to be highly informal because, among others, there are explicit laws forbidding the employment of minors. Intuitively, it can also be argued that as age increases, labour markets push older workers out of the formal sector or prevent their entry, because of discrimination and segmentation, the search for less expensive labour and the reduction of benefits and obligations.

¹⁶ Official statistics exclude 63,256 domestic workers. If included, “informality” would reach 52% of total urban employment.

CHART 2
Informal and Formal Sectors according to Age
Urban Areas, El Salvador (2004)



Source: Own elaboration, based on DIGESTYC (2004).

In urban areas, feminization also goes hand in hand with informalization: 60% of all women who are employed are classified as part of the “informal sector”, against 40% of men (DIGESTYC, 2004).

Table 3
ISSS Health Coverage
Percentage of Urban Employment¹⁷ by Sector and Gender (2004)

Gender	Total			Formal			Informal		
	Total	Covered	Not-covered	Total	Covered	Not-covered	Total	Covered	Not-covered
	1,457,123	44%	56%	773,507	74%	26%	683,616	10%	90%
Male	813,769	44%	56%	475,903	69%	31%	337,866	8%	92%
Female	643,354	44%	56%	297,604	81%	19%	345,750	12%	88%

Percentages that do not correspond to certain definitions of informality.

Source: Own elaboration, based on DIGESTYC (2004).

If, in spite of the circularities and complexities, lack of access to social security is “inherent” in some definitions of informality, it is important to have an estimate of how many workers are covered¹⁸. Official statistics provide interesting information regarding the extent of statutory health coverage

¹⁷ Total Urban Employment (including domestic workers and CFW): 1,613,926.

¹⁸ The next chapter presents a more detailed analysis and explanation of coverage, both conceptually and contextually.

provided by the ISSS. Table 3 presents recent data on urban areas, classified by sector of employment and gender. It basically reflects that the majority (56%) of urban workers are not part of the health social security system. This percentage is in reality higher: the national urban aggregate for this indicator excludes both domestic workers and CFWs, as these do not have clear and distinct employer-employee relationships. This partly explains why it appears that women have in average better coverage than men, since these are mainly female jobs¹⁹. It would be interesting to see how the numbers changed if these two categories were included. The table also suggests that in practice, the relationship between formality and coverage is not necessarily straightforward, simultaneous or direct, for 26% of those regarded as formal as not covered by the health social security scheme, whereas 10% of those regarded as informal are.

In short, informality is difficult to conceptualize and measure, for not only are there many and evolving definitions, but it manifests itself in diverse levels and dimensions. It can be concluded, though, that it is essential to continue making efforts to quantify and understand it. In the case of El Salvador, it is linked with feminization, ageing, and the growth of specific economic sectors. Furthermore, and for the purpose to assess social protection deficits, it is crucial not to exclude rural population from concepts and statistical indicators.

3.3 Pension System Structure

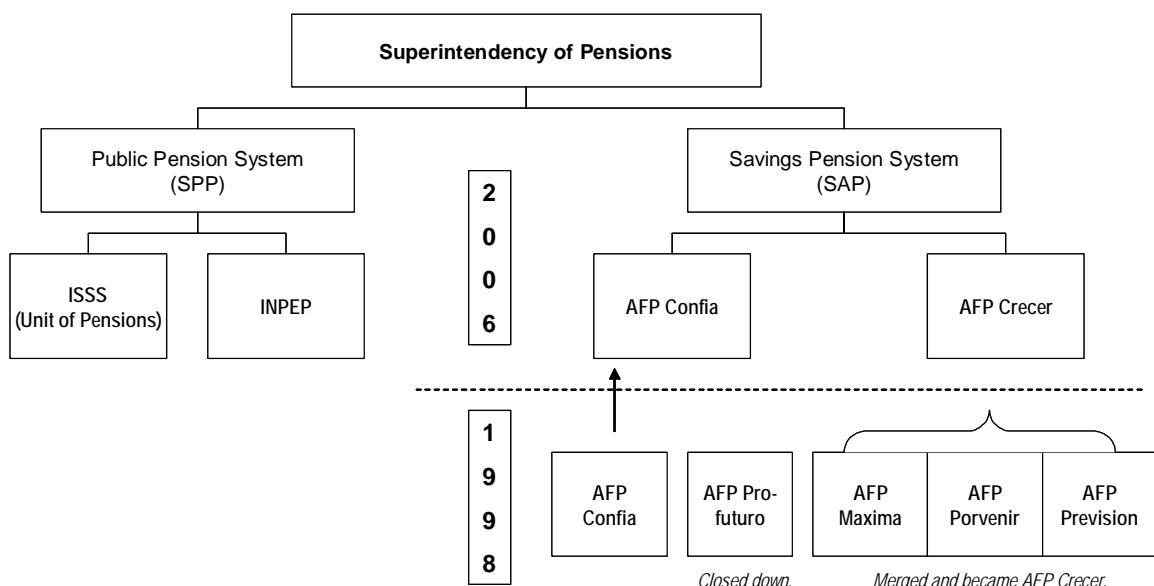
The process of pension reform in El Salvador began early in the nineties, with several studies and arguments stating that the former *sistema de reparto* (*pay-as-you-go-system*) was no longer financially sustainable, and that the technical reserves were soon to be exhausted and drained. By the end of 1996, the new *Ley del Sistema de Ahorro para Pensiones* (SAP Law) was issued and approved, but the new system began operations in 1998. The reforms basically shifted the nature and provision of pensions for old age to private companies – AFPs – whose functions include the collection of workers' contributions, their accreditation to individual accounts, their collective investment in publicly offered shares and deposits, and the administration of benefits for old age, disability and death due to common risks (Ramírez and Solórzano, 1999: 155). In other words, under the new system workers' lifelong level of earnings and the return of the investments of the pension fund determine the extent of pension benefits.

In the “multi-pillar” model terminology described in the previous Chapter, El Salvador’s new system is founded on pillars one, two and three: *one*, since it theoretically considers a *minimum pension* given that workers comply with certain conditions; *two*, which corresponds to the contributory feature and central characteristic of the new system; and *three*, since it allows for contributions in terms of voluntary savings. A more comprehensive analysis of these pillars is provided in the next chapter, as it turns out to be relevant to understanding the challenges El Salvador faces in terms of expanding protection. The current

¹⁹ In Urban El Salvador: 93% of domestic workers and 60% of CFWs are women.

structure of the pension system in El Salvador is summarized in Diagram 4.²⁰ As the diagram shows, the system is divided in two sub-systems: SPP (Public Pension System) and SAP. The reform was substitutive in nature; that is, the new system was meant to totally replace the SPP, with its PAYG schemes in a few decades. Public pension institutions, including ISSS and INPEP – which prior to the reform were responsible for the whole pension process for private and public employees, respectively – remain only to administer and grant benefits, but no longer to incorporate affiliates. The State, in turn, has a role of “institutional system administrator”, through the Superintendency of Pensions; and is also the guarantor of the SAP (Ramírez and Solórzano 1999: 155)

DIAGRAM 4 Pension System Structure



Source: Own elaboration

The diagram also depicts the initial and actual composition of the SAP. In less than one decade of operations, there have been important changes in the number of AFPs that participate in it. The reduction from five to two companies has had implications for competition, and therefore, for management of administrative costs. It should be noted that these changes are also linked to changes in investors and shares, although both active AFPs are and have been strongly related to either national or international financial corporations.

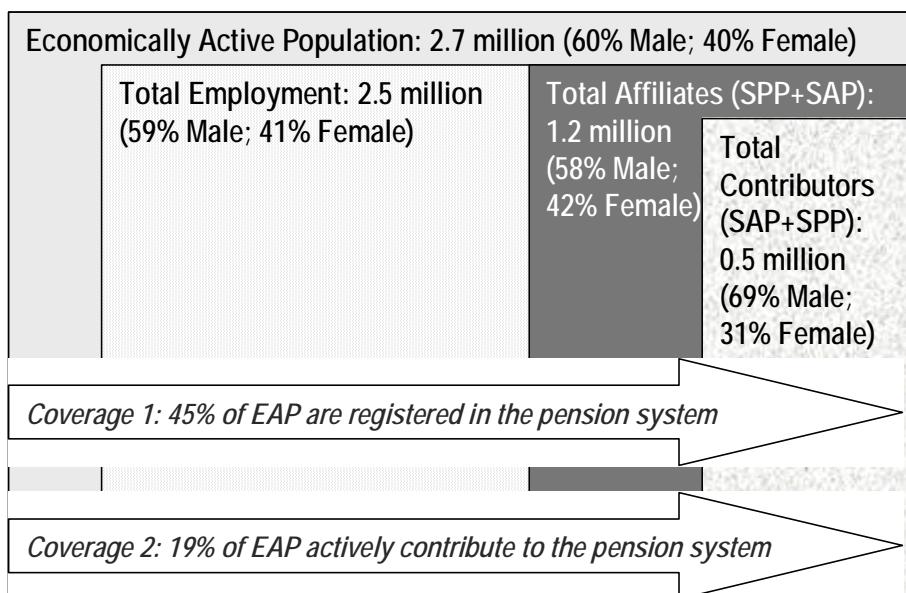
²⁰ IPSFA (Armed Forces pension institution) is not considered part of the SAP.

3.4 Current Pension System Coverage

The SAP faces many challenges. Mesa-Lago (2003:6) identifies the following five main problems: no extension of population coverage, high and growing fiscal costs, lack of competition and high management costs, lack of diversification of investment and falling real returns, low pension level risks and equity issues. Given the nature of this paper, especial emphasis will be paid to the coverage problem.

Many authors agree that El Salvador is one of the countries with the lowest levels of coverage among those in Latin America that have undergone a process of reform. Diagram 5 provides an overview of the pension system coverage,²¹ both in terms of affiliations (Coverage 1) and contributions (Coverage 2).²²

DIAGRAM 5
Pension System Coverage in El Salvador
(Data: December 2004)



Source: Own elaboration using DIGESTYC (2004) and SIP (2004)

The diagram shows that less than half of the EAP is registered in the pension system, and that in total, less than twenty per cent are actively contributing or accumulating rights to receive a pension for old age. In other words, if informality were measured by entitlement to old-age social

²¹ Official statistics do not integrate SPP and SAP coverage numbers, and use different categories to present data. Different sources of information have been used to estimate pension system coverage.

²² Affiliations tend to overestimate coverage; contributions tend to underestimate it.

protection, it would reach outstanding levels of 80% of the EAP, considering actual rights to benefits. The diagram also illustrates that pension coverage is potentially lower for female workers, because they have a lower contribution density than men, although the extent to which protection is actually extended to women may be underestimated, because they are normally beneficiaries in the system.

Some theoretical explanations to the broader issue of coverage were presented in Chapter 2. Nevertheless, placing coverage in the context of the pension reform debate is important. According to Gill et al. (2005:96), low rates of coverage under pure PAYG systems were precisely a strong “motivation factor” for reform. However, there seems to be a general agreement that coverage remains one of the main challenges faced by pension systems, and that pension reforms have contributed little or nothing to raise coverage in Latin America (Corbo 2004). In fact, evidence on this issue is mixed (Gill et al. 2005: 100). Some authors even disregard the notion that a reform was needed to expand coverage. To some authors (Gill et al. 2005: 101), income-per-capita explains the share of contributors to a formal pension system, not the type of pension system itself.

The “circularity” stated earlier also applies here. For example, economic theoretic positions that press for pension systems’ reforms argue strongly in favor of the establishment of individual retirement savings accounts, as it is expected that they will increase formalization by reducing the actual and perceived tax on labour (Gill 2005: 89). Nevertheless, there is no empirical evidence of this and pension reforms have not *per se* resulted in increased formality. In addition, there is also an open recognition that the contributory nature of these savings schemes in itself excludes those with limited capacity, including informal workers.

Corbo adds that “it is difficult for a reformed pension system that provides actuarially fairer pension benefits to contribute to higher employment formality if Latin America’s other stronger incentives for informality [...] are maintained” (2004: 277). Matijascic and Kay (2006:18) present a similar argument, and state that “labour market conditions are such that a majority of the labour force will not fully participate in the new systems of individual accounts”, and that “the defining rate of contributors to beneficiaries can be attributed to precarious employment and a growing informal economy rather than an ageing working force”.

Alvarenga (2004: 227-233) mentions the following as possible explanations for the SAP’s low coverage: increase in the rate of contribution, harshening of the conditions of the Basic Regulating Wage, and competition constraints. She states that the reforms eliminated the principle of solidarity, did not establish the mechanisms to suppress the barriers of entry for informal workers, and created ambiguities on their incorporation. She explicitly adds that the increase in contribution rates poses barriers to the extension of coverage, because of informality and poverty. Some of these explanations can be contested. Some authors, for example, argue that there is “little evidence in the region that cutting contribution rates leads to higher compliance” (Matijascic and Kay, 2006: 6). Besides, the former system also excluded informal workers.

In short, it is not possible to affirm in a responsible manner whether the reform process has increased or decreased coverage in El Salvador. Some authors like Mesa-Lago (2003: 11) suggest that overall coverage has not increased since 1998. There were, however, no reliable indicators prior to the reform, to make comparisons and sustain this or the respective counterargument.

It is important to point out that although coverage was central in the argument for reform, coverage expansion is neither automatic nor immediate. It requires that additional efforts be made by the Institutions and actors involved. The next section will explore what the institutions in the country are doing to expand coverage for all workers, including informal workers.

4 LAW AND INTENTIONS VERSUS PRACTICE AND FACTS

This chapter analyzes the performance of the pension system in El Salvador by comparing what it is intended to achieve in terms of coverage to what it accomplishes in practice. It combines the results of primary and secondary data – including interviews held with institutional representatives and informal workers as well as references to the law and official statistics – to highlight the persistent gap between intentions and facts. The first part briefly reviews each one of the pillars in the model introduced in Chapter 2 and presents their application in El Salvador. The second part focuses on the pension system's representatives' opinions regarding expansion of coverage. The last part mentions the outcomes of the most recent pension reforms.

4.1 Model and Practice: *Multi-Pillarism* and SAP

According to Bertranou (2005:10), “the essence of the proposed ‘multi-pillaring’ is the attempt to redistribute the risks that are assumed by individuals and society in such a way as to guarantee economic security in old age”. The term *redistribution of risks* implies that there is diversity of participants. In theory, the model is not supposed to be designed for a minority or for one standard type of individual; it is meant to protect individuals in a society, who face different risks and needs, and therefore have different working profiles and characteristics.

Nonetheless, it is clear that in El Salvador, as in other Latin American countries, there is a prominence of mandated private savings relative to public social insurance and voluntary forms of savings and insurance (Gill et al., 2005: 22) and that not many efforts have been made to develop other pillars.

El Salvador has no social assistance pension or program to meet the needs of the elderly who are poor. In other words, there is no ***pillar zero***. Although ***pillar one*** exists, meeting the basic requirements to receive the minimum pension is in practice impossible, for there are two simultaneous requirements²³: having reached the retirement age (55 for women, 60 for men), and having completed twenty-five years of contributions. This implicitly

²³ Article 147

demands certain work regularity and stability within the formal sector, which as seen earlier is not a reality for the majority. According to Mesa-Lago (2003: 19), these conditions are not only among the harshest found in countries that have undergone reforms in the region; they also reduce the number of eligible workers and intend to reduce the fiscal cost derived from this benefit.

Alvarenga (2004: 231) states that the minimum pensions constitute part of the triple cost of transition that the State is facing due to the reforms.

As mentioned in Chapter 2, **pillar two** consists of mandated savings. As of June 2006, the total contribution is 13% of the employee's salary. The employee contributes 6.25%, while the employer pays 6.75%. The employer's payment is broken up as follows: 4.05% for the employee's individual account and 2.7% as commission to the AFP. In total, 10.3% of the salary is destined to the individual savings account²⁴.

According to the multi-pillar model, **pillar three** calls for voluntary savings. This pillar is not binding to a specific type of worker. In El Salvador, the SAP law²⁵ distinguishes between "dependent" and "independent" workers: the first ones are "subordinated" or "depend" on a particular employment arrangement (employees); the latter ones are in practice self-employed or own-account workers who do not depend on an employer.

Voluntary savings operate in different manners, depending on the type of worker. Employees, on one hand, can contribute an additional amount of money to their savings account to increase their own funds and improve their retirement conditions. Income tax incentives are offered for this sort of voluntary savings. On the other hand, workers without an employer can become part of the system, get affiliated and contribute under the "independent worker modality". Basically, workers define a regular "income" for themselves, which should at least be equivalent to the minimum salary²⁶, and they pay the whole contribution of 13%, which includes the employer, employee and commission components.

Table 4 presents data on the distribution of affiliates and contributors, as well as indicators on the density of contribution by type of worker²⁷ (dependent and independent).

In principle, the independent worker modality was intended to expand coverage by eliminating the entry restrictions and considering the possibility of universalizing benefits. But in practice, contributing for pensions is expensive for informal workers, and as Ginneken (2003:286) points out, self-employed are not prepared to pay "twice"²⁸. From the table, it is evident that independent workers' participation is notoriously low, both in terms of affiliation and contribution, and especially so for the latter one: they constitute less than 16%

²⁴ www.spensiones.gob.sv

²⁵ Article 6

²⁶ As of September 2006, minimum salaries are: US\$174.24 (commerce and services), US\$170.28 (industry), US\$157.25 (textile industry and maquila) and US\$81.51 (agriculture)

²⁷ Density of contribution = $(\text{Total contributors} / \text{total affiliates}) \times 100$

²⁸ Employer's and employee's contributions.

of total affiliates, and less than 10% of total contributors. This reaffirms the “bias” that the system has for dependent workers, whose employment arrangements tend to be formal and more regular. In spite of the total absolute increase in numbers of affiliates and contributors, the system’s general reducing density of contribution – and the important decline in this indicator for the independent workers’ category – has negative implications regarding the accumulation of rights for future coverage, and thus, should be taken as a signal of alert for the potential social protection deficits that may arise for workers in old age. In fact, it signals serious sustainability problems for the system.

TABLE 4
Affiliations, Contributions and Density of Contribution

Year	Type of Worker	Total	Total Contributors	Density of Contribution*
2003	Total Affiliates	1,074,493	490,708	45.67%
	Dependent	96.36%	94.07%	44.58%
	Independent	3.64%	5.93%	74.37%
2004	Total Affiliates	1,166,602	477,113	40.90%
	Dependent	91.63%	92.37%	41.23%
	Independent	8.37%	7.63%	37.27%
2005	Total Affiliates	1,279,714	504,421	39.42%
	Dependent	84.38%	90.97%	42.50%
	Independent	15.62%	9.03%	22.78%

Reducing density of contribution of independent workers

Source: Data provided by SIP.

The results of the interviews shed some additional explanations regarding these numbers. First, there are severe compliance and law enforcement deficiencies, and responsibilities can be attributed both to employers and workers. Second, in terms of affiliation, it should be noted that although in principle there should be no preference for any specific type of worker; in practice, AFPs are very selective about their targets. Companies try hard to register professionals who work independently (doctors and lawyers, for example) and have higher incomes, but neglect less favored informal workers. They do not actively promote this modality or communicate it as an alternative, either. It is not surprising, then, that informal workers have little information about how AFPs work, even when they sometimes know about their existence. Furthermore, they have practically no knowledge of the independent worker modality, as Table 5 shows. Most still think that only formal workers are entitled to pensions, and therefore, do not actively seek information about the system either.

TABLE 5
Informal Workers and AFPs

Number of Respondents	Affiliated in AFPs			Respondents with certain knowledge about AFPs	Respondents who knew about the Independent Worker Modality
	Total	Active Contributors	Receiving pension benefits		
15	3	0	1	12	1

Source: Interviews (Informal Workers)

The three most frequent reasons used by the interviewed workers to explain either the absence of affiliations or contributions were: not having enough money, not knowing how institutions operate and not trusting institutions.

The interviews with institutional representatives also revealed that, statistically, the independent workers category is not clean. It is used as transitional or default category to count or consider whoever is in the system and is not dependent. For example, it includes massive affiliations of college and high school students, who are part of the economically inactive population, but will become potential employees in the future. This can be one of the factors explaining the drastic reduction in the density of contribution. Furthermore, the independent worker modality is also promoted as an anticipated saving mechanism for sons and daughters of high level executives who want to contribute to their offspring's future well-being.

In short, the category does not really represent independent workers, it underestimates the deficiencies and challenges faced to extend coverage to independent workers, and it reaffirms the notion that the independent working modality is not fulfilling its objective.

Finally, there is no evidence that **pillar four** is being developed in a systematic or integrated manner, in order to support consumption during old-age.

4.2 Institutional Positions on Expansion of Coverage

The following paragraphs provide a summary of the system's representatives' perceptions and opinions regarding the expansion of pension coverage to informal workers in El Salvador. It should be noted that the interviews took place while discussions were being held on potential system reforms. The agreements of these discussions were published recently, and are presented in the following section.

The results confirm that there is a clear awareness of the system's coverage deficits and of the constraints to extend social security to informal workers. Still, extending social security is not a priority in institutional business agendas or crucial among discussion items for reform. The economic argument about the fiscal costs (Alvarenga 2004: 230) which initially promoted the

reforms eight years ago seems to still be a central concern, particularly, the finding of mechanisms to finance the high transition costs to the SAP.

The SAP Law provides room for expansion of coverage to independent workers, domestic and agricultural workers. However, even eight years after the reform, no special regulations have been developed, even though the law explicitly demands them, particularly for the case of domestic and agricultural workers.²⁹

In 2004, the SIP requested special actuarial studies in order to determine the conditions in which domestic and agricultural workers could be incorporated to the pension schemes. The studies were executed by external consulting firms. These results were delivered to the SIP but have not been formally communicated to AFPs or the general public. In fact, they have been halted. It should be mentioned that the SIP makes the statement that the studies were a result of an institutional initiative, and not an official government request. It is clear for this institution's representatives that given the current financial and fiscal context, it is highly unlikely that the government will engage in discussions regarding the expansion of coverage to informal workers, for it is not able to increase expenditures.

The studies³⁰ recommend tripartite (worker, employer and State) contributions, for they recognize the limitations imposed by low wages in both sectors; and suggest that the AFPs remain responsible to manage domestic and agricultural workers' pensions, with certain changes in their conditions and commission levels. The studies, however, do not address the issue of fiscal resources. As mentioned above, the State is not willing or is not able to participate by providing regular contributions, so that's probably one of the reasons the studies are halted. The studies also confirm the lack of commitment that agricultural associations and employers have with respect to social security.

The AFPs' position with regard to expanding social protection for informal workers is clear: nothing is being done and nothing will be done in the short run, because there are no fiscal resources, incomes are low and irregular, and therefore procedures are complicated, generating high administrative costs and low or no profits³¹.

Nonetheless, there are efforts to expand pension coverage within the formal sector itself. Currently, there is a significant difference between health and pension systems' coverage. The first one registers at least 200,000³² more affiliates than the latter one, which accounts for 20%-25% of the pension system's affiliates. Discussions evolve around the integration of databases between the institutions and deciding on either incentives or sanctions to increase compliance with the law. In addition, a recent reform approves affiliation of workers abroad (especially in the United States), and some attention is being paid to designing procedures to make their affiliations

²⁹ Article 9

³⁰ Studies are restricted and can not be referenced or quoted in detail.

³¹ Source: Interviews (Pension System Representatives)

³² 290,000 considering 2004 data.

possible. As for changes or improvements in the independent worker modality, the payment procedure was simplified: workers are no longer required to fill a payroll and can approach directly certain authorized bank agencies in order to make their contributions.

4.3 Outcomes of Recent Discussions

As indicated in the interviews, the topics under discussion for reform were mainly related to finding mechanisms to finance the pension debt and the fiscal deficit. The new regulations are effective as of September 23, 2006. Although the details of the reform are outside the scope of this paper, the measures taken have explicit objectives to manage and reduce government expenditure in pensions, to find resources to face the acquired obligations, and to add a few investment options.

The reforms created a financial trust, managed by a third party that will issue investment certificates (CIP). AFPs are obliged to purchase these certificates (as a way to “invest” in State values), up to a maximum of 30% of the pension fund asset. These resources will be used to pay the government’s pension debt, according to a special annual program of payments prepared by the Ministry of Finance, ISSS and INPEP. With this new tool, the government will no longer issue foreign debt (Euro-bonds) to finance pensions. Basically, the private pension fund is being used, through special conditions, to finance the previous and programmed pension debts.

The reforms alter many of the Law’s articles. Articles that have been derogated, modified or substituted eliminate certain forms of payments to beneficiaries, or open the possibility to pay in annuities instead of lump sums when it comes to returning the accumulated balance of the pensions’ savings account. Gradual disbursements are preferred, given the level of debt.

Hence, it can be inferred that other ways must be identified in order to increase pension coverage for informal workers, since the State does not seem to be in a financial position to support initiatives that require special budget allocations, subsidies or cash transfers for pensions. No political will exists either. And in spite of the wide and repeated recommendations on the need to implement structural fiscal reforms, there are no signs of actions or intentions in this direction.

5 ASKING QUESTIONS TO CHALLENGE NOTIONS

This chapter presents a series of questions that are intended to challenge some pre-conceived notions or assumptions about informality and social security. Challenging notions is crucial to highlight the need to seek alternatives to the problem of social protection for old age. Answers to the questions or reflections around them feed from the literature, the interviews held with institutional representatives and informal workers in El Salvador, and from results of relevant reports that relate these two topics.

5.1 Different Realities = Different Logics?

The social security system in El Salvador has been built around a formal logic, and this logic has permeated into institutions and representatives. The reform process has not changed this logic: pensions are for workers with regular and stable jobs. In institutions' settings and in their representatives' minds, there is no "continuum" between formality and informality, as the theory and the practice suggest. There is a duality: they are simply two different realities and two different worlds. It's not absence of social awareness, it's just that the system works in a certain way, and people have to adapt to the system. Formal social security institutions in El Salvador have in fact in the past considered and discussed ways to "*incorporate*" workers, but it has turned out to be "too complicated"³³, because informal workers do not follow their standards and are not likely to comply with procedures and regulations. But the question is, in terms of principles of equity and social security, why do people have to *adapt* to a system that does not make sense to them?

This "schism" is made evident especially when exploring certain views on work. Work is a social construction, and the ideas around what it is or how it should be change within and among societies along time. As mentioned in Chapter 2, social security systems are built around an idea of work (who, how and for how long) that is shared by a particular segment of the population. Likewise, pensions as means to support income in old age are also a product of the social construction of a "normal" worker's life-cycle .

Pensions are designed under the assumption that there is or there should be a fixed retirement age. Yet, is this acceptable or even real for most people in developing countries? Do informal workers see an interruption to work, and a life-cycle that's split before, during and after working years? The model is helpful and makes sense, because nature imposes limitations on the human body and some set of regulations are needed to guarantee some level of provision. The notion of social security for old age is not being questioned; the assumptions behind the "*how's*" are. For when poor informal workers are approached in the street, their views around their own working and life-cycles differ. They don't tend to see an interruption to their working lives or have an inborn concept of a retirement age; as some, or even most of them, have been working from young age to either help support their families or themselves. The sampled workers, for example, began to work at an average age of thirteen, and they all, without exception, expect to continue working until they are able to; or in their own words, "*until God permits*", "*until the body is able to*" or "*until death*"³⁴. To some, the question of an expected retirement age even sounds ridiculous. And it probably is. Therefore, a system that imposes ages of entry and exit to build social protection reflects a different logic, not realistic and somehow more "ideal" but not necessarily more positive, because it is exclusive. Actuarial tables and pre-conceived retirement ages that change arbitrarily just widen the gap and reduce the possibilities of constructing some notion of social protection according to people's real needs and characteristics.

³³ Source: Interviews (Pension System Representatives)

³⁴ Source: Interviews (Informal Workers)

Another manifestation of the contrasting logics is the over-emphasis on contributions. Contributions normally refer to a portion of a wage or salary, which in turns tends to be a relatively fixed, periodical and somehow reliable income. But, self-employed workers, for example, do not receive a wage or a salary. Conditioning independent workers, in general, to set a basic income for contributions, which by Salvadoran legislation has to be at least equivalent to the regulated minimum wage is straightforward exclusive and selective, especially when least favored independent workers earn less than a the equivalent to the minimum wage. A recent report on MSME³⁵ serves as a reference to confirm this situation: almost 60% of the micro-entrepreneur households (Subsistence I) and almost 70% of those with no fixed working location reported to earn less than the then approved minimum wage of US\$154 (FUSADES: 2005: 162-163). The situation is worse for those living in rural areas, and other main cities and urban centers outside San Salvador. Hence, it should not come as a surprise that coverage is not being expanded. Setting such rigid legal income requirements in a country with the particular socio-economic characteristics of El Salvador is openly exclusive.

TABLE 6
Strategies Used to Face Income Shocks

Strategy	Type of Micro-Enterprise		
	Subsistence I	Subsistence II	Simple Accumulation
Increased hours of work	13.8%	10.4%	40.1%
Increased income generating activities	6.2%	1.8%	0.0%
Family member abroad sent remittances	0.7%	4.5%	33.4%
Received help from relatives, friends or church in the country	14.8%	4.7%	8.1%
Reduced household expenses (food, education, health)	11.2%	18.1%	22.5%
Sold household articles or equipment	1.7%	1.1%	0.0%
Sold animals	9.1%	0.0%	0.0%
Used savings	50.4%	54.6%	41.4%
Got a loan from a bank or other financial institution	0.0%	1.8%	14.6%
Got loan from relatives or friends	7.0%	1.0%	0.0%
Another member of the household who didn't previously work had to start working	2.4%	0.0%	0.0%
Family member had to migrate	0.0%	0.0%	0.0%
Others	5.2%	4.7%	9.4%
Did not do anything	3.3%	31.4%	13.1%

Source: FUSADES (2005: 169)

³⁵ MSME are largely informal. See Annex C.

5.2 Do poor informal workers save?

To some, this question has a very straightforward answer: poor people do not have enough money to even cover their basic needs, therefore, they don't save. But reality challenges this notion and highlights the need to further understand how and under what circumstances poor informal workers may save.

FUSADES' report presents a summary of the main strategies that different types of micro-enterprises³⁶ use to face income shocks. As Table 6 demonstrates, savings constitute the main income-smoothing strategy, in spite of the poverty and low levels of income. So, savings are not exclusive to households with more resources (FUSADES, 2005: 168) and they turn out to be a very common means of self-insurance, also among the poor.

The results of the interviews held with informal workers in the streets of urban San Salvador confirm that they do in fact save. Out of the fifteen respondents, six stated that all of their income was used to face consumption needs, while nine mentioned that they destined part of their income for business improvement purposes or savings. There are, however, differences in savings patterns and choices. For example, formal mechanisms are hardly chosen, either because of lack of access or lack of trust due to negative experiences with banks. Several of the workers currently have or have had in the past savings accounts with important commercial banks. Some, however, expressed discontent because they "lost" their savings: the banks went broke, froze their accounts or charged commissions after a certain period of inactivity. These kinds of experiences somehow explain their preferences to keep their money at home, instead of engaging with formal institutions. It is interesting to point out that when asked if they would be interested to save for their future, thirteen out of fifteen responded that they would; but when asked if they trusted an institution for these purposes, ten answered that they did not trust institutions or did not know them well enough.

BOX 1 Attitudes Towards Saving

- "Sometimes I save to pay for my vacations or to face whatever emergency....but I try to keep as little as possible in the banks. The money gets lost sometimes. I have had a few experiences like this. Once the bank went broke....so sometimes it's better to keep the money 'under the mattress'". (62-year-old cosmetics sales woman)
- "Savings is what one has at home. I save to pay my debts and my medicines. I have debts because I have credits... The credits have helped me buy some things. Now, for example, I am paying a TV." (63-year-old ice-cream sales-man)
- "I don't save in a bank because I do not receive enough. And when I have some money, I keep it at home." (45-year-old fruits sales-woman)
- "I did save in the bank before...But banks don't give, they take away. I don't trust banks very much... I am paying for a little piece of land to leave for my children. Maybe I'll save later, when I finish paying some debts, including the land, the DVD and some electrical things." (52-year-old mango sales-man)
- "I am paying for some land. But I don't save, because money is not enough. Besides, I am sick of banks. They have stolen my money, even the big banks". (59-year-old ice-cream sales-man).

Box 1 presents some of the comments expressed by the interviewed workers, regarding their reasons to save, their choices to either buy assets or equipment, and their preference to keep their money at home.

These results reveal that, in spite of their low income levels, less favored informal workers in El Salvador do not only save, but also have access to banks. Banks, however, do not always respond to their needs and treat them as regular customers. Treating poor clients as average clients needs to be questioned. These practices hinder informal workers' trust in institutions and blur the advantages of formal saving mechanisms. The relative cost of losing a minimal savings amount -due to internal policies or procedures- is extremely high for a poor worker. Besides, savings are essential for social protection expansion purposes; and, formal savings have advantages. They entail less risk, generate some level of returns and constitute the basis for accumulation that, along with other resources, can build the road for social protection. Therefore, designing and promoting flexible, less costly and innovative conditions in which informal workers may formally save are crucial for social protection expansion.

5.3 Do they have other sources of income?

Informal workers who were interviewed for this research rely mainly on their own effort to support themselves and do not tend to receive remittances from abroad. Only one of fifteen workers expressed to be a remittance recipient. This is consistent with the findings in Table 6, which show that the first category of micro-entrepreneurs do not use remittances to face income shocks.

5.4 Are informal jobs “unstable”?

Labour instability is often mentioned as one of the main characteristics of informality. Normally, labour stability refers to the time a person has been doing a certain kind of work in a certain company or location. It was surprising to find out that instability was not a common feature among the sampled self-employed informal workers, as the following table shows. Most have been executing the same job in the same area or location for more than six years. Some actually are, as an anonymous source said, “*just part of the long-term landscape*”.

TABLE 7
Job Stability

Number of respondents	Time (years) at present job and location			
	Less than 1	1 to 5	6 to 10	More than 10
15	1	5	3	6

Minimum: 1 month. Average: 8 years. Maximum: 25 years

Source: Interviews (Informal Workers)

5.5 Is family a “safe” safety net?

In most societies, family is considered almost by default a safety net for the elderly. For many, it is a given assumption. But it is important to challenge this premise and take into account how this *premise may change with age itself*, as expectations are no longer based on what the potential “ideal” relationship with sons and daughters may be, but rather on how they have been and are at a certain point in time, and on the objective recognition that their descendants have their own families to support and their own economic hardships to overcome. This is somehow evident for elderly people who work daily in the streets to earn their own living, instead of staying at home, caring for grandchildren or dedicating their time to non-survival economic related activities. A fifty-nine-year-old male respondent pointed out: *“My children don’t help me. It’s not likely that they will take care of me. They don’t even get along among themselves”*. Or as a sixty-two-year-old added: *“I decided that when I feel like I can’t work on my own anymore, I will register myself in [religious charity organization]. I will start looking for it ahead of time and I’ll go on my own. My granddaughter tells me I am crazy, but I don’t expect my children to take care of me”*.

In addition, family structures and size may be factors that condition these expectations. Several of the male interviewees had at least two generations of children with different spouses. So, at the ages of fifty or sixty, some of these workers still have small children to provide for.

As Table 8 shows, only one of the fifteen respondents explicitly expressed that she expected her children to take care of her. The rest did not say, did not know or simply did not expect this to happen.

TABLE 8
Family as Source of Protection

Number of Respondents	Respondents who explicitly expect their families to protect them in old age		
	Yes	No	Did not say / Did not know
15	1	5	9

Source: Interviews (Informal Workers)

5.6 What about the State?

The State is regarded as a traditional protection pillar. In matters related to old-age protection in El Salvador, however, it is playing a limited role, in spite of all the financial fuzz around pensions. But the question that is addressed here is whether informal workers expect the State to support them when they are no longer able to work, regardless of the State’s mandate, capacity or will.

The results are not conclusive. On one hand, most of the urban informal workers who were interviewed do not hope or expect that the State will help them. Attitudes vary greatly, though. While some express a total distrust

and/or disappointment in the government and in the system, others just don't see think the State must directly contribute or participate in their old-age income security. Rather, they stress the important role it has in the creation of jobs and the expansion of opportunities now, and also in the provision of health services now and in the future.

A previous study on how to incorporate agricultural workers to the SAP approached the issue in a different manner. It specifically asked agricultural workers who showed interest in becoming part of the SAP the conditions in which they would like to be included. Of a sample of 1270 workers, 580 expressed interest in joining the SAP; 96% of those who expressed interest mentioned that the State should actively finance part or all of their protection funds.

The extent to which the nature of the worker affects the level of reliance in the State needs to be considered. This research interviewed self-employed workers. But agricultural workers tend to have employers. In addition, the agricultural sector has historically had stronger links to subsidies and public policies, and in general, to State actions and interventions.

5.7 Are informal workers preparing for old-age?

The informal workers interviewed were not members of workers' organizations and were not actively engaging in efforts to face vulnerabilities arising from old age. The interviews revealed that informal workers stress the uncertainty of their future or resist talking about the subject.

5.8 Is it about risk?

As much as the theory emphasizes on the intuitive assumption that being informal may entail more risks, there is just no local empirical evidence or statistical information that confirms this notion. Informality is not inherently more risky than formality. Lack of protection or regulations may increase the vulnerability to risk (because of the lack of mechanisms to cope with it), but not necessarily the probability of the risk itself. This distinction is important, but also the analysis of the sources of risks.

El Salvador is a very dangerous country: Its levels of social violence and criminality are among the highest in Latin America. Accidents or assaults may lead to common disability or death. Both contingencies are covered by the formal pension system, in spite of the high probability of risk. As an institutional representative points out: *"The question is not about risk. The main source of risk in the country is criminality, and we all face that. The risks of the informal sector are not higher in this respect"*. In fact, less favored micro-entrepreneurs³⁷ reported almost half the incidence of robbery or assault than wealthier micro-entrepreneurs, who are just more attractive to criminals (FUSADES 2005: 168).

³⁷ Subsistence I and II. See Annex C.

On the other hand, disability and death caused by labour related accidents or incidents are not covered by the pension system. They are covered by a special ISSS regime. But professional risks are also not inherent to the condition of informality: selling mangoes in the same corner for twenty-five years is not at all riskier than being a policeman in El Salvador, and the policeman is fully covered by both forms of social security.

This argument of risk was also challenged by some of the interviewees. Their comments are summarized in Box 2.

BOX 2 **On Informality and Risk**

- *"It is important to go beyond the discourse of risk. We really can not say that informality implies higher risks, or that risks are associated with informality. There is just no statistical information. Besides, what is informality? As a bank, we see risks associated to specific products. To us, saving clients and their deposits are not risky. Of course, retirement insurance has a different financial complexity because of the low amounts that they are able to save[...]" (MFI General Manager 1)*
- *"Risks are not concentrated in a specific economic activity. This would have to be analyzed further, but in El Salvador, there is no way to know because there are no studies about it. I don't think the problem of coverage in the country is really about risk, but about incentives." (Pension System Representative)*
- *"What is the basis to say informal workers are "risky"? There are no reliable studies on risk; there are simply no statistics on this." (MFI General Manager 2)*

5.9 Does terminology help?

The terms informality and informal economy are widely used in academic and policy circles to refer, partly, to workers that do not comply with certain employment characteristics or attributes. However, to some extent, this categorization has contributed to create further obstacles for less privileged workers. For example, how much has it contributed to sustain and reproduce the circularities in the debates and explanations for low coverage seen earlier? Does it help to break the vicious cycle of exclusion? Informal will always mean "not formal", and when formality is used as the comparison reference, the tendency to impose a formal logic to all workers will persist, or at least, it still does in countries like El Salvador. And, as can be seen, there are few or no social gains derived from imposing a formal logic on a society where formality is the exception or a luxury.

In addition, if it does not seem viable to "formalize" informality, due to the labour market and economic realities in developing countries, why do explanations around coverage gaps make so much emphasis on this issue? Does informality need to be formalized in order to expand social protection? Does it help that the discussion is so stuck on informality, and does it exaggerate the difficulties? How does it delay the expansion of social protection for this important segment of the population?

The following chapter briefly reviews evidence and ideas that intend to break some of these circularities.

6 ROOM FOR HOPE AND IDEAS

This chapter reviews examples of experiences and ideas that intend to break the cycle of informality and exclusion from social security, to guarantee some minimum level of protection for old-age. The purpose is to use these examples as references to assess possibilities and alternatives in El Salvador.

6.1 The Evidence

Evidence indicates that old-age has in fact been expanded to informal workers by financial mechanisms. There are several relevant experiences of this sort in developing countries, which are worth exploring further.

For example, the government of Sri Lanka (Rajan 2002: 151-152) designed in the nineties special pension schemes for the unorganized sector for specific occupational clusters, including farmers and fishermen. In both cases, the schemes were voluntary and contributory, funded mainly by government's grants and members' contributions. In addition, there was a pension scheme for self-employed persons. All of these three schemes took into account the non-regularity and seasonality of earnings, and provided flexibility in the methods and periods of payment.

A recent paper by the WB reviews the experiences of over 20 countries in the application of *social pensions* for the elderly poor. Social pensions are social assistance programs (not based on savings or insurance schemes), and constitute "cash transfers for the elderly with little or no link to previous contribution or work history" (Palacios and Sluchinsky, 2006: 2). Although the term is very broad and the programs differ extensively³⁸, two main categories of social pensions can be identified: those that are *core* or play a central role within the pension system, because they are either universal or are designed for the majority of the population (as is the case of South Africa); and those that are *supplementary* to contributory schemes, require means-testing and effective targeting, and are designed as safety-net programs for the elderly poor (Palacios and Sluchinsky, 2006: 8-10).

There are many countries in Latin America that have either for a long time or recently used social pensions to expand social security for the elderly. Brazil, for example, has three types of social pension programs in place: Previdencia Rural, designed especially for rural labourers; Renda Mensual Vitalicia, designed for the urban elderly, with partial contributions; and Beneficio de Prestacao Continuada, which is means-tested and is meant to benefit men and women, aged 67 and older, or invalids, who live in rural or urban areas, with a minimum wage per month. Bolivia has, for almost over a decade, been

³⁸ In terms of eligibility criteria, sizes of benefits, coverage, administration, sources of finance and costs, impact on poverty reduction, incentives, intra-household behavior allocation and fiscal trade-offs, among others.

applying social pensions with mixed outcomes and certain irregularities, due to administrative and financial reasons. The Bonosol/Bolvida was designed to universally benefit the population of 65 years and older with an annuity. The case of Chile is described as very successful in terms of its impact on poverty reduction, due mainly to targeting effectiveness. Mexico, in turn, incorporated this year a massive new social pension scheme by building it on the existing social assistance program *Oportunidades*. Other countries with social pension programs in Latin America are Argentina, Costa Rica, Uruguay and the Dominican Republic (Palacios and Sluchinsky, 2006) and

Sources of finance for these programs vary. In Brazil, they include transfers from the social insurance program, revenues from excise duty and taxes on large firms, taxes on sales of agricultural produce, urban social insurance scheme, and other government revenues; and in Bolivia, sources come from privatization funds. Colombia, in turn, finances inclusion of “older heads of household into the pension plans” through transfers from pension contributions in individual capitalization pension schemes (Barrientos and Lloyd Sherlock 2002: 19)

Ginneken (2003:286) brings the case of Tunisia, where the incorporation of the self-employed to statutory pension insurance has been achieved with relative success. Good enforcement, a more accurate estimation of self-employment income (through the setting up of inspection systems and the use of income scales), as well as awareness campaigns have led to increased affiliation and extension of coverage in the country.

In short, expanding social security in the form of pensions for informal workers is possible. The degrees of success and sustainability of the efforts may vary. Notwithstanding, the fact that there are practices in place in countries with high levels of informality, challenging economic conditions, and different socio-economic and political backgrounds, keeps the door open for further analysis and discussion.

6.2 The Ideas

Other ideas have been set forward but not yet seen in implementation. The IDB suggests the possibility of unemployment insurance savings accounts, as mechanisms for informal workers to insure themselves. For example, the application of mandatory savings-based schemes could help a double purpose of insuring against unemployment and old age, for workers could save during periods of employment and draw money during periods of unemployment. If funds were to be exhausted, the government could lend money; and if positive balances remained, these could be destined for retirement income at old age (IDB, 2000: 10). In addition, and stressing the potential and objective resistance to savings that poor or informal workers may have, and the implications that this resistance has on designing pension schemes for informal workers, other possible strategies include permitting lump sum withdrawals upon retirement or allowing the poor to borrow against their retirement funds (IDB, 2000: 127)

Ginneken hints at the possibility of achieving increasing pension coverage through intermediary institutions, such as microfinance institutions (2003:

286). He argues that they are generally trusted institutions, have built up channels with poor clients at relatively low costs, and could start insurance businesses.

There is currently some discussion among Latin American MFIs around the design of a micro-pension model, as a means to diversify the financial services and to provide income and asset security upon reduction of the individual's productive capacity. These discussions are very recent and projects, if any, are still in a very early stage.

A recent note by Wheelock (2005) argues that micro-pensions are not only the next challenge for MFIs, but also part of the solution to lack of coverage of the elderly who are excluded from formal pension systems, as well as a way to provide for long-term needs. Without discussing operational or legal details, the author states that the main pillars for this model should be individual savings, family savings, and governments' and international organizations' support. He adds that the main success factors for such a model would be its mandatory nature, shared family responsibility and complementary financial sources.

Micro-pensions were also discussed in a Latin American community banks' forum earlier this year. As stressed by the panelists, micro-pensions constitute a business model that is being developed. No practical experiences are known as of now. Some possible strategies, details and key elements of the model were presented during the forum. They are summarized in the following table.

TABLE 9
Main Features of Micro-Pension Model

Alternative roads:	<ul style="list-style-type: none"> ▪ To create strategic alliances between MFIs and AFPs, where MFIs role is marketing and promotion of savings culture. ▪ To create own vehicle for provision of pensions
Model's pillars:	<ul style="list-style-type: none"> ▪ Private pension model ▪ Micro-finance model ▪ (Fusion of both)
Key elements of the paradigm:	<ul style="list-style-type: none"> ▪ Focus on excluded segment of population ▪ Creation of sustainable model ▪ Strategic alliances among MFIs ▪ Savings for parents/ Family savings
Main challenge:	<ul style="list-style-type: none"> ▪ Savings culture
Key elements of the model:	<ul style="list-style-type: none"> ▪ Credibility ▪ Simple and attractive product ▪ No entry barriers. Harsh exiting barriers ▪ Mandatory nature
Risks of the model:	<ul style="list-style-type: none"> ▪ Initial investment ▪ Legal frameworks

Source: Own elaboration, based on transcription from Panel XI - II Foro Latinoamericano de Bancos Comunales (2006)

6.3 The Possibilities

Given the political, macro-economic and institutional conditions in El Salvador, it is not likely that the State will dedicate resources – such as subsidies or social pensions – to support old-age income security. New structural pension system reforms are out of the question. The debates around the fiscal burden, generally and questionably attributed to pensions, and the new parametric reforms that have been approved do not at all signal intentions to expand social security. On the contrary, the focus is to reduce general government spending on pensions.

Although the actual government has set in place a poverty program called *Red Solidaria*, which considers conditional cash transfers to poor families, it targets mainly women and children. In fact, the conceptual document makes only one reference to the needs of the elderly, but on the grounds of providing differentiated health services according to age, and not regarding income security for old-age.

Hence, and assuming no structural changes to the SAP, developing alternative means of providing financial protection for old-age through MFIs seems like a potentially interesting and advantageous alternative. First, MFIs' attitudes towards the informal economy are positive. Informal workers are not regarded as unknown or complicated, as they are to pension system representatives. Besides, developing financial products for those with lack of access to the mainstream financial system is part of MFIs' mission. The two interviews held with MFIs' representatives confirmed this openness to explore and experiment with new products and services, including pensions.

Another advantage of MFIs is the position they have gained among informal workers, and the ability to reach and control them in spite of their geographical dispersion. As opposed to AFPs, MFIs are more appealing and visible in informal workers' settings. They have more agencies to provide service to dispersed customers. Location is crucial to customers. Those who work in the streets are no exception, because they choose particular areas according to their experience and business needs. Hence, the wider the network, the more awareness informal workers have of institutions. Just as a reference, AFPs have a combined total of thirteen agencies in the country; while only the two largest MFIs³⁹ have a total of forty. Moreover, whereas AFPs' have focused on strengthening partnerships with companies, MFIs' credit technologies have allowed them to develop longer-term relationships with individual clients. These relationships constitute creative ways to reach informal workers as persons and customers, not only to grant services, but also to gradually earn their trust. A fifty-eight-year-old worker who sells toys in a street corner in San Salvador mentioned: *"I am a preferential client in [institution] because of my credit record. Now I am saving. I have a programmed savings account to face emergencies or to buy merchandise. Before I used to keep the money at home, but now I save in [institution]. They [advisors] came and talked to me, and told me that it was important to save."*

³⁹ Banco ProCredit and Apoyo Integral

6.4 The Warning Signs

Regardless of the advantages of incorporating MFIs in the social protection formula, the main challenge to such a micro-pension model would always be informal workers' capacity to accumulate enough. This point calls for less ambition, more prudence and the clear setting of priorities, but mainly for the definition of a financial product that may suit both informal workers' needs and local institutional context characteristics.

MFIs worldwide are diversifying their products. After a single focus on micro-credit, the decision to widen access to finance has led to the development of micro-saving and micro-insurance products. Given the current trend of funded pension systems, micro-pensions as products that combine micro-savings and micro-insurance may seem like an obvious next step.

There are a few set-backs to the micro-pension model described above. The first one is MFIs' scarce and rather premature experience with savings in El Salvador. Most are actually not allowed to capture savings, although there are a few exceptions. Capturing savings requires MFIs to upgrade and comply with special legal, financial and organizational regulations; most MFIs⁴⁰ are not ready to face these obligations.

AFPs' lack of commitment to expand social protection to informal workers is an important constraint. The third one is that a micro-pension model based on mandated savings and/or contributions runs the risk to encounter and duplicate the private pension model rigidities and "schisms". The argument in favor of a mandatory micro-pension model needs to be questioned. How would a self-employed worker react to a mandate (from the State?) to contribute to institutions that have not earned his trust, when there is no guarantee that something will be received in return? Again, the notion of mandated savings is not being questioned, but the appropriateness of the measure to informal workers' conditions is. How about enforcement? Does mandating savings make sense when there are no enforcement conditions in place, and when the pension system itself is still struggling to achieve compliance in the reduced formal and regulated sector? And what about the long term promise to give a "decent" pension? How likely is it when entitlement to a minimum pension is not real even to others with more capacity to save? Can small savings amounts be really converted into annuities to grant pensions if there are no subsidies to support and increase a fund, and when there are even difficulties to grant pensions to formal retiring employees? In short, if a project like this is to use the private pension model as a reference, it should first learn from its errors and successes. Experimentation is valid, but not at the expense of further disappointment, loss of expectations, and higher risks and costs for less favored workers.

Finally, there are strategic communication problems. In spite of the stated and obvious need to establish strategic alliances among institutions, the interviewed representatives, did not seem to be aware of the development of

⁴⁰ Even so, authorized institutions have better reach than AFPs.

the micro-pension model. Given the nature of the project, clear communication is important from the beginning.

The choice to make a micro-step and focus on diverse types and combinations of long-term micro-saving products (in authorized institutions) can not be discarded. That way, MFIs' flexibility would remain as a key advantage for informal workers to start building some sort of social protection on their own. There would be no ages of entry or exit, no segmentation on the basis of formality, no commissions associated to investment costs, no perceived (real or imaginary) threats to become "formal" or "legalized", and no need to fix a contribution as a percentage of a minimum wage that is just not real to many informal workers.

This would by no means constitute an integrated solution to the challenge of expanding old-age income security for informal workers. But it is a first step in El Salvador, where, as of now, neither the State nor AFPs are taking a positive and constructive stand on the issue. In this context, MFIs could have some important functions with regard to old-age income security: to exploit their relationships with clients in order to promote a savings culture; to learn about informal workers' saving motives, preferred mechanisms, patterns and financial potential; to design special savings products, bearing in mind informal workers' special needs and long-term security; to share their success and failure stories at national and international levels; to take advantage of their growing position in order to promote ways in which further financial interaction with AFPs and insurance companies could benefit informal workers.

6.5 The Additional Sources

Finding additional financial sources to accumulate a fund, besides informal workers' own savings is crucial, especially if the short-term possibilities of subsidies or statutory matching contributions are ruled out. An alternative would be to exploit informal workers' past and present links to formality.

As stated in Chapter 2, informality is heterogeneous. An important source of heterogeneity is precisely the way in which informal workers interact or have interacted with formality. Some informal workers once were formal and may have contributed to social security at a point in time; others were born into the informal economy and were never part of the social security system; some are already retired but choose to keep on working; while others alternate along the formality-informality continuum. Furthermore, and depending on the economic activity but also on the nature of the products and services they offer, some informal workers have close commercial links with formal companies, while others do not.

For the group of workers who permanently "fell" from the formal sector – especially the older ones – it would be important to make an effort to determine if they have "acquired rights" with the former SPP; that is, if there are ways in which their past contributions to the system may be rescued. This effort could constitute an incentive to set up an initial basis for accumulation, as savings, but not necessarily within the pension system.

BOX 3 Law, Rights and Technicalities

There are two legal features that acknowledge past SPP contributions: *Certificado de Traspaso* (CT) and *asignaciones* (allocations).

CT (Art. 229) is the document that recognizes the working time and IVM contributions made to SPP institutions before the reform. It is one of the components to finance pensions (Art. 116). The right to the CT is reserved to those who accumulated at least twelve monthly contributions in the SPP and transferred to the SAP by the time of the reform (Art. 231). This certificate is issued by ISSS or INPEP, depending on which institution received the workers' last contributions prior to incorporation to the SAP. It's not the employees' but the AFPs' responsibility to execute its follow up procedures.

The law considers a somehow similar mechanism to acknowledge the time of those who did not transfer to the SAP and may have stopped their contributions to the SPP. Article 211 states the following: *"When an insured person registers at least twelve months of contributions to the ISSS or the INPEP and does not comply with the requirements to access disability or survivorship pensions, he/she will have the right to receive an allocation. This will consist of a single payment, equivalent to ten percent of the basic regulating wage for each month of contribution"...* *"Those who having reached the age to receive a pension but do not comply with the number of required contributions, and declare their impossibility to continue contributing, will also have the right to the allocation".*

Although both CT and allocations recognize the time and contributions made to the SPP, they do so with different purposes, principles and under dissimilar calculation conditions. The CT was designed for the transition from SPP to SAP. It relied on the assumption that workers would continue contributing. It was designed to serve as an attractive basis for the individual saving-for-pensions accounts, later to be used for the estimation of a pension. CT's calculation is complex, but it's based on the recognition of 75% of the average of the last twelve salaries registered by the worker.

Allocations' calculation formula is discouraging, and so are administrative procedures. In short, allocations are not meant to be used as a basis for future contributions or for the estimation of a pension. The fact that they *may be requested* only at the moment when the worker is entitled to retirement benefits is restrictive, for it denies the possibility to accumulate further from this amount. In short, it is the way balance devolution takes place under the PAYG scheme.

Legally, there are mechanisms that recognize the contributions made to the system prior to the reform. The technical details are discussed and analyzed in Box 3.

A feature similar to the CT could be designed for informal workers who were once formal, regardless of whether they made the transition to the SAP or have reached a retirement age. It is important to determine at an individual and collective level the extent to which these workers and their past employers made contributions to social security could become the basis for a fund to accumulate for their protection. If deductions and payments were made in the past, there is no ethical argument to favor "formal" workers over "informal" workers who once were formal. Furthermore, if the CT artifice can be designed for those who transferred to the SAP, there would be no technical reason to discard it as a right for all workers.

Challenges to this may include lack of political will, the infamous financial restrictions, weaknesses in public institutions' information systems, workers attitudes of distrust towards formal institutions and insufficient knowledge about procedures and rights. It is a fact that some informal workers are not

aware whether their previous employers' payroll included contributions for the IVM regime (Disability, Old Age and Death).

7 CONCLUSIONS

When this research began, it seemed reasonable to think that actors in the El Salvador's pension system may be interested in extending protection for informal workers. After all, some preliminary and favorable conditions were in place: the financial sector has shown significant growth and diversification; the SIP had taken a first and important step to request research about conditions to incorporate agricultural and domestic workers to the pension system; AFPs are financially solid institutions with close links to insurance companies; and there were positive regional experiences that highlighted the potential of the informal economy.

After a few interviews, it became clear that expanding old-age social protection –particularly old-age income security – through the existing social security system did not seem likely, at least not under the current political, fiscal, legal and organizational contexts. It was evident that although “formal” and “informal” worlds are in fact economically interlinked, there is a wide gap between them in terms of needs, interests, priorities and logics. In El Salvador, social assistance is scarce; workers are entitled to pensions only if they fulfill certain minimum requirements that are simply out of reach for the majority; and informal workers are expected to adapt to a system that operates under foreign logics and assumptions.

Moreover, attitudes of pension system's actors do not promote spaces for innovation and experimentation. The State's attention is too focused in fixing past errors, re-shaping what has been agreed, and finding mechanisms to face acquired financial obligations for those already in the system that it is overlooking the great social burdens that derive from the raise of informality and the resulting protection deficits. Furthermore, it is overtly concentrated in reducing pension expenditures. The SIP is aware of the coverage limitations and has shown some initiative, but it can not act on its own and is subject to statutory and government dispositions.

AFPs are, in turn, too busy learning about the SAP, reacting to constant legislation changes and therefore modifying their internal procedures, facing their own organizational problems and defining their optimum cost-benefit formulas. It is no wonder that expanding protection to informal workers is not a priority, especially when costs are unknown and when the SAP itself faces serious challenges. In short, caution and standard business approaches prevail. In addition, AFPs are subject to the law and the law is very ambiguous. On the one hand, it permits “independent” workers' incorporation to the system; on the other hand, it specifies discouraging regulations that are practically impossible to meet by less favored independent – or informal – workers. In spite of these contradictions, given the appropriate priorities, laws are never a real obstacle: they can always be modified and adapted, as the constant and frequent reforms in the SAP Law show. But changes require political will, and in El Salvador, there is a long road ahead before changes in the statutory pension system are made for informal workers' sake.

MFIs are thus a valid alternative to expand social protection. The fact that these institutions have taken an initiative to start a dialogue on micro-pensions is highly relevant. Although the concept is very interesting and appealing, a few issues have to be taken into consideration. The most important one is the lack of experience that MFIs in El Salvador have in managing savings, since they have focused more on micro-credit. Capturing savings requires institutions to be regulated and to incorporate additional functions in order to perform and operate with minimum risks to deposits. In El Salvador, only one MFI has so far successfully been upgraded. Moreover, earning trust to get a credit is not equivalent to earning trust to capture savings. The link is not straightforward. Trust needs and has to be built

But trust also has to be sustained. The convenience of using the private pension model as reference for a micro-pension model has to be carefully assessed, just as the nature of strategic alliances with AFPs, given their current position on the issue, but beyond that, given their invisibility to informal workers.

Summing up, this and other ideas must be further studied and analyzed. As of now, expanding social protection through designing parallel and innovating financial products, especially savings, by institutions outside the social security system constitutes a valid alternative to provide some sort of old-age income security for the excluded, so that “begging” is not a choice for poor informal workers when they are no longer able to work.

Finally, the dream of social security in El Salvador will come true for informal workers only when the system gets rid of certain rigidities, acknowledges the opportunities found in their heterogeneity, designs policies according to this heterogeneity, and makes steps towards reaching them. But in the meantime, other alternatives have to be considered, so that old-age social protection is no longer delayed.

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ANNEX A: RESEARCH TOOLS

Semi-Structured Interview 1 (Pension System Representatives - English Version)

Name of Interviewee:
Position:
Institution:
Date:

1. There is a lot of discussion around the pension system and potential new pension reforms. What kinds of changes are currently taken place?
2. Several studies suggest the system faces many challenges in terms of expanding coverage. Please comment.
3. What efforts are institutions in the pension system making to extend coverage?
4. Last year, the SIP requested some studies to incorporate domestic and agricultural workers to the pension system. Do you have information about these studies? Have institutions taken any action? What do you see are AFPs' main roles and responsibilities in this respect?
5. What do you think, if any, are the advantages that informal workers/independent workers have in SAP?
6. Expanding social protection for informal workers is regarded as both costly and risky. Do you agree with this? Please comment.
7. From a business perspective, what would you consider are, in detail, the main constraints for expanding social security for informal/independent workers?
8. What kind of indicators, if any, are used to “measure” the extent in which independent workers actually use this “individual” and voluntary contributory modality? If in place, how often do you monitor these indicators? Are they used to make any sort of “decisions” regarding the system?
9. How does the reporting of these indicators take place?
10. How would you assess the “effectiveness” of the individual contributory modality? What are its main advantages or disadvantages, both from a business perspective and a social perspective? Why? How can the disadvantages be overcome, or how can it be improved to increase its effectiveness?
11. In what ways does your company promote this modality? Is promotion effective? Why? Why not?
12. Articles 15 and 16 of the legislation regulate independent workers' means of contribution. What is your opinion about these articles, considering the nature of the informal sector in El Salvador.? How would you change it in order to address informal workers' realities and needs?

13. What is your company's role in terms of supporting the expansion of social protection/security in the country or defining related policy? Is the company executing any special project in this area? Why? Why not? Whose initiative has it been or whose initiative should it be?
14. Does your company share information or experiences with similar companies in other countries about this issue? If so, please explain.
15. According to your opinion, where are the changes in legislation or reforms in the system tending to lead to? Do you think that there is a possibility that they will consider the expansion to social protection for workers outside of the formal sector? Why? Why not?
16. In what ways can coverage for informal/independent workers be enhanced?
17. Do you think that local micro-finance expertise with informal workers' may be of use to developing ways to expand social security/protection for them? Are you aware of any efforts? Please elaborate.

Semi-Structured Interview 2 (MFIs' Representatives - English Version)

Name of Interviewee:
Position:
Institution:
Date:

1. Please comment briefly on the company's mission.
2. What kind of customers does this company target? What is their socio-economic profile? Do you foresee a change in this profile?
3. What are this company's main financial products and services?
4. The concept of micro-finance has gradually evolved from micro-credit to other products and services. Have there been changes along the years in the country and specifically in your company?
5. What negative assumptions about informal workers/micro-entrepreneurs would you challenge? Please elaborate.
6. There is a strong assumption that informal workers/ micro-entrepreneurs do not have enough income and therefore do not save. Please comment.
7. Does your company have experience promoting or developing saving products? (If yes: How has this experience been? If not: Are you planning to explore saving products?)
8. How would you characterize the "financial" logic of informal workers/micro-entrepreneurs? How has the company adjusted to this logic?
9. What are success factors for micro-finance institutions?
10. MFIs tend to have a broader development perspective. Are experiences being used to expand protection for informal workers/micro-entrepreneurs?

11. What is your opinion about expanding old-age social protection in the form of pensions to informal workers via MFIs? Is this idea worth exploring further? Would your institution be interested?
12. Are you aware of any relevant experiences in other countries?

Structured Interview 3 (Informal Workers - Spanish Version)

1. Datos Generales

Sexo M <input type="checkbox"/> F <input checked="" type="checkbox"/>	Estado Civil Soltero/a <input type="checkbox"/> Viudo/a <input type="checkbox"/> Casado/a o Acompañado/a <input checked="" type="checkbox"/> Divorciado/a <input type="checkbox"/>	No. de Hijos	Rango de edades hijos	Dependientes? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/>
Edad _____				
Otros dependientes Sí <input type="checkbox"/> No <input checked="" type="checkbox"/>	Parentesco / Edades	Jefe de Hogar Sí <input type="checkbox"/> No <input checked="" type="checkbox"/>	Lugar de Trabajo	Lugar de Residencia

Comentarios Adicionales

2. Datos de Empleo/Trabajo

Tipo de Negocio (Si aplica y si es posible, especificar si está registrado o no)	Tipo de Empleo Actual Negocio/cuenta propio(a) <input type="checkbox"/> Negocio familiar <input type="checkbox"/> Asalariado familiar <input type="checkbox"/> Familiar no remunerado <input type="checkbox"/> Otro <input type="checkbox"/> Especifique: _____	¿Cuánto tiempo tiene de trabajar aquí? _____
¿A qué edad a la que empezó a trabajar? _____	¿Hasta qué edad piensa seguir trabajando?	¿Qué días y qué horarios trabaja? _____
Fuentes y Regularidad de Ingreso (Preguntas indirectas)	Remesas Sí <input type="checkbox"/> No <input checked="" type="checkbox"/>	¿Tiene otro(s) trabajos? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/> Especifique: _____
		Breves preguntas sobre trabajos previos, si aplica.
		Destino de Ingresos Todo para consumo/gastos de familia <input type="checkbox"/> Parte consumo, parte negocio <input type="checkbox"/> Consumo, negocio y ahorros <input type="checkbox"/>

Comentarios Adicionales (frontos de ingresos, por ejemplo)

3. Acceso a Instituciones Formales/Informales (Seguridad Social/Bancos)

¿Tiene acceso al Seguro Social? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/>	Si Sí, ¿por su trabajo actual o el de algún otro familiar? _____	Si NO, ¿qué hace en caso de enfermedad suya o de algún familiar? _____
¿Qué servicios usa? _____		

<p>¿Está afiliado/a a alguna institución/asociación para efectos de "jubilación" o para "protegerse" o a su familia en caso que no pueda seguir trabajando? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/></p>	<p>Si NO está afiliado o NO cotiza: ¿Por qué? (Puede marcar más de una o anotar respuesta)</p>
<p>Si Sí, ¿qué tipo de institución/asociación es?</p> <hr/>	<p>No había pensado en eso <input type="checkbox"/> No le alcanza el dinero <input type="checkbox"/> Prefiere usar el dinero de otra forma <input type="checkbox"/> No sabe como funcionan instituciones <input type="checkbox"/> No le interesa <input type="checkbox"/> No confía en las instituciones <input type="checkbox"/> No sabía que podía hacerlo <input type="checkbox"/> Otro <input type="checkbox"/></p>
<p>Si es formal (AFP): ¿Cotiza actualmente?</p>	<p>Comente/ Especifique:</p> <hr/>
<p>Sí Si cotiza, ¿bajo qué modalidad?</p> <p>Trabajador dependiente <input checked="" type="checkbox"/> (Si trabajador dependiente, FIN DE LA ENCUESTA)</p>	<p>Si NO está afiliado o NO cotiza: Conoce las AFPs? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/></p>
<p>Si trabajador independiente: ¿Qué opina respecto a esta modalidad y al servicio que se le brinda? ¿Cómo podría ser más ventajosa para usted?</p> <hr/> <hr/>	<p>¿Conoce la modalidad de "trabajador independiente" de las AFPs? Sí <input type="checkbox"/> No <input checked="" type="checkbox"/></p>
<p>Si no es formal: ¿Cómo funciona esta institución/asociación?</p> <hr/> <hr/>	<p>¿Qué opina al respecto? ¿Considera que pudiera estar interesado en ella? ¿Por qué?</p> <hr/> <hr/>

<p>¿Ha recibido algún crédito para consumo, vivienda o para ampliar su negocio?</p> <p>Sí <input type="checkbox"/> No <input checked="" type="checkbox"/></p>	<p>¿Qué otras instituciones conoce que dan crédito al sector?</p> <hr/> <hr/>	<p>Si NO ahorra: Por qué? (Puede marcar más de una o anotar respuesta)</p>
<p>¿Si Sí, de cuál institución o asociación?</p> <hr/>	<p>¿Ahorra actualmente con alguna institución o asociación?</p> <p>Sí <input type="checkbox"/> No <input checked="" type="checkbox"/></p>	<p>No le alcanza el dinero <input type="checkbox"/> Prefiere usar el dinero de otra forma <input type="checkbox"/> No sabe como funcionan instituciones <input type="checkbox"/> No le interesa <input type="checkbox"/> No confía en las instituciones <input type="checkbox"/> No tiene acceso a instituciones <input type="checkbox"/> Otro <input type="checkbox"/></p>
<p>¿Cómo fue su experiencia? Buena <input checked="" type="checkbox"/> Regular <input type="checkbox"/> Mala <input type="checkbox"/></p>	<p>¿Con cuál institución o asociación?</p> <hr/>	<p>Comente/Especifique:</p> <hr/> <hr/>
<p>Comente:</p> <hr/> <hr/>	<p>¿Cómo ha sido su experiencia? Buena <input checked="" type="checkbox"/> Regular <input type="checkbox"/> Mala <input type="checkbox"/></p>	<hr/> <hr/>
<p>¿Para qué ahorra?</p> <hr/>	<hr/>	<hr/>

Comentarios Adicionales

4. Mecanismos Actuales y Proyecciones Futuras

Para NO AFILIADOS/NO COTIZANTES

¿Ha pensado qué va a hacer cuando ya no pueda trabajar? ¿Cómo piensa que podría mantenerse o a su familia?

¿Qué es lo que usted considera que necesita para poder estar “tranquilo/a” cuando ya no pueda trabajar?

¿Está haciendo algo ahora pensando en lo que puede suceder cuando usted ya no pueda trabajar, para poder estar “tranquilo/a”?

¿Cómo podría ayudarle el Gobierno u otras instituciones AHORA para que usted pueda estar un poco más tranquilo/a cuando ya no pueda trabajar?

The following tables summarize the informal workers' sample distribution, as well as some results not included in the document.

Gender	F	%
Female	7	46.67%
Male	8	53.33%
Total	15	

Estado Civil	F	%
Single	4	26.67%
Widower	1	6.67%
Married / Has partner	10	66.67%
Total	15	

Age	F	%
Less than 35	4	26.67%
Between 36 and 50	3	20.00%
Above 50	8	53.33%
Total	15	
Average Age	47	

Number of Children	F	%
None	0	0.00%
1 to 3	5	33.33%
4 to 6	9	60.00%
7 and above	1	6.67%
Total	15	

Type of Business/Employment	F	%
Own Business/ Self-Employed	13	86.67%
Family Business	1	6.67%
Paid Family Member	1	6.67%
Unpaid Family Member	0	0.00%
Other	0	0.00%
Total	15	

Type of Economic Activity
Sells hot-dogs
Makes food (pupusas)
Entertainment
Sells drink
Sells toys
Retired but works as taxi driver
Sells candies and hair clips
Sells cosmetics and jewellery
Sells ice-cream (cart)
Sells popsicles (cart)
Sells mango
Sells newspapers
Sells fruits
Sells fruits and snacks
Gardener

Use of income	F	%
All for consumption and family expenses	6	40.00%
Consumption and business	4	26.67%
Consumption, business and savings	5	33.33%
Total	15	

Has access to ISSS clinics	F	%
No	14	93.33%
Yes	1	6.67%
Total	15	

Head of Household	F	%
No	1	6.67%
Yes	12	80.00%
Other (Both)	2	13.33%
Total	15	

FUSADES' report on MSME draws conclusions from many sources: CONAMYPE's data, DIGESTYC's household surveys and FUSADES' own survey. The information on micro-enterprises is highly relevant, since they constitute an important part of the informal economy.

Criteria for defining Micro-enterprise Subsistence I (established by CONAMYPE)

- Number of Workers: 1-10
- Sales volume: Between US\$0-US\$1,714
- Monthly profit/earnings: Less than the minimum salary (As of 2004:
Minimum salary was US\$144)

Characterization of Micro-enterprises based on EHPM (DIGESTYC 2004)

- - By type and number of workers

Type of Micro-enterprise	Total Number of Micro-enterprises	Percentage of Micro-enterprises	Average Number of Workers	Percentage of enterprises by Number of Workers			
				1	2	3	4 to 10
Subsistence I	303,897	50.15%	1.14	88.9%	8.9%	1.8%	0.4%
Subsistence II	266,737	44.01%	1.52	67.4%	20.6%	7.6%	4.4%
Simple Accumulation	27,325	4.51%	2.27	32.0%	35.0%	19.1%	13.9%
Extended Accumulation	8,064	1.33%	3.24	15.9%	28.0%	16.2%	39.6%
Total	606,023	100.00%	1.39	75.9%	15.5%	5.3%	3.3%

Source: FUSADES (2005) based on DIGESTYC (2004)

- - By type of location

Type of Micro-enterprise	Location of economic activity			Total
	No fixed location	At home	fixed location	
Subsistence I	42.3%	43.8%	13.9%	100.0%
Subsistence II	36.2%	34.1%	29.8%	100.1%
Simple Accumulation	24.9%	24.5%	50.6%	100.0%
Extended Accumulation	18.8%	25.7%	55.5%	100.0%
Total	38.4%	38.2%	23.4%	100.0%

Source: FUSADES (2005)

- By economic sector and type of location

Location of Economic Activity	Total	Sector			
		Commerce	Services	Industry	Others
All	100.0%	56.0%	22.1%	18.1%	3.8%
No fixed location	100.0%	54.4%	35.6%	3.1%	6.9%
At home	100.0%	51.5%	11.1%	37.2%	0.2%
Other fixed location	100.0%	66.0%	17.8%	11.5%	4.7%

Source: FUSADES (2005)

FUSADES' survey

- The Sample

Type of Enterprise	Total
Micro	303
Small	123
Medium	59
Total	485

The following list of risks, needs and social protection functions is based on European countries experiences and it contains the minimum elements for any social protection system.

Needs, Risks and Social Protection Functions

Type of Need/Risk	Description
Sickness	Income maintenance and support in cash in connection with physical or mental illness, excluding disability.
Health	Health care needed to maintain, restore or improve health, irrespective of the origin of the disorder.
Disability	Income maintenance and support in cash or kind- except health care- in connection with the inability of physically or mentally disabled people to engage in economic and social activities.
Old Age	Income maintenance and support in cash or kind- except health care – in connection with old age.
Survivorship	Income maintenance and support in cash or kind – except health care – in connection with the death of a family member.
Family/children	Support in cash or kind – except health care – in connection with the costs of pregnancy, childbirth and adoption, bringing up children or caring for other family members.
Unemployment	Income maintenance and support in cash or kind – except health care – in connection with unemployment.
Housing	Help towards the cost of housing
Social exclusion	Benefits in cash or kind-except health care-specifically intended to alleviate poverty and social exclusion where not covered by one of the other functions.

Source: Cichon et al. (2004: 54-55)