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Social pensions in low income countries

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Key features of social pensions in developing countries

- In common with developed countries, social pensions in developing countries are:
  - Tax-financed income transfers to poor older people (old age grants, allowances, social pensions, cash transfers)
- … but in contrast they
  - are not residual but core anti-poverty programmes
  - address household, not individual, poverty
  - are not income maintenance interventions but provide instead fixed level income supplements
  - are ad hoc pensions in the sense that they do not facilitate ‘retirement’, and lack inactivity tests

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Focus on low income countries

- Small number of low income countries have social pensions
- Large information gaps regarding incidence and impact
- Heterogeneity in policy environment and design, including regional differences
- ...hence **difficult to generalize**
- The presentation
  - will focus on three country schemes: Bolivia, Lesotho, and Bangladesh
  - ...provide some background
  - ...then provide a thematic discussion: coverage, design, finance, and politics
  - ...and finally draw some conclusions on the role of social pensions in low income countries

Non-contributory pension schemes in low income countries
Summary information for selected countries

Country	*Bolivia*	*Lesotho*	*Bangladesh*
Scheme	**BONOSOL**	**Old Age Pension**	**Boishka Bhata**
Target group	> 21 in 1995 on reaching 65	70 and over	>57, 20 oldest and poorest in ward
% receiving it (~)	80	93	16
Selection	cohort universal	universal	community cttee.
Transfer (US$)	230 a year	12.50 a month	2.3 a month
Beneficiaries (m)	0.45	0.07	1.3
Budget (% GDP)	1.3	1.43	0.03
Finance	privatisation fund	tax revenues	tax revenues
Year established	1996	2004	1998
Politics (inception)	facilitated privatisation	presidential initiative	Five Year Plan 1997-2002

Sources: Barrientos and Holmes (2007); Pelham (2007); SPFVS (2007); HAI (2007)

Target group, selection, and coverage

- All three schemes target older people and their households, but large variation in age of entitlement
  - Lesotho's was the outcome of a policy trade off between the level of the benefit and the size of the target group
- Universal schemes have wide coverage,
  - remaining gap in coverage: richer elderly self-exclude; exclusions among the poorest are mainly due to remoteness
- In Bangladesh community selection
  - does a good job in discriminating between poor-and non-poor;
  - but less accurate in selecting the poorest

Incidence of social pension in Bangladesh

Table 2. Location of households with non-contributory pension beneficiaries among eligible beneficiary households, Bangladesh 2000

Quintiles of wealth index	Distribution of households with a pension beneficiary in each quintile (%)	Percentage of households in each quintile having a pension beneficiary
Q1 Lowest	39.6	6.4
Q2	37.6	6.0
Q3	15.8	2.5
Q4	5.9	0.8
Q5 Highest	1.0	0.2
All	100	3.1

Own calculations from Bangladesh Demographic and Health Survey 2000 data. Eligible beneficiary households are households with at least one member aged 57 or more. Figures are for a weighted sample of these households.

Politics

- Political factors leading to to the introduction of social pensions are highly country- specific
  - In Bolivia, social pensions were instrumental to securing political support for privatization
  - In Lesotho, social pensions were a presidential initiative, no latent demand but regional ‘domino’ effect
  - In Bangladesh, gradual firming up of policy proposals in 5-year plans
- Once established, they are able to generate political support
  - Combine life course with vertical and sectoral (urban-rural) redistribution
  - Address impact of migration and HIV/Aids on households

Design issues

- Fixed level transfers set below the poverty line
- Stand alone schemes:
  - in Bolivia, social pensions transfers are additional to contributory pension benefits (12% of social pensioners also have contributory pensions);
  - but in Lesotho and Bangladesh, receipt of other transfers disqualifies potential beneficiaries
- Delivery constraints: transfers are paid annually in Bolivia, quarterly in Bangladesh, and monthly in Lesotho
- Only Bolivia's has some insurance component in the event the pensioner dies (funeral expenses and transfers to survivors)
- Lack of information on administration costs

Finance

- Financing social pensions is a significant challenge for low income countries
  - Managing liabilities?
    - Bolivia: social pension is cohort restricted, finish in 2085? But current benefit levels thought to unsustainable
    - Bangladesh: cap on beneficiaries and low level of benefits
    - Lesotho: late age of entitlement
  - New sources of financing?
    - Bolivia’s innovation in financing the social pension is unravelling
  - Fiscal constraints are binding
    - 1% of GDP is affordable (ILO estimates)

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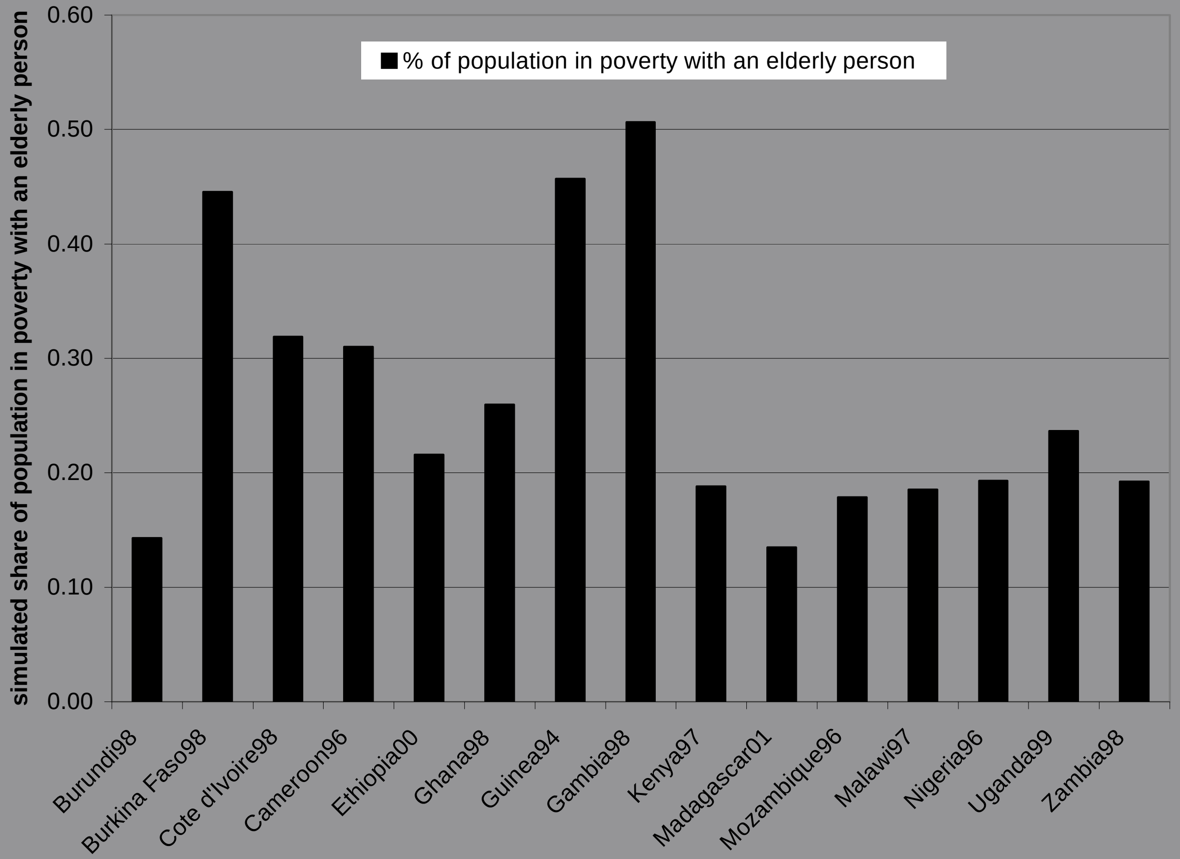
Social pensions and poverty reduction in low income countries? Social pensions have limited reach…

The reach of a universal social pension in Sub-Saharan Africa?
Using Kakwani and Subbarao [2005] estimates



The simulation used country aggregate data reported in Kakwani, N. and K. Subbarao (2005). Ageing and poverty in Africa and the role of social pensions, Working Paper 8, Brasilia: International Poverty Centre - UNDP.
The figures represent the percentage of the population with an elderly person in the household, predicted to be in poverty.
The study used national poverty lines computed from nutritional requirements and domestic prices.

...social assistance might be more effective?

- Rapid expansion of social assistance programmes based around income transfers in developing countries
- Some poverty reduction programmes exclude older people and their households:
  - Work requirements in India's National Rural Employment Guarantee Scheme
  - Focus on human capital, Bolsa Escola in Brazil, Progresa in Mexico
- .. but recent extension of these programmes has reduced exclusion: Bolsa Familia in Brazil extended support to all poor households, Oportunidades in Mexico now includes transfers to older people and an old age saving scheme
- Programmes focused on the poorest are less likely to exclude older people and their households, e.g. Zambia's Kalomo Pilot Social Transfer Scheme

Advantages of social pensions in low income countries

- Address old age poverty where poverty reduction programmes have age exclusions (e.g. Bangladesh's asset bias) – complementary role
- Help manage liabilities where poverty incidence is high , inequality among the poor is low, and political resistance to poverty reduction is significant – 'trojan horse'?
- Help address new forms of poverty which impact directly on household composition and vulnerability: e.g. Lesotho and impact of labour migration and HIV/Aids (but note absence of survivor insurance component)
- Maximise incentive compatibility of poverty reduction policy

Conclusions

- Few examples of social pensions in low income countries make it difficult to generalize from experience
- In low income countries, the poverty reduction objective of social pensions dominates
- Social pensions are a stronger policy option:
  - (i) where they complement other poverty reduction programmes; or
  - (ii) where other programmes are absent and political support for poverty reduction is limited
- Where social assistance programmes are in place, it might make more sense to aim to eliminate exclusion of older people and their households
- Few pointers on design, but including survivor protection in social pensions is a key challenge in low income countries

Areas for further research

- Knowledge of the impact of social pensions in low income countries is very limited
- The interaction of social pensions and household dynamics:
  - What are the changes in household composition and vulnerability associated with pension receipt? And with end of pension receipt?
  - What is the impact of selection techniques on household composition and support?
- Integration of social pensions with contributory schemes in middle income countries, and with social assistance in low income countries