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## Micro-Pensions in Central America

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By Kerry Pechter    Tue, Aug 23, 2011

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*You've heard of micro-credit: those mini-loans to female entrepreneurs in emerging markets. Now a micro-pension movement is underway, and one of the first pilot projects starts next month in Guatemala, Honduras and Nicaragua. Part I of a two-part article.*

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Ancient Mayan pyramids, smoking volcanoes and, sadly, a history of exploitation and violence. Guatemala is home to all of these. It is also the home of growing numbers of impoverished elderly women with barely a quetzal—the local currency, worth about 12 cents—saved for retirement.

While most Americans qualify for Social Security benefits, many older Guatemalans who have been self-employed as fruit vendors or small-plot farmers will fail to qualify even for the country's minimum retirement benefit of \$43 a month.

Now somebody is trying to remedy the lack of a retirement safety net in Guatemala, and in Honduras and Nicaragua. Starting this fall, a network of international and local non-government organizations (NGOs) will try to help the elderly poor in those countries by setting up pilot projects for a new financial concept: "micro-pensions."

You've probably heard of microfinance or microcredit programs, which loan \$1,000 or less to small entrepreneurs—especially women—in developing countries. The concept was pioneered by Muhammad Yunus, a 71-year-old Bangladeshi economist, founder of the first microcredit institution, Grameen Bank, and author of the bestseller, *Banker to the Poor* (Oxford, 2001). Yunus and Grameen won the 2006 Nobel Peace Prize.

Experiments in microcredit spread throughout the world, but they weren't all successful: lending turned out to be easier than getting repaid. Now some microfinance organizations are switching their focus to micropensions. Instead of lending small amounts, these NGOs will collect even tinier amounts—as little as \$3 a month—and pay out pensions ten or more years from now.

As in the U.S. and Europe, retirement finance is becoming a big issue in Central America. Even poor Guatemalans are living longer; life expectancy at birth is 70.2 years (up from 42 in 1950) and is expected to reach 77.9 years by 2050. By then the over-60 share of the population is expected to more than double, to 13.3%.

Another issue: traditional family support systems have broken down. Adults who used to care for their elderly parents in poor rural societies no longer do. They're busy working (legally or not) abroad. In addition, the civil violence in Central America—Guatemala's 36-year civil war ended in 1996—left thousands of grandparents bereft of children and thousands of grandchildren bereft of parents.

The micropensions will be miniscule by U.S. standards—perhaps only \$100 a month, according to Reynold Walter, a board member of Redcamif, the Microfinance Network of Central America. But that would be enough to allow poor Central Americans to contemplate some sort of relief after a lifetime of poverty and labor.

RIJ spoke with Walter (right) and one of his associates, Alexandra Orozco, at their offices in Guatemala City by Skype telephone earlier this summer. In September, Redcamif will begin its pilot micro-pension project, hoping to enroll 12,500 people in three years.



Under the plan, participants would contribute one or two percent of their monthly income. For many, it will be less than \$5 a month. At the end of 10 years, a 65-year-old would be eligible for a pension of 35% of their monthly income. A typical monthly income today is about \$300 a month, Walter said.

“The amount they contribute will depend on how much they earn per month, and how much they can give. It won’t be fixed,” Orozco told RIJ. “Sometimes the people here make only about \$5 a day. We are developing software to make projections, that if you pay in this much, you’ll get this much out.” She estimates a pension at 18,000 quetzals a year, or \$2311 at current rates.

But even that would make a big difference. According to the Inter-American Development Bank and other sources, the unemployment rate in Guatemala runs as high as 70%. More than half of all Guatemalans, especially people of Mayan heritage in the countryside, can’t afford enough food. The child malnutrition situation is considered “dire.”

Guatemala has a pay-as-you-go Social Security system, but coverage is mandatory only for those in the “formal” economy. Millions of unemployed, self-employed or intermittently employed people are left out. Even for those who participate voluntarily, benefits can be as little as the equivalent of \$43 a month. The maximum payment is \$607 a month.

Under the government pension formula, a worker’s benefit is equal to 50% of his or her average earnings in the five years before retirement, plus a half-percent more for every six months worked in excess of 10 years. Someone who contributed to the system for 15 years would therefore receive 55%—50% plus 0.5% for the 10 six-month periods beyond 10 years.

“You can get [a state pension] if you worked in the private sector, but most of our clients have small businesses, they sell sugar or eggs or milk, or they buy animals and sell them or farm their own piece of land,” Orozco told RIJ. “But they don’t have a steady income, so they don’t get into the system and don’t contribute to a pension.”

**Editor’s note:** *Where and how are the micro-pensions invested? Who provides the guarantees? What global organizations and private insurance companies are involved? We’ll address those questions in next week’s issue of RIJ.*

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