



Closing the Coverage Gap: The Role of Social Pensions

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**Administration of the Social
Pension Programs**

Outline

- Objectives of implementation planning
 1. Efficient administration, transparent operation, adequate service quality
 2. Broad coverage, easy access to services
 3. Reasonable operational cost

Design of implementation strategy

Common rule of thumb: take advantage of existing structures rather than building redundant ones for new programs

- when existing systems are good: using them is obvious choice, brings lower costs, consistency, transparency, etc.
- when systems are really bad or absent: no choice but build own substitutes
- when systems are mediocre: a difficult choice – use them and live with deficiencies? Exert effort to replace? To improve them?

Thus the availability and quality of other institutions influences both how the social pension administration may work, its costs, and its ultimate success.



*Objective: Efficient administration,
transparent operation, adequate
service quality*

**Issues in operational design:
institutional context matters**

Existing systems

- Systems to consider:
 - Availability & quality of civil records
 - age** (*initial eligibility; age-related increments*), **residency** (*pre and post retirement; temporary migration*), **civil status/cohabitation** (*pre- and post retirement*), **death**
 - Nature of public pension program(s)
 - coverage, administration
 - Scope & efficiency of public welfare program(s)
 - coverage, administration, eligibility parameters
 - Community based mechanisms and NGO initiatives
 - coverage, activities/services
 - Payment systems
 - Fiscal system

Operational trade-offs

■ Choice of administering agency is important:

■ Existing institution vs. a new agency

Synergies with existing infrastructure and institutions but legacy systems may be too weak and unreliable

■ Specialized agency (Kosovo) vs. general agency (India)

Operational focus but lack of economies of scope

■ Pension agency? (USA, Canada, Russia)

May be advantageous when eligibility depends on contributory pension and/or when pension program coverage is broad

■ Role of local communities and/or NGOs

Optimize cost/quality by utilizing existing service delivery mechanisms, especially in rural and remote communities

■ Role of a revenue agency

In advanced settings, some targeting could be inexpensively implemented through fiscal system (New Zealand, Canada)

Interaction with contributory program

- Pension-test option for targeting:
 - Narrow targeting (pension-test) may be an efficient solution where pensions constitute a significant part of retirement income of a sizable population group
 - Where eligibility to/amount of SP depends on a contributory pension, administrative efficiency requires coordination on a range of parameters (minimum pension, indexation policies, lump sum payments, data sharing provisions). It is easier done as part of a comprehensive reform.
 - Early/deferred retirement provisions of a contributory program raise certain equity and fiscal concerns



*Objective: Broad coverage, easy
access to services*

*How to facilitate
broad coverage?*

Ensure knowledge & reduce transactions costs for participants (*cont'd*)

■ For payments:

- **power of attorney**, joint accounts;
- **less frequent payments**, or option of collecting more than one payment at once;
- **alternative delivery solutions**: mobile payment stations, designated pay points, smart card platforms, etc.

Challenges are especially great in rural and remote communities with few services; for beneficiaries with impaired abilities

Operational innovations:

Biometric/smart card technology

Generic applications

- Instant individual identification, e.g., mobile/rural/low cost ATMs,
- Off-line transaction processing

Opportunities

- Prevents unauthorized access
- Facilitates access to remote communities
- Eliminates duplicate records of beneficiaries
- Allows for effective product bundling with low marginal cost

Limitations/Issues

- Cost efficiency requires economies of scale/scope
- Cost of lost/damaged cards need to be considered
- Need to have a sophisticated card management system

Operational innovations: *Point of Service solutions*

Generic applications

- Enables access to bank accounts using a (stationary) network of “agents” (gas stations, grocery stores, kiosks, etc.)
- Alternative cost-efficient model for penetration with financial services of the otherwise excluded communities

Opportunities

- Facilitates access to remote and un-serviced communities
- Utilizes existing infrastructure (existing service point and telephone land-line)

Limitations/Issues

- Requires an intermediary with sufficient cash turnover and willingness to offer an additional service

Operational innovations: *Rural/mobile ATMs*

Generic applications

- Disbursement of cash benefits
- Often comes with biometric identification
- Sometime with alternative energy source
- Can operate as stationary device or as mobile unit

Opportunities

- Facilitates penetration with financial services in remote communities
- Responds to conditions of operational environment of the rural areas
- Hardware/maintenance costs keep coming down

Limitations/Issues

- Operating ATMs as mobile units may be a costly service – but often it is an intermediate step to establishing service in a fixed location
- Cash in transit security issues for mobile units

Ensure knowledge & reduce transactions costs for participants

■ For enrollment:

- **Outreach of information** – info. campaign via community means (markets, clinics, churches/temples, NGOs), in appropriate languages and degree of literacy; include non-elderly co-residents in target audience;
- **Allow proxies** with power of attorney to conduct (at least part of) transactions;
- **Simplify registration to extent possible** – draw on existing info. and/ or allow informal substitutes for incomplete civil registry; beef up records to draw on; require as little as possible, etc.
- **Facilitate contact:** Ensure permanent or periodic outreach to remote and/or poor areas; give applicants bus fare each time they come to office; arrange single visit application process; do house-calls, etc.

Operational solutions:

Establishing age/identity

- Standard solution is to use information from existing formal systems – birth registry, national ID number, voter registry, etc. but these are often not complete, and the more problematic for the old, the poor, those in remote areas. There are options for work-arounds:
- **Facilitate improvements in these registries**
 - Dominican Republic and El Salvador are improving systems, increasing outreach in targeted geographic areas, waiving fees to assist enrollment in social assistance programs
- **Allow alternative records or community certification:**
 - Nepal accepts horoscopes as proof of age
 - Botswana has district age assessment committees
 - Bangladesh allows communities to determine beneficiaries

Operational solutions:

Improving incidence

- Simple techniques:
 - Pay only or more to the oldest;
 - Pay only or more to those in rural or poorer areas;
 - Exclude those covered in contributory pensions system;
- Complex techniques:
 - Allow tax system to claw back payments
 - Pay only poorest, as determined via means test, proxy means test or community based selection
 - Pay only or more for 'sick or disabled' elderly



*Objective: Reasonable
operational cost*

Studies in costs of administration

Important caveats in cost analysis

- Cross-country comparison requires adjustment for program size; but there are still complications:
- Various implicit operational subsidies are difficult to account for
- Segregate cost accounting for jointly administered programs is typically impossible
- Better service quality comes at higher cost

Predicting administrative costs for SP programs

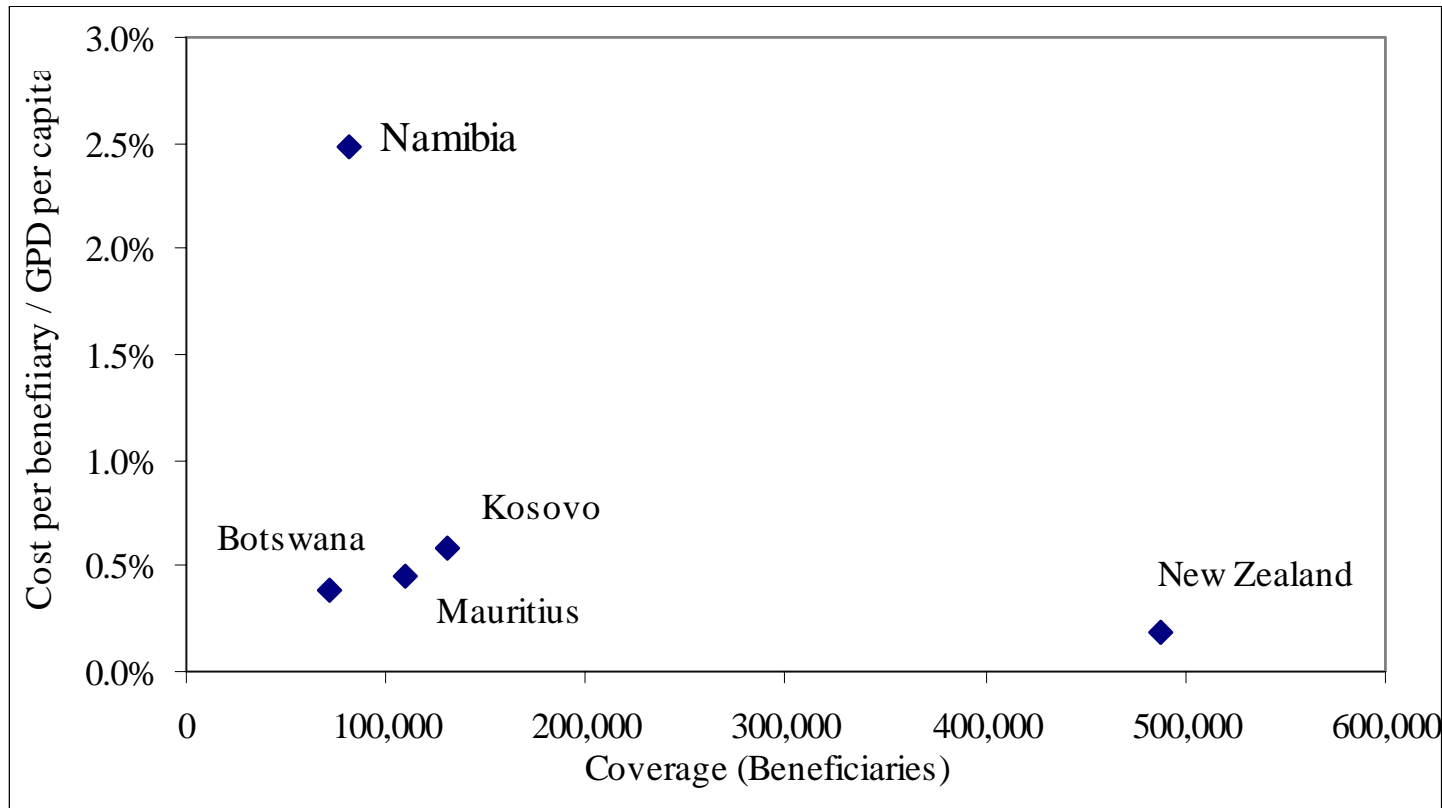
- We would expect them to be on the low side compared to other social assistance programs, all else equal, because:
 - They pay cash, so no need to handle transport or storage logistics for in-kind programs
 - They have the minimum systems required:
 - Are less often targeted via means or proxy mean tests; have less frequent recertification;
 - Do not certify compliance with conditions as in CCTs, or include non-transfer costs as in ALMPs or workfare;
- In fact, SP admin costs are in the same range as share of total costs and dollar costs per beneficiary as found in a review of 55 social assistance programs in Grosh, et al. 2008.

Administrative costs of selected SP programs

Country	Year	Beneficiaries	Beneficiaries over Population	Cost over Transfers	Cost per beneficiary, USD	Cost per beneficiary over GDP pc
Botswana	1999	71,000	4.10%	4.50%	\$15	0.40%
Kosovo	2006	130,000	6.50%	1.50%	\$9	0.60%
Mauritius	1999	109,000	9.30%	2.50%	\$17	0.50%
Namibia	1999	82,000	4.40%	15.00%	\$51	2.50%
New Zealand	2005/2006	488,000	11.90%	0.50%	\$48	0.20%

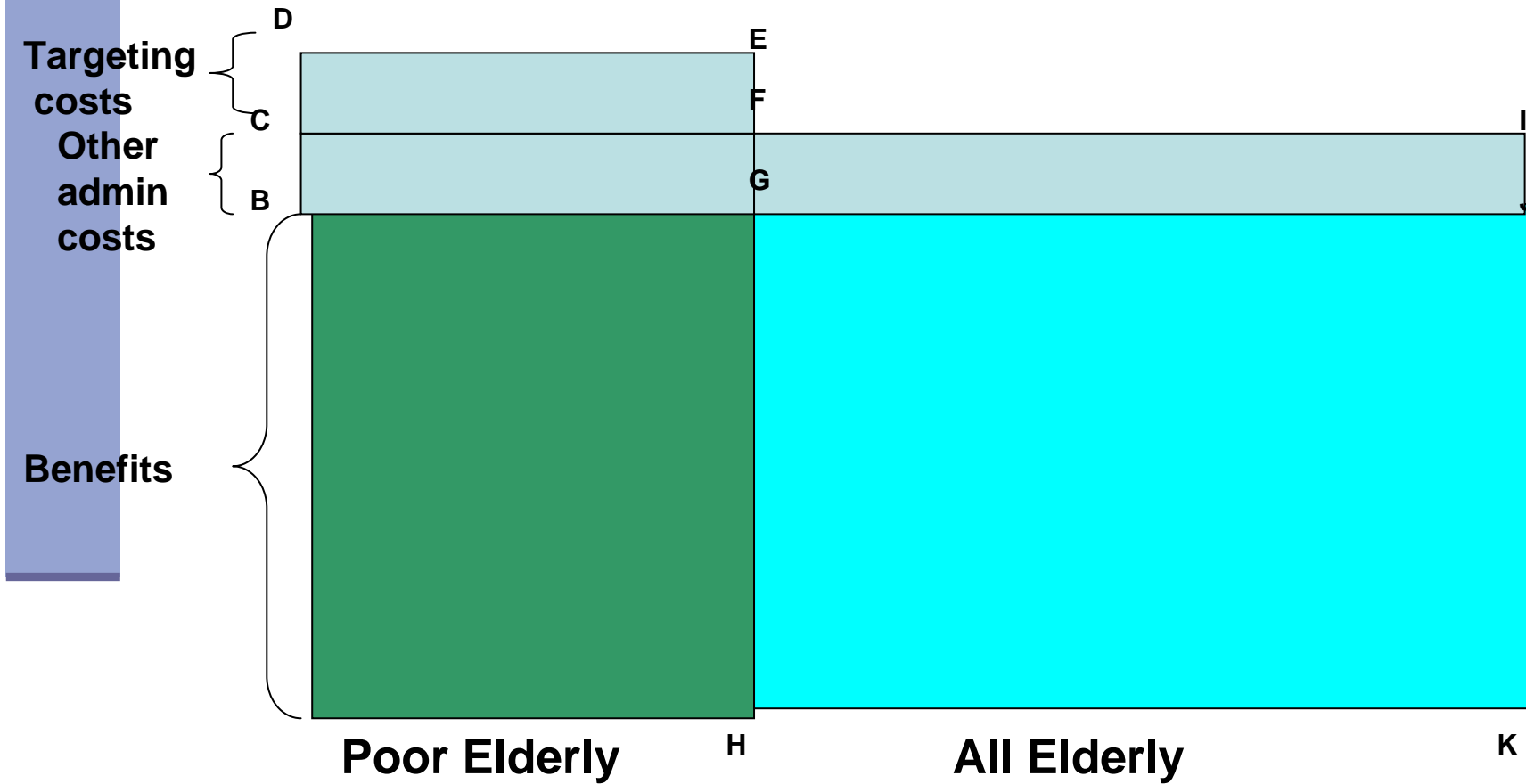
Source: Palacios, Sluchynsky and Biletsky, 2008

Administrative costs of selected SP programs



Source: Palacios, Sluchynsky and Biletsky, 2008

Conceptualizing Administrative Costs



Targeting costs from selected social assistance programs

Program, year	Share of total admin. cost	Share of total program cost	US\$/Beneficiary	Source
<i>Programs</i>				
Mexico: Progressa, 1997-2000	40	2.4		Caldes et al.
Colombia: Familias en Accion, 2004	34	3.6		Lindert et al.
Albania: Ndihma Ekonomika, 2004	88	6.3	7	Kolpeja
Armenia: Family Poverty Benefit, 2005	26	0.6	3	Ghukasyan
Bulgaria: Guaranteed Minimum Income, 2004	64	6.3	7	Shopov
Kyrgyz Rep: Unified Monthly Benefit, 2005	24	2.3	1	CASE
Lithuania: Social Benefit,	41	2.7	8	Zalmiene
Romania: Guaranteed Minimum Income, 2005	71	5.5	25	Tesliuc

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Source: Grosh, et al, 2008

Conclusions:

- Administrative details matter hugely to success
- There is a good deal of experience in these issues, often from social pensions themselves, and from transfer programs of other sorts as well, so we know a lot about what to do in general. But:
- There is often some creativity needed in specific countries/issues, especially where administrative capacity/data systems are not yet well established.
- And there are a few specificities to social pension programs