

# Kickstarting a Pension System with International and Domestic Donors

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November 2023

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Pensions  
Institute

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# Kickstarting a Pension System with International and Domestic Donors

*The Coller Pensions Institute is currently involved in the development of a highly innovative concept for a voluntary pension scheme targeted specifically at those who work in the informal sector<sup>1</sup> – a greatly neglected population segment across the world. Nor is the chosen area for the pilot an easy one, as it is being constructed in the very difficult circumstances of the Occupied Palestinian Territories (or Palestine as it is referred to in this briefing). The ambitious scheme is designed to incentivise informal workers to participate through matching contributions which will be directly funded by international aid, foreign or domestic, taking the role generally played by employers. The scheme seeks to provide a sustainable, independent and transparent method of extending the benefits of stable pension provision to over half the workforce which is currently outside any existing and planned pension mechanisms. An added benefit of the scheme is the significant increase in locally-sourced long-term investment capital that will feed into the broader economy, spurring savings, the wellbeing of the elderly, infrastructure, economic growth and capital markets development. This pioneering pilot has the potential to light a new path for the billions of adult workers in the world who operate in the informal sector.*

## Key Features

- Over 50% of total employment in Palestine is in the informal sector.
- This population is not covered by any pension scheme, and not included in those that may be covered in any current policy process to increase pension provision.
- The pilot is exploring around a voluntary Defined Contribution (DC) pension scheme, including financial incentives to foster participation among informal sector workers.
- Financial incentives are designed to be financed by international aid, without relying on the government as an intermediary.
- The scheme is managed by an institution separate from the government, with the highest standards of transparency.

## Informal Workers are an Integral Part of the Palestinian Population

Informal workers are the single most important part of the labour force in Palestine, with informal work accounting for 53.9% of total employment in Palestine in 2022 (ILO 2023). Regional differences are evident, with informal work being most prevalent in the West Bank (66.7%), followed by Gaza (60.6%) and Palestinians working in the Israeli settlements (47.6%). It is increasing: informal employment contributed to three-quarters of the total employment rise in 2021 (ILO 2022). It is also noteworthy that informal work is concentrated in vulnerable groups in Palestine. Before the Covid-19 pandemic, 83% of those aged 15-24 with employment had no formal working agreement. Almost one-fifth of Palestinian workers in Israel and the settlements have no work permit, and almost all of them work informally. The young population and women experienced much stronger declines in employment and working hours during the pandemic than men. Overall, total working hours in the informal sector decreased by 21% in 2020, compared to 9.3% for formal sector workers. This illustrates the heightened degree of vulnerability of informal sector workers.

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<sup>1</sup> For the purpose of this note, informal workers are defined as the self-employed, unregistered workers and those not covered by the Palestinian Labour Law. The latter category includes seasonal workers, day workers, and those working less than 15 days per month.

## Pension Schemes for the Informal Sector

The lack of pension provision (and often wider associated social security provisions) is typically seen within the informal sector in developing countries, exposing this already vulnerable population to significant risks. This is the case in Palestine, both with current provision and proposed plans for social security (see below). Hence, this pilot is part of a crucial global effort to devise ways to provide informal workers with a degree of pension security. This is not a simple paradigm, as informal workers exhibit distinct characteristics compared to those working in the formal economy which result in a series of very difficult challenges for traditional pension policy. These include many workers not being in an identifiable system, not having bank accounts and often not having a reliable and formal source of income, nor an employer willing or able to incentivise saving for old age.

The OECD (2022) highlights the potential of funded pensions in assisting informal workers in saving for retirement. Several countries in the Middle East and North Africa (MENA) region, Africa and Asia with substantial informal sectors have introduced voluntary pension schemes targeting informal workers (Guven, Jain, and Joubert 2021; Ridao-Cano et al. 2023). These often take the form of voluntary DC schemes with matching contributions or other benefits funded by the government.

However, the traditional tools used to encourage workers to save for retirement, such as tax incentives or matching contributions from employers, are challenging in this sector due to the lack of declared formal employment. That is why in these schemes national governments have often stepped in to provide matching contributions. This has proved successful in some countries in incentivizing participation in voluntary retirement savings schemes.

## An Innovative Concept to Incentivise Participation Directly with International Aid

In the Palestine pilot, the difficulties go one step further, as the low levels of trust in the Palestinian Government among the population, as well as its dire financial situation, render the prospect of the government acting as a similar anchor and funding matching contributions is not practical. Instead, the important innovation of this Collier Pensions Institute pilot is to seek an alternative source of funding: international aid. This is realistic given the high volume of aid deployed historically in Palestine, and which is likely to be increased in the near future.

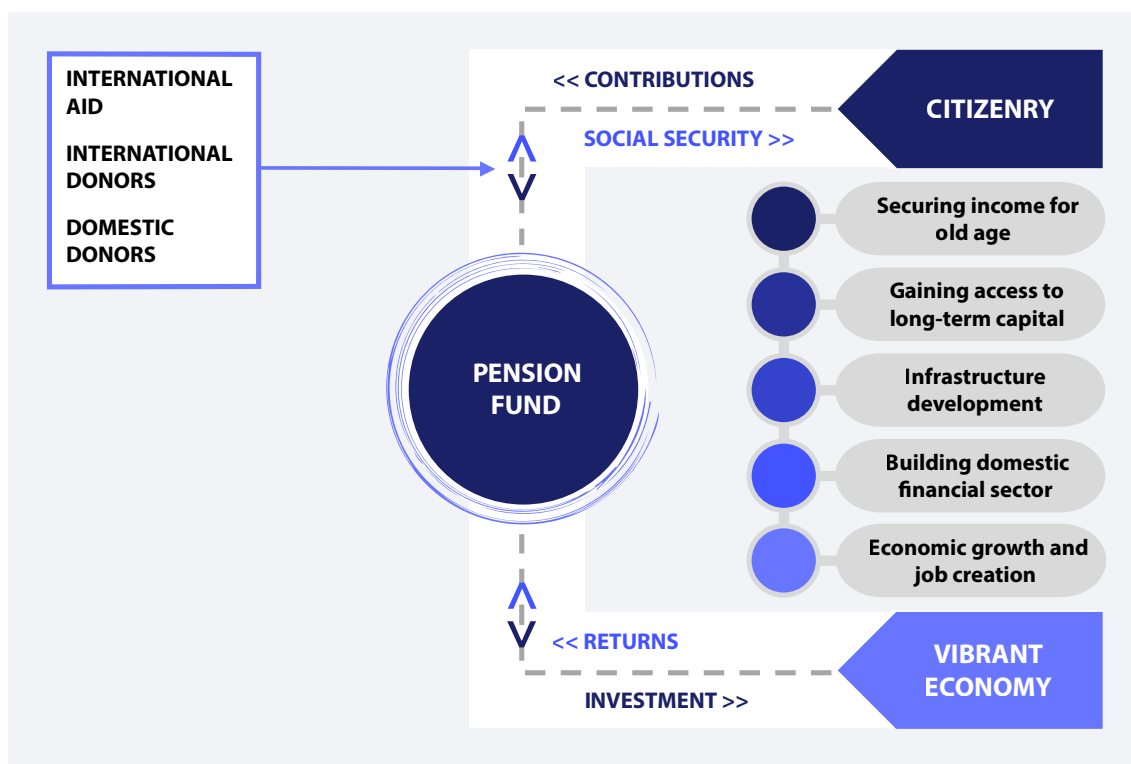
This approach may have the donor countries and institutions directly supporting retirement savings in Palestine as a means of simultaneously providing social security and directly injecting capital into the economy, doing so in a way that enhances societal stability and individual entitlement. At the same time, the capital from international donors will shore up the pension system in its early days, eventually benefiting all citizens by supporting the domestic economy. Figure 1 illustrates how such a pension system can impact citizens and the economy at large.

One design requirement currently being elaborated is the institutional form of the governing framework, which needs to be separate from the government in order to receive the aid and manage the pension scheme, including contribution collection, investment of savings, and benefit calculation and disbursement. A benefit of a design not relying on the government budget is increased transparency and the ability to “follow the money”. Over time, the pool of retirement savings will grow and provide an important source for local long-term capital for the domestic economy.

## Wider National Policy

The pilot is of course heavily affected by the ongoing war in Gaza, which has disrupted all policy making in Palestine. However, it is worth noting that prior to October 2023, a substantial effort was underway to establish a new social security system, including pensions, for private sector employees, although with coverage restricted only to formally employed individuals. This was under consultation over the summer of 2023, with a view to new legislation following, and the intention remains for the pilot to be developed alongside that process. The current crisis has highlighted anew the importance of social protection for Palestinian citizens, and will hopefully strengthen the case with relevant international institutions. With more than 400,000 workers losing their jobs since the outbreak of hostilities, the informal sector’s salience is likely to grow.

**Figure 1: How Pension Funds Kickstarted by Donors Benefit Citizens and the Economy**



Source: Collier Pensions Institute

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## About the authors

### Jeremy Coller

Jeremy Coller is Chief Investment Officer and Managing Partner of Coller Capital, a leading secondary private equity business, which he founded in 1990.

In 2015 Jeremy founded the FAIRR (Farm Animal Investment Risk and Return) initiative, which is the fastest-growing investor network focused on ESG risks and opportunities in the global food sector. Through the Coller Foundation, Jeremy has launched the Coller Animal Law Forum (CALF) and a number of other initiatives dedicated to accelerating the transition away from intensive agriculture. Jeremy is also founder of CPT Capital, which invests in solutions and alternatives to intensive agriculture, and is President of the Alternative Proteins Association.

He holds an MA in Philosophy from Sussex University and a BSc (Hons) in Management Sciences from the University of Manchester, UMIST.

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His research focuses on the macroeconomic effects of pension systems and future challenges to social security systems. From 2014 to 2016, he worked as a consultant at the OECD, researching policies to enable institutional investors to finance infrastructure.

He holds a Ph.D in Economics at Copenhagen Business School and is affiliated with its Pension Research Centre (PeRCent). David also holds an MSc cum laude in Economics from Bocconi University and a BSc in Economics from Ludwig-Maximilians-University in Munich.

*All views and opinions expressed in this paper are those of the authors alone.*

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