

Benefits and Costs of Social Pensions in Sub-Saharan Africa

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Abstract

The lack of efficient social security systems, the presence of large informal sectors, and the pace at which the population is aging in some Sub-Saharan African countries are red flags warning of a potential long-term problem: that is, the inability of countries to provide old-age income security to all. Many adults in the region have difficulties accessing health care and other essential services, increasing their vulnerability and their likelihood of becoming impoverished as they age. Since the coverage of contribution-based pension schemes has remained low for decades, direct cash grants (henceforth, universal social pensions) are increasingly proposed as a way to address the coverage gap and to fight poverty among the elderly. This paper explores the role of universal social pensions in 12 Sub-Saharan African countries, showing that they may be part of the answer to the coverage gap in pensions and may be important from a human rights lens. However, they have limited impact on poverty because a significant share of the elderly population is found not to fall into the poorest and most vulnerable segments of society. Universal social pensions can also be quite costly, difficult to sustain in low-income settings, and less cost-effective at fighting poverty compared to poverty-targeted cash transfer programs. Implementation errors are quite prevalent in universal social pension schemes, contradicting the apparent simplicity of identifying program beneficiaries. The report's main findings are that a discussion of poverty targeted programs vis-à-vis universal programs is less relevant for policymakers than how to design and implement a policy or a mix of coordinated and harmonized policies under a robust system that allows governments to reach their main objectives of meeting the basic needs of their most vulnerable citizens.

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Acronyms

CSG	Child Support Grant
GDP	Gross Domestic Product
ILO	International Labour Organization
LICs	Low Income Countries
NPS	National Pension Scheme
SSA	Sub-Saharan Africa
UN	United Nations

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I. Introduction

Universal social pensions, non-contributory cash transfer programs for the elderly, are increasingly becoming an attractive policy to protect the elderly in Sub-Saharan Africa. Until a decade ago, few countries in the region had any form of social pension program, but in recent years the number has increased. Currently, old-age social pensions with varying design elements are employed in eight countries in the region. Of these eight countries, only the South Africa and Cape Verde programs determine eligibility on the basis of a means test. The remaining six — Botswana, Lesotho, Mauritius, Namibia, Seychelles and Swaziland — are universal programs. In addition, four countries are pilot-testing universal social pensions: Kenya, Nigeria, Uganda and Zambia. Kenya and Nigeria are also simultaneously piloting means-tested and pension-tested social pensions as well as universal pensions.¹

Box 1: Universalism versus Targeting

Targeting is a hugely controversial topic, considered anathema by some and panacea by others when, as with many divisive topics, the most sensible view is probably somewhere in between.

In relation to social protection, the universalist approach proposes that all citizens of a nation receive the same state-provided benefits. Targeting proposes that state-provided benefits differ depending on individuals' circumstances. Proponents of both approaches understand that in most developing countries, current budgets do not allow a meaningful provision of transfers to all citizens, and also that targeting experience is far from uniformly excellent. There are two glasses of milk, each of them half empty and half full; the "camps" differ about which they perceive can be filled.

Universalists are optimistic that the social unity resulting from a uniform provision of benefits will garner a sufficient budget (nationally financed in middle-income countries and donor assisted in low-income countries) to provide meaningful protection. Universalists believe that experience with targeting as a way to increase the efficiency of redistributive spending has been unsatisfactory to date, uninspiring in relation to hope for the future, and detrimental to efforts to increase the budget.

In contrast, targeters have a more optimistic assessment of targeting experience and are hopeful that bad experiences can be replaced by good experiences and that perhaps the good experiences can be improved. Targeters' pessimism concerns budgets, seeing both political and technical obstacles to budgets becoming sufficient to provide meaningful universal benefits.

In reality, the distinction between the approaches is not absolute. Even the European welfare states that have gone the furthest in universal provision of child allowances, education, and health insurance and have extensive minimum wage laws, labor market activation, pension coverage, and the like have last resort needs-based programs that are tightly targeted.

Source: Grosh and Leite (2009); and Grosh et al. (2008).

Universal social pensions are conceived of as a way to improve coverage of the elderly population and protect them from falling into poverty because current contributory pension programs have not been able to expand protection beyond a small segment of the elderly in the region. Those who receive a pension from contributory schemes are typically relatively privileged with higher incomes and stable jobs, a category that includes civil servants. This situation is unlikely to change, as a large share of the population in the region lives in rural areas and is either unemployed or

¹ Pensions-tested schemes determine eligibility based on the receipt of a contributory pension benefit.

employed in the informal labor market. Current low participation rates in contributory pension programs mean that the coverage gap for the elderly will continue to be a challenge, since few elderly will be eligible for a contributory pension in the future as well.

Universal social pensions are considered by some to be the most effective way to reduce old age poverty because there is a widely-shared perception among policymakers that children and the elderly are more vulnerable to poverty than the rest of the population.² The elderly will at some point rely on income support from family or government, by this reasoning; thus, by implementing a universal social pension, governments can generate some form of redistribution to the poor. In other words, there is an almost axiomatic view that the elderly are typically poorer than the rest of the population, and that universal social pensions will protect them from the risk of falling into poverty.³ Moreover, universal social pensions may contribute to meeting human rights obligations in a specific country. In short, the basic idea is that universal social pensions comply with the principles of universality and non-discrimination, and are aligned with the adoption of a human rights-based approach, responding to international obligations and commitments while at the same time fighting poverty.

However, others argue that poverty-targeted schemes do more to help the impoverished elderly than do universal pensions despite targeting errors. They believe that targeting and implementation can be improved with proper design. They question whether universal schemes can provide a benefit that is large enough to alleviate poverty.

This paper aims to contribute to an objective analysis of the merits of these tools for helping the elderly in need. We take a closer look at the assumptions underlying universal social pensions and test these assumptions against data from countries where such pensions have been adopted. We examine the experience of these countries in detail to uncover potential pitfalls in implementing universal pensions. We compare and contrast the effects of social pensions and poverty-targeted pensions. Finally, we suggest solutions and best practices for

² While social pension programs have rarely been evaluated independently, a 2011 report by the Independent Evaluation Group of the World Bank indicates that any predictable cash transfer program, which can include universal social pensions, can increase the quantity and improve the quality of household consumption, improve children's nutritional intake, education, and health status, and increase household expenditures on productive activities and assets needed to build the resilience of the most disadvantaged population. This finding has been replicated in several other studies (e.g., Grosh et al. 2008). Hence, cash transfers are key policies to protect household consumption and human capital while helping reduce poverty and increase productivity in a permanent way.

³ "In low and middle income countries the majority of older people do not receive a pension. Social pensions are non-contributory cash transfers paid regularly to older people. They are widely acknowledged to be one of the most effective social protection tools to reduce old age poverty and invest in human capital development." Pension Watch, www.pension-watch-net.

See also Handayani and Babajanian (2012) *Social protection for older persons: Social pensions in Asia*.

countries that are interested in creating a universal pension program, or in adapting an existing program to be more effective.

II. Objectives of Universal Social Pensions

All countries grapple with how best to reduce poverty for the elderly, given limits on both their budgets and their ability to accurately track individual needs in their populations. These challenges can be particularly severe in developing countries, which have more people in need than resources available, and whose economies are not fully developed. Policy tools that are effective in many developed countries may be far less successful in emerging economies.

In particular, contributory pension schemes, which cushion the elderly against poverty in many developed countries, are often ineffective in emerging nations, including those in Sub-Saharan Africa (SSA). Most countries in the region have some sort of contributory pension program that was either inherited from colonial times or established after independence. In such a program, participants are required to pay contributions during their work life in return for pension benefits in retirement. These systems, however, have been unable to extend coverage beyond the formal sector, which comprises employees from the public sector, state enterprises, and large private companies, resulting in stubbornly low pension coverage for the elderly.⁴ A large share of the region's adult population⁵ has no access to contributory pension schemes during their work lives, leading to a significant coverage gap in income security in old age.⁶

Increasing the coverage of contributory schemes remains a regional challenge.⁷ A large share of the population in SSA is composed of the rural poor, who are either unemployed, employed in the informal labor market with low-paying jobs, or "employed" in small subsistence agriculture production. They are not earning enough to set aside money for old age and have no incentive to take part in the current system. Thus, the SSA recipients of a pension from a contributory scheme are relatively privileged, with higher and stable incomes.

The rural poor are highly unlikely to have access to or participate in earnings-related schemes. Figure 1 presents active contributors to pension programs in the region as a share of the working-age population. In the countries presented in Figure 1, contributors account for less than 25 percent of the working-age population, except for Seychelles where the share is

⁴ While contributory pension coverage varies among countries, the share of elderly in receipt of a pension from a contributory scheme typically does not go beyond a maximum of 20 percent of the population above retirement age, leading to a substantial coverage gap among the elderly in the region.

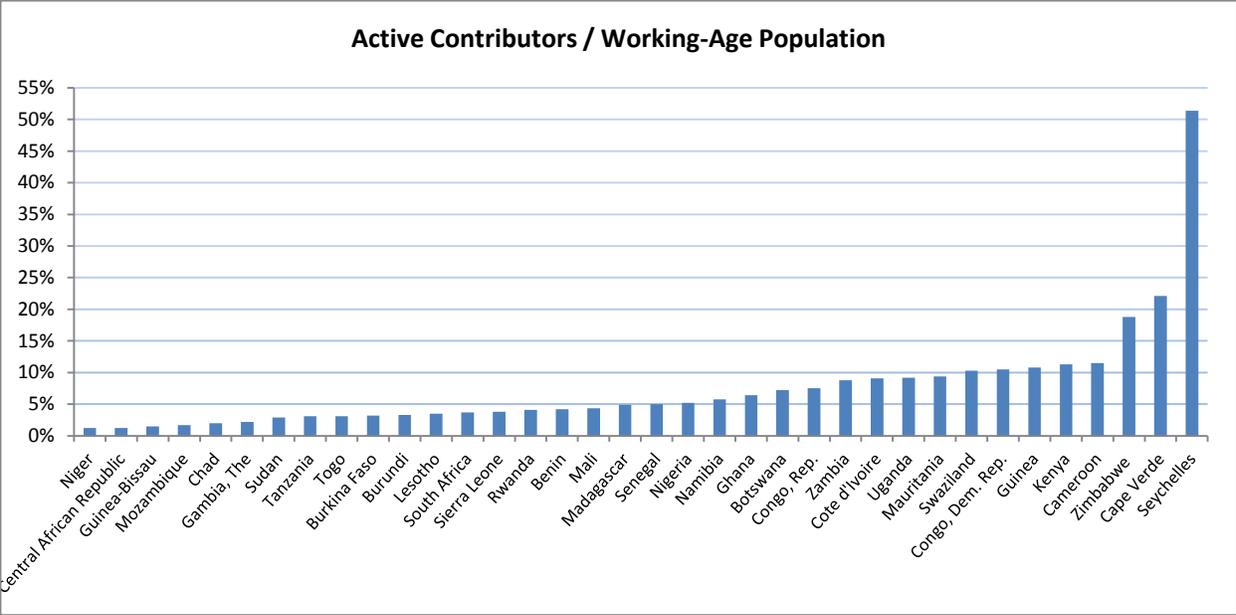
⁵ For purposes of this policy note, individuals 16-64 years old are representative of the adult-age population.

⁶ For purposes of this policy note, individuals 65 years old and older are representative of the elderly population.

⁷ Actually, as presented in Rofman et al. (2013), the Latin America and Caribbean region faced a similar problem. Growing concern about the negligible progress on coverage of the old-age population with contributory schemes led to an emphasis on policies that would address the coverage gap.

significantly higher, although even there nearly half of the working-age population does not contribute. While the affordability of contributions prior to retirement is probably the most important factor in low participation rates, lack of trust in the system due to governance issues is another likely contributor.

Figure 1: Share of African Working-Age Population Who Actively Contribute to a Pension



Source: Pensions Database HDNSP, World Bank (2013).

In order to address this significant coverage gap in old-age income security, several countries have introduced or are considering non-contributory cash benefit schemes for the elderly. A social pension program, unlike a contributory program, does not require contributions prior to retirement. Therefore, in theory a social pension would help all of the elderly in a country, not just those who have a formal work history.

Until the last decade, only a few countries in the SSA region had some form of social pensions: (a) a universal social pension program, (b) means-tested social pension programs; or (c) pension-tested social pension programs. South Africa’s older persons grant, the oldest program in the region (introduced in 1927), is administered on the basis of a means test. As Table 1 shows, social pensions with varying design elements are currently employed as a tool for old-age poverty alleviation in eight SSA countries: Botswana, Cape Verde, Lesotho, Mauritius, Namibia, Seychelles, South Africa, and Swaziland.

Table 1: Sample of Large Social Pension Programs in Sub-Saharan Africa 2014***

	Income Level of Country*	Social Pension Program	Monthly Benefit (US\$)	Ratio: Monthly Benefit Amount over Intl. Poverty Line 1.25 PPP a Day**	Eligibility Age	Targeting
Botswana	Upper-Middle	State Old Age Pension	29	1.43	65	Universal
Cape Verde	Lower-Middle	Minimum Social Pension	60	1.82	60	Means-Tested
Lesotho	Lower-Middle	Old Age Pension	39	1.56	70	Pension-Tested
Mauritius	Upper-Middle	Basic Retirement Pension	109	4.91	60	Universal
Namibia	Upper-Middle	Old Age Pension	82***	2.40	60	Universal
Seychelles	Upper-Middle	Old Age Pension	173	11.38	63	Universal
South Africa	Upper-Middle	Older Persons Grant	155	5.92	60	Means-Tested
Swaziland	Lower-Middle	Old Age Grant	26	1.14	60	Pension-Tested

Source: Pension Watch, <http://www.pension-watch.net/country-fact-file> (accessed January 2014).

Note: *World Bank 2013 Income classification. ** This share represents how large the monthly benefit is compared to the international poverty line of 1.25ppp a day. *** Other countries in the region with social pensions—Angola, Benin, Guinea-Bissau, and São-Tomé e Príncipe—are not included in this table due to limited information. ****ILO (2014) report set the monthly benefit at 600NAD a month.

III. Benefits of Universal Pensions

In a broad discussion of universal social pensions, advocates often align the concept with human rights obligations. Their premise is that universal social pensions comply with the principles of universality and non-discrimination. The adoption of a human rights-based approach, in this view, responds to international obligations and commitments (such as the UN Social Protection Initiative launched in 2009). In addition, it can help countries design a comprehensive approach to tackling poverty, since the elderly are seen as largely vulnerable to poverty. Finally, advocates of universal social pensions such as Help Age International⁸ argue that these programs maximize inclusion of the elderly poor. Exclusion of the elderly poor, they say, is a problem often present in poverty-targeted programs due to “targeting errors.”⁹ The

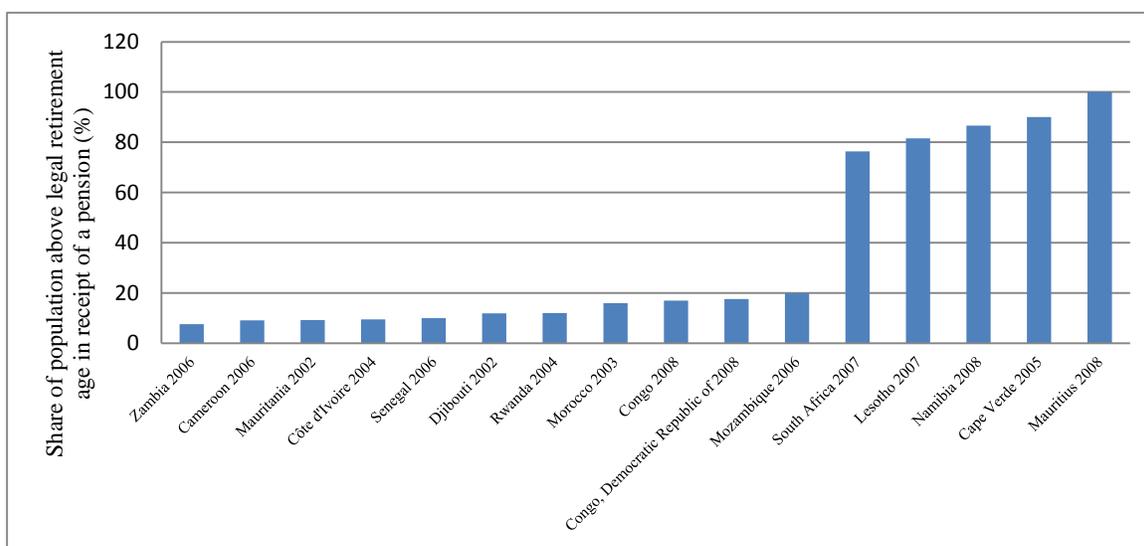
⁸ See <http://www.pension-watch.net/>

⁹ Extract from key debate topics at <http://www.pension-watch.net/key-debates/key-debates/targeting/>
“...Poverty-targeting misses poorest: It is often argued that targeting the poorest is a more efficient approach. For a set amount of money, the belief is that cash transfers will have more impact if restricted to the poorest. However, one of the little-acknowledged facts of targeting is that this approach has huge margins for error. Evidence from existing schemes shows that those targeted at the poorest groups miss many who are meant to receive them, and benefit many who are not eligible. Help Age has yet to see an example of any poverty-targeted scheme in a developing country that reaches over 50% of the target group. Errors occur as a result of various factors. Eligibility criteria always involve some level of subjectivity, and this means that such criteria can miss people who are vulnerable. Additionally, targeting systems often involve administrative hurdles for individuals to claim the grant. This can include complicated application forms and visits to administrative centers. These kinds of hurdles are most challenging for the poorest people. Many are unable to read or write and frequently live in remote rural areas, far from an administrative hub. A key lesson here is that the larger the target group, the lower the margin for error. For example the old age pension in South Africa that targets older people (excluding the rich) is more effective at

major benefit of universal social pensions is considered to be a reduction in poverty. We examine the evidence for this claim generally here, and in more detail later in this paper.

Of the eight countries that have social pensions, only the programs in South Africa and Cape Verde determine eligibility on the basis of a means test. The remaining six have universal social pension programs.¹⁰ As expected, countries with a social pension have been able to extend coverage to a much larger share of the elderly relative to countries constricted to a contributory pension program. Figure 2 presents statistics from the International Labor Organization (ILO) on the share of the retirement-age population in receipt of a pension. The coverage of the elderly in Cape Verde, Lesotho, Mauritius, Namibia, and South Africa is significantly higher, ranging between 78 and 100 percent. Given this success, other SSA countries are considering social pensions, and four—Kenya, Nigeria, Uganda, and Zambia—are at the pilot stage of testing universal social pensions. Kenya and Nigeria are simultaneously experimenting with means- and pension-tested social pensions.¹¹

Figure 2: Share of African Population above Retirement Age in Receipt of a Pension



Source: ILO (2010).

Note: The database uses self-reported administrative data as its primary source of covered populations, and there is no agreed-upon framework for what the covered working-age population is. Also, coverage of the working-age population is affected by the relative size of the economically active population.

reaching the poorest than a narrowly targeted social pension. All this points to universal pensions as the most successful way of reaching the poorest, with some reaching 100% coverage..."

¹⁰ The programs in Lesotho and Swaziland are pension-tested; in practice, however, Swaziland does not implement the pension test.

¹¹ Recently, Rofman et al. (2013) confirmed the important trend towards relying more heavily on social pensions in Latin America and the Caribbean as opposed to the expansion of contributory pensions to address the coverage gap in old-age pensions.

Experience thus shows that universal social pension programs are indeed an effective tool to expand coverage of the elderly in Sub-Saharan Africa (and elsewhere). These programs have proved to be an improvement over the contributory schemes that have failed to expand coverage beyond a fraction of the elderly. In addition, universal social pensions programs can:

1. **Lead to some improvement in the human capital of children.** Researchers and think-tankers have shown social pensions to have positive effects on children. Duflo (2003) and Ambler (2011) found that social pensions had a significant impact on granddaughters in South Africa in relation to HIV/AIDS infection, while Knox-Vydmanov (2010) highlighted their impact on the education of children in Zambia. It must be noted that this improvement is not universal and only reaches households where elderly and children are co-residents. Other authors such as Legido-Quigley (2003) and Ferreira et al. (2001) indicate that even when programs help develop human capital they fail to reach everyone. South Africa's program did not reach South African grandparents under 60 years old who took care of HIV/AIDS orphans in the early 2000s, since they were ineligible for the old-age grant. In general, however, universal pensions, like other cash transfer programs that help mitigate income constraints that affect utilization of basic services (e.g., education and health care), can be expected to have a positive impact on the human capital of children.
2. **Improve the status of the elderly in SSA countries.** Advocates say that social benefits provided directly to the elderly will improve their status in the household, since the elderly will be seen as contributing to household income. Advocates say this status boost would not occur with a general cash transfer program, as the program beneficiary is often the head of household (in many cases, a woman), leaving any elderly household members invisible or causing them to be considered a burden to the household since they do not contribute to household income.
3. **Simplify implementation.** Universal social pensions are conceptually simple, which advocates suggest will make their implementation easier than other cash-transfer programs. The underlying argument is threefold. First, having age as the sole eligibility criterion makes it significantly easier for administrators to implement a program and to reach the intended group. Second, having age as the only criterion prevents the potential stigma attached to the poverty-targeted grants and at the same time are gender-neutral. Third, built-in errors that might result from relying on either estimated income (proxy means test) or self-reported income (means test), as well as other possible conflicts caused by more complex selection criteria, are avoided.

IV. Challenges in Adopting Universal Social Pensions

While there are benefits to social pensions, much depends on the way the programs are implemented and whether potential pitfalls can be eliminated. Because impact evaluation literature on universal social pensions is limited, we conducted analyses and simulations using national representative household survey data from 12 SSA countries (see Box 2) to prepare a comparative cross-country assessment of similarities and differences among the populations in the countries. Our goal was to evaluate the benefits as well as the potential challenges of universal social pensions, for the benefit of countries that are either considering adopting them or that are attempting to make existing programs more effective. Our findings are highlighted below.

V. Cost

The fiscal affordability of universal social pension programs presents a key challenge for policy makers in the Sub-Saharan Africa region. Clearly, a universal social pension program is an effective tool to improve social protection coverage in old age. An expansion of coverage, nevertheless, comes with a fiscal cost. Müller (2009) highlights fiscal sustainability as a dominant recurring theme of the universal social pension program in Bolivia (*Bonosol*) since its inception. Monchuk (2013) finds that the universal old-age pension in Lesotho is one of the most expensive programs in the country, despite covering only 4.4 percent of the population.

Given that fiscal cost is so crucial for policy makers in their decision-making, advocates of universal social pensions have also done some research into their costs. A simulation conducted

Box 2: Household Survey Data Used

For this analytical work, we explored the standard statistical data analysis, econometric models, and ex ante model simulations to prepare a comparative cross-country assessment of similarities and differences, such as in living arrangements, elderly and non-elderly welfare, the role of equivalence scales for welfare measurement, and social assistance performance in different countries in the region. All data analysis in this work was done on 12 household surveys from Sub-Saharan Africa: Rep. of Congo, Ghana, Kenya, Malawi, Mali, Mauritius, Mozambique, Namibia, Nigeria Rwanda, Uganda, and Zambia. The list of household surveys by year is presented below:

	Year
Rep. of Congo	2011
Ghana	2005
Kenya	2005
Malawi	2010
Mali	2009
Mauritius	2006
Mozambique	2008
Namibia	2009*
Nigeria	2010
Rwanda	2005
Uganda	2009
Zambia	2010

Source: World Bank ASPIRE Data Base.

*Namibia 2009 data was manipulated by authors using the ASPIRE approach

by Help Age International¹² and ILO¹³ found that universal social pensions would cost around 1 percent of gross domestic product (GDP) in African countries. They argue that this associated cost, while not insignificant, is affordable, and can be justified given the positive impacts associated with universal pensions.

However, the experience of countries with well-established universal pensions shows that their fiscal costs are higher than 1 percent of GDP. For example, South Africa spends more than 1.7 percent of GDP on its social pension programs, while Namibia spends 1.1 percent of GDP. In the Seychelles, spending on the universal social pension program is close to 2 percent of GDP, and in Mauritius, it accounts for 2.2 percent of GDP.

The high cost of universal social pensions has significant implications for other safety-net spending. As Monchuk (2013) shows, in most African countries, especially low-income countries (LICs), spending on social safety nets is low in comparison with other countries worldwide. Average spending on safety nets in LICs is about 1.1 percent of GDP.

Given the expense associated with large social pensions, we found that SSA countries with them (e.g., Lesotho, Mauritius, and Namibia) spend most of their social protection funds on old-age programs. For example, in Mauritius, universal old age pension program account for 60 percent of social safety net spending. In addition, in countries with a large share of the population covered by pensions, (i.e., Cape Verde, Lesotho, Namibia, Mauritius, and South Africa), the expenditure on social pensions as a share of GDP is quite high (see Table 2). This can create a real financial burden for countries such as Cape Verde and Lesotho, given the large extent of poverty (that is, the need for safety nets) and the limited national income (that is, resources available to distribute) because their tax revenue is quite low.¹⁴

One way to assess the magnitude of these countries' spending on universal pensions is to compare it against total spending on social safety net programs and against total government spending. Table 22 presents spending on social pension programs relative to total social safety-net spending and to GDP in select countries where data is available. Except for Botswana, the countries shown allocate between 29 and 61 percent of their total social safety-net spending to social pensions. In Mauritius and South Africa, where data on total government spending is available, the amount spent on social pension's accounts for more than 20 percent of total government spending.

¹² Knox-Vydmanov (2011).

¹³ International Labour Organization (2010).

¹⁴ Note that the civil service pensions in Botswana and South Africa are fully funded, creating fiscal space for social pensions.

Table 2: Spending on Social Pension Programs in Select African Countries

Country	Targeting	Eligibility Age	Monthly Benefit (\$)	Social Pension Program Spending	
				Percent of GDP	Share of Total SSN Spending (%)
Botswana	Universal	65	29	0.33	9
Cape Verde	Means Tested	60	60	0.40	NA
Lesotho	Pensions Tested	70	39	1.77	38
Mauritius	Universal	60	109	2.20	39
Namibia	Universal	60	82**	1.1**	61**
Seychelles	Universal	63	173	1.70	51
Swaziland	Pensions Tested	60	26	0.60	29
South Africa	Means Tested	60	155	1.72	49
Kenya (pilot)	Universal/Means Tested	65	18	1.09*	
Nigeria (pilot)	Pensions Tested	65	32	1.23*	
Uganda (pilot)	Universal	65	9	0.84*	
Zambia (pilot)	Universal	60	12	0.47*	

Source: Monchuk (2013), ILO (2014) and author's calculation (2014).

Note: *This estimate assumes that the program is scaled nationally. **According to an ILO (2014) report.

Fiscal costs will present an increasing challenge in countries with an aging demographic. This challenge will be more pronounced in countries that are projected to age faster (i.e., Seychelles and Mauritius), as old-age dependency ratios increase.¹⁵ Even in Namibia, where universal social pensions are important for poverty alleviation, ILO (2014) highlights concerns about sustainability and duplication of benefits.¹⁶

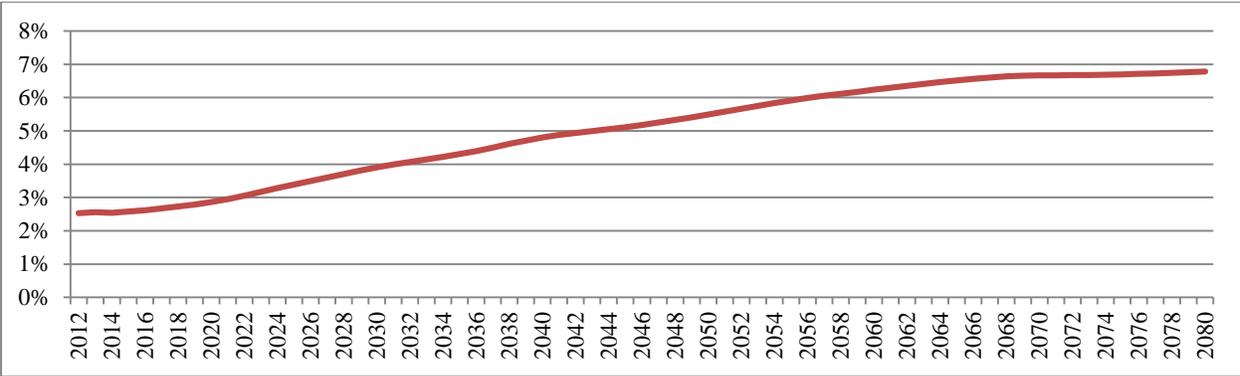
In order to show the long-term fiscal cost of social pensions, a simulation exercise was conducted for Mauritius, which can expect the aging of its population to have a substantial impact on the fiscal cost of its universal social pension program. Currently, the universal social pension stands at around 17 percent of average wages in Mauritius. The exercise assumes that the benefit amount will remain constant as a share of average wages and takes into consideration the aging process. The projections reveal that the current high cost of the universal social pension in Mauritius will increase further and will reach almost 7 percent of GDP in the long term. If the indexation of the universal social pensions is lower than wages,

¹⁵ ILO (2014) highlights the issue with aging demographic in Namibia. The report states that after 2030 the rise in the old-age dependency ratio is projected to be larger than the child dependency ratio, pushing up the total dependency ratio. In the report's words, "These trends bode well for a cautious expansion of social protection provisions in the medium run, which can be sustained in the long run, provided there is (among other factors) adequate economic growth and labour absorption."

¹⁶ Two suggestions in the report are to create a targeted benefit which can be used to pay more benefits to the remaining eligible group using a simple means test, or to exclude those in the tax system. The main gains would come from disqualifying the top 20 percent of earners, thereby ensuring that wealthier individuals, who are mainly in the formal sector (and mostly public servants) and those in receipt of the Veterans' Subvention are not eligible for old-age benefits.

then the cost would be lower; however, it would not be inaccurate to assume that governments would not let the benefit level decrease markedly in real terms and therefore the cost would increase significantly (Figure 3).

Figure 3: Mauritius: Projected Spending on Universal Pension (% of GDP)



While cost is perhaps the most serious concern related to universal social pensions, our analysis also uncovered other concerns such as implementation challenges, targeting errors and inaccurate expectations about the elderly, based on the experience of countries that have adopted social pensions.

VI. Implementation

Similar to other cash transfer programs, universal social pension programs are exposed to implementation challenges. One such challenge is the absence of a reliable management and information system. For example, once a decision on eligibility has been made, an elderly individual should receive a social pension only until he or she is deceased. However, if the database is not updated by the beneficiary family or the system lacks interoperability with the civil registry, the death will not be recorded and the administrators may continue to pay the benefit if they do not have the means to ascertain that the recipient is deceased. In such cases, the benefit may sit in a bank account for months, for example, without anybody collecting it. Moreover, the absence of a reliable database (e.g., a social registry of potential beneficiaries) is likely to lead to fraud and errors, as some individuals may collect the benefit before they have reached eligibility age and others (in most cases surviving relatives) may claim the benefit for a deceased beneficiary. Mobility issues and illiteracy present concerns for any cash transfer transaction that involves the elderly, including universal social pensions. Populations in remote areas or those with mobility constraints (e.g., health issues or disabilities) have limited access to cash transfer “payment centers,” inhibiting their access to regular cash transfers. Additionally,

in low-income countries, illiteracy rates are higher, making a significant segment of the population more susceptible to being taken advantage of.

In practice, universal social pensions are likely to miss those who need cash transfers the most, the poorest.¹⁷ Lack of documents and residence in remote areas are characteristics that relate more to the poor. In addition, the absence of an open registration process, social registry, and robust monitoring process are important challenges in identifying the poor, whether they are elderly or not:

- In Uganda, an Overseas Development Institute report (2012)¹⁸ highlights a number of challenges related to implementation of a social pension program. These mainly include difficulties in verifying the age of beneficiaries, especially in sub-counties; lack of staff at the local government level; delays in reporting deaths of beneficiaries; delays at pay points caused by system failures; large private costs to access benefits, including long distances to pay points; and difficulties in administering the program due to limited automation, especially at the lower levels of local government.
- In Zambia, a Help Age (2009) report underscores the problems caused by lack of an open registration process for social pensions in the Katete region. The program excluded anyone who turned 60 (the cutoff for receiving pensions) after the initial registration was completed. There was no mechanism for updating the registry as people aged. Furthermore, despite a relatively strong system of national registration cards, some people had cards with inaccurate information; and, in terms of institutional capacity, delays in releasing funds for beneficiary payments meant that payments often arrived late.
- In Bolivia, Müller (2009) highlights that outreach to the poorest areas of Bolivia was inefficient because elderly slum dwellers and poor rural inhabitants were least likely to be able to present the requisite identity card for payment confirmation (some did not have any identity papers). At the same time, the poor were most likely to suffer from administrative shortcomings such as outdated beneficiary information or a duplicate card number, and to live long distances from branch offices or other pay points (which meant that they spent substantial amounts of money and time to collect the *Bonosol*).

¹⁷ See Müller (2009) and Hanlon et al. (2010).

¹⁸ Bukuluki and Watson (2012).

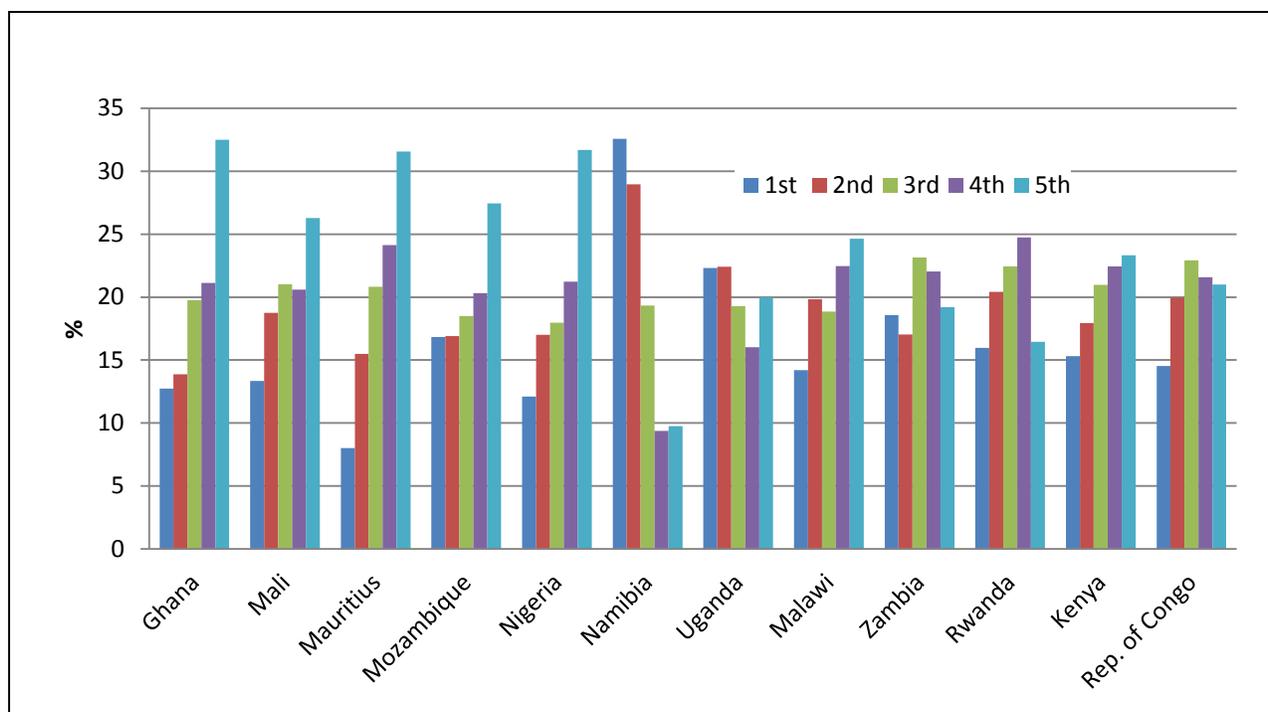
VII. Targeting Errors

Another challenge in implementing universal social pensions is the presence of targeting errors, a fact that on its face may seem surprising. Having age as the sole criterion for a pension scheme would seem to make it easy to distribute pensions and reduce errors from the more complex eligibility schemes in typical poverty-targeted programs. Many who favor universal social pensions have suggested that one advantage of such pensions is they are less susceptible to targeting errors. According to Help Age, “one of the little-acknowledged facts of [poverty] targeting is that this approach has huge margins for error. Evidence from existing schemes shows that those targeted at the poorest groups miss many who are meant to receive them, and benefit many who are not eligible. Errors occur as a result of various factors. Eligibility criteria always involve some level of subjectivity, and this means that such criteria can miss people who are vulnerable.”

To be sure, errors of inclusion and exclusion are a challenge in implementing a targeted program. But universal programs are not exempted: Targeting errors, including large errors, are also found in universal programs. Rofman et al. (2013) show that universal social pension schemes do not cover the entire elderly population, due to various unforeseen implementation issues. The large errors observed in universal social pensions are due to implementation issues such as those presented above.

The challenges of using even a simple indicator such as age to determine eligibility in a low-capacity environment are underestimated. While age may be a simple variable to verify, at least conceptually, it is a complex variable to ascertain in a low- or middle-income setting. In most poor and developing countries, the share of citizens without an official identification is not negligible. In particular, official identification coverage is low for the poor; many likely do not have access to an ID or any other documentation for the purposes of age verification. Consequently, these elderly are rejected for an old-age benefit, either because they cannot prove their declared age or because administrators have to estimate their age based on “events.” This potentially leads to errors in implementation, as it means people will be included who may be younger than the eligibility age, and people will be excluded if they meet the eligibility criteria but cannot prove their age with a formal identification document.

The errors identified above can occur in a surprisingly large percentage of the population. It is clear that there are inclusion and exclusion errors for the universal programs in Botswana, Lesotho, and Namibia, and exclusion errors in South Africa. (South Africa’s program is not universal by definition but can be considered to be universal given its extensive coverage.) Figure 4: Share of Elderly in Sub-Saharan Africa by Quintiles of Welfare Distribution



Source: Authors' calculation based on the following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006 (pre-transfer); Mozambique 2008; Namibia 2009; Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.
 Note: Post-transfer welfare for all countries but Mauritius.

below shows that universal pensions can have more or fewer beneficiaries than expected due to the fact that inclusion and exclusion errors or ghost beneficiaries exist. Notice that in Botswana, Lesotho, and Namibia, the number of pensioners in both the contributory (column 1) and non-contributory (column 2) pensions is higher than the total number of elderly in the country (column 4). This indicates either many “young” retirees or systemic error and fraud.

Table 3: Share of Elderly SSA Population Covered by Social Pensions

	Recent Year	Old-Age Beneficiaries			Target Population	Second Beneficiaries
		Contributory Pensions (Thousands)	Social Pensions (Thousands)	Total (Thousands)	Above Age Limit (Thousands)	Coverage (Excluding Contributory) (2)/(4)
		(1)	(2)	(3)	(4)	(2)/(4)
Botswana (65+ population)	2009	0	91	91	74	122.5%
Namibia (Projection for 60+ population)	2011	97	137 ⁴	234	149 ²	91.9%
South Africa (Projection for 60+ population)	2010	337	2,490	2,827	3,754 ³	66.3%

Lesotho (Projection for 70+ population)	2008	0	80	80	75 ¹	106.6% ¹⁹
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Source: Pensions Database HDNSP, World Bank; 1-2006 Lesotho Population and Housing Census - Volume 11 Census Tables Report, BOS; 2-2009-2010 National Household Income and Expenditure Survey, Namibia Statistics Agency; 3-Statistics South Africa, Country Projection by Population Group, Sex and Age (2002-2013); 4 – ILO (2014) and authors' calculation (2014).

VIII. Beneficiaries

In addition to the fact that unforeseen implementation challenges occur with universal pensions, some of the expectations about the income status and age of those who stand to benefit from them is contradicted by the experience of a number of countries. Below, we examine two notions: that the elderly are among the poorest citizens, and that giving a benefit to the elderly will result in redistribution to other population groups, such as poor children.

Advocates²⁰ of social pensions argue that social pensions benefit the elderly because they are poorer than the rest of the population. In order to assess the poverty situation of the elderly relative to the rest of the population, we looked at where the elderly fall in terms of the household per capita consumption distribution of the population in 12 countries in Sub-Saharan Africa, using nationally representative survey data.

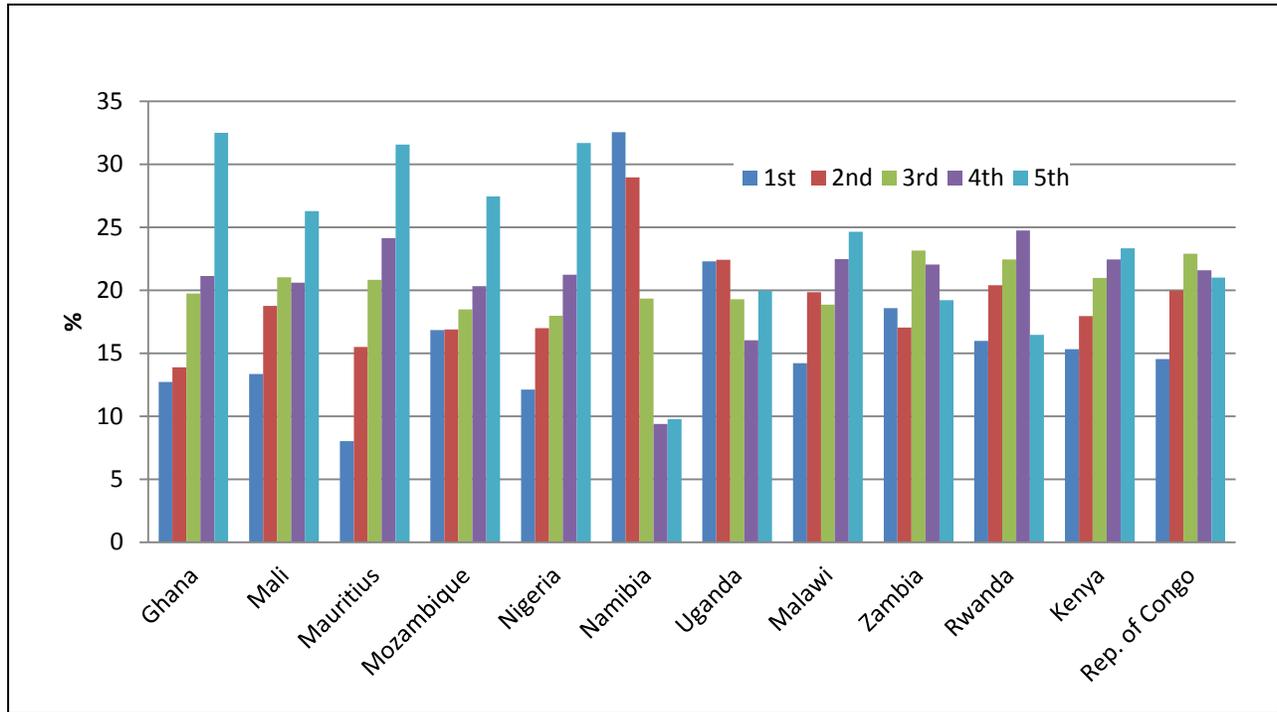
The results of the analysis, which is presented in Figure 4, show that of the 12 countries, only Mauritius, Namibia,²¹ and Uganda have a significant share of the elderly in the bottom 40 percent of the population. These findings corroborate results from an analysis by Kakwani and Subbarao (2005) utilizing household survey data for 15 countries in Sub-Saharan Africa, and also are consistent with the results of earlier analysis by Devereux (2001), Kakwani and Subbarao (2005), Devereux (2001), and Grosh and Leite (2009). Moreover, Figures 5a-c depict three countries in which the elderly are not poorer than other groups (such as children), even considering pre-transfer status in Kenya and Zambia.

¹⁹ Recent calculations indicate that this figure is between 121-130% on the basis of administrative data and population projections reported by the Lesotho Bureau of Statistics and UN Population projections.

²⁰ See Kakwani, and Subbarao, K. (2005) for a discussion around this axiomatic view.

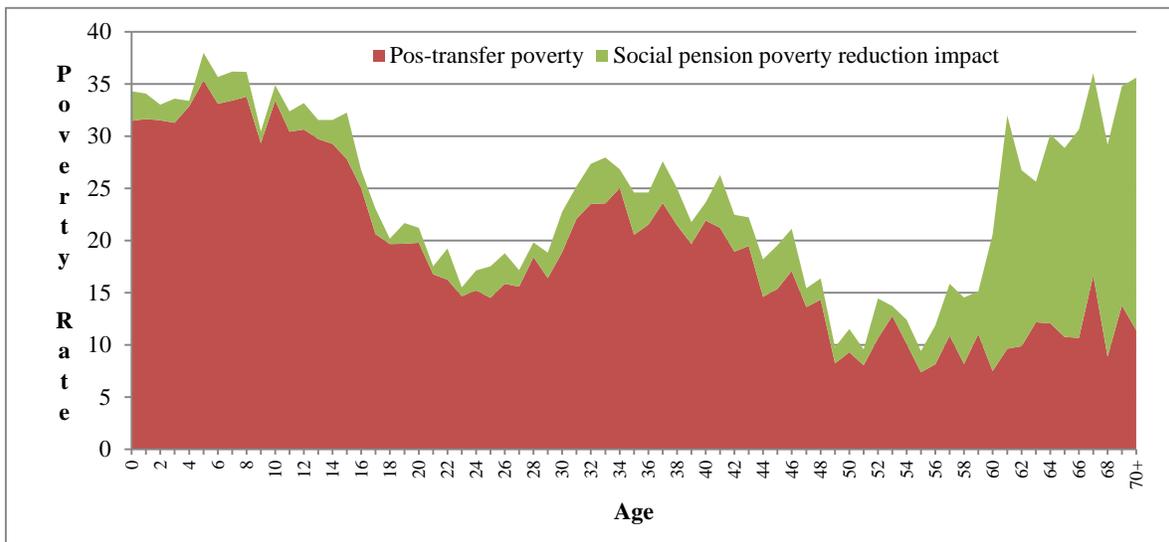
²¹ The fact that Namibia has a higher share of elderly among the poorest 40 percent (~60 percent) is corroborated by Levine et al. (2011) findings. The author had disaggregated the number of universal social pension recipients by income decile and found that the poorest 40 percent of individuals receive almost 70 percent of universal social pension benefits, which is a good result but raise concerns about leakage.

Figure 4: Share of Elderly in Sub-Saharan Africa by Quintiles of Welfare Distribution²²



Source: Authors' calculation based on the following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006 (pre-transfer); Mozambique 2008; Namibia 2009; Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.
 Note: Post-transfer welfare for all countries but Mauritius.

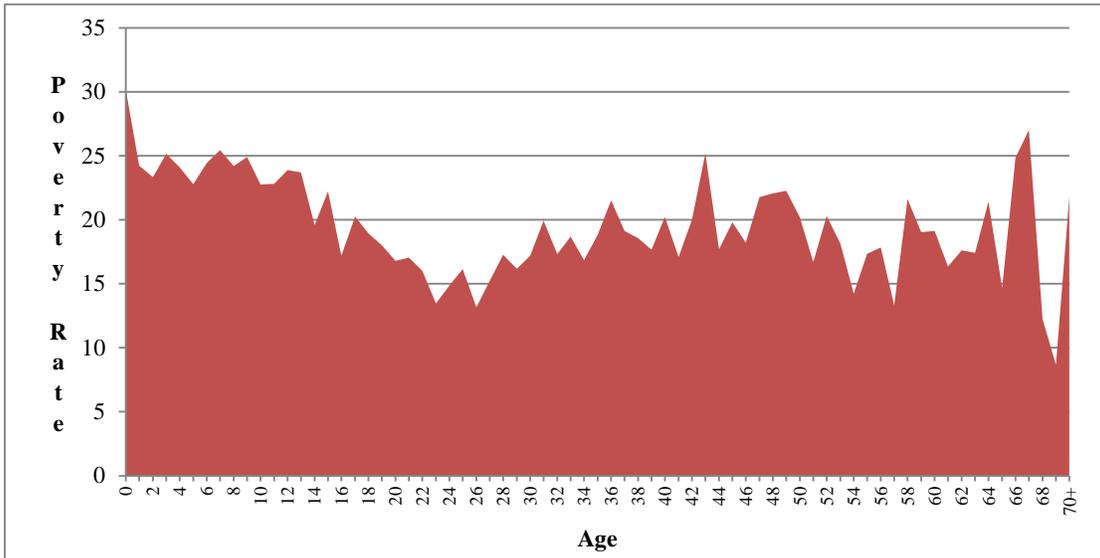
Figure 5: Pre-Post Transfer Household Welfare Poverty Rates by Age in Mauritius (2006)



Source: Author's calculation based on Mauritius Household Survey 2006.

²² The main results hold even when equivalence scales (adult or standard) are used. Data is available for a sample of countries upon request.

Figure 6: Pre-Transfer Household Welfare Poverty Rates by Age in Zambia (2010)



Source: Authors' calculation based on Zambia Household Survey 2010.

Figure 7: Pre-Transfer Poverty Household Welfare Rates by Age in Kenya (2005)



Source: Authors' calculation based on Kenya Household Survey 2005.

While it may be true in the aggregate that the elderly are poorer than the rest of the population, the literature as well as data analysis performed in this work do not confirm such a view when it comes to subpopulations. This research shows that impact of social pension programs on overall poverty is marginal because a significant share of the elderly population is found not to fall into the poorest and most vulnerable segments of society. Moreover, as stated previously, errors are prevalent in universal social pension schemes despite the assumed simplicity of identifying

program beneficiaries, due to weak implementation arrangements and low investment in monitoring and information systems.

In general, therefore, universal social pension programs that only use age as eligibility criteria and do not take into consideration the poverty situation of the elderly would seem to generate a limited impact on poverty reduction in the majority of SSA countries.

In examining why more poor do not benefit from universal pensions, we discovered that one of the underlying assumptions about family structure in these countries is not borne out by the data. Many advocates of universal social pensions have argued that virtually everyone will benefit from old-age pensions since the elderly live with their families and spend on their families. However, studies show this is not the case. Watkins (2008) found that in Zambia, age, gender of household head, disability status, and even orphan status are ineffective at reducing the poverty gap, compared to an enhanced poverty-targeted method. In other words, this study found that using categorical targeting methods such as age generated less impact on poverty than did poverty-targeting methods. Along the same lines, the data in Table 4 shows that universal transfers to the elderly (age 65 and older) would mostly go to the non-poor households. In fact, Mauritius, Namibia and Mali, are the only countries with a large share of elderly among the poorest households, 38, 32 and 43 percent respectively. In other, old-age schemes would mainly reach non poor households in contrast to ‘children’ targeted programs. In fact, we looked at the demographic structure of the households that fall in the poorest 10 percent of the population. The results of our analysis (Table 4) show that in the majority of the countries, poor households have at least one child, while the share of households with elderly is quite small. With the exception of Mauritius, more than 90 percent of the poorest decile households have at least one child under age 15.

Table 4: Share of Poorest 10 Percent of SSA Households Selected by Universal Programs

Poorest Households with...	Ghana	Kenya	Malawi	Mali	Mauritius	Mozambique	Namibia	Nigeria	Rep. of Congo	Rwanda	Uganda	Zambia
Children	93%	96%	98%	95%	64%	91%	92%	92%	96%	95%	92%	93%
The Elderly	23%	20%	14%	43%	38%	15%	32%	23%	15%	13%	22%	15%

Source: Authors’ calculation based on the following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006; Mozambique 2008; Namibia 2009; Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.

The implications of these household characteristics on the poverty impact of a universal social pension program are evident, as shown in Table 5. A universal social pension would miss a significant share of the poor in all 12 countries, since the program would select only 15–43

percent of the poor households, leading to an exclusion of a majority of the poor by design.²³ In contrast, a universal program for children would reach more than 90 percent of the poorest households in all countries except Mauritius, where a significantly higher share of the poorest households (64 percent) would still be captured compared to a universal social pension program, where only 38 percent would be selected.

Household survey data show that most of the poorest households have a large concentration of children (those under 15 years old). The demographic structure of households in SSA is quite heterogeneous and children are more likely to be poor than the elderly (see table 5).²⁴ Acosta et al. (2011) find similar results when comparing programs for children and the elderly in Latin America and the Caribbean, supporting the view that to achieve poverty reduction, choosing the beneficiaries is almost as important as targeting.

As previously noted, universal social pensions provide some support for human capital development in children. However, if the objective of a universal pension program is to improve human capital, it should be reiterated that these programs miss large segments of poor children. In Table 5, the middle column, in bold and underlined, shows the percentage of very poor households that have at least one child under 15, but no elderly member. In Malawi, Mozambique and Rwanda, more than 70 percent of households fall into this category.

Table 5: Composition of the Poorest 10 Percent of Households in Sub-Saharan Africa

Total	Number of Households	Percent of Households According to Household Composition					
		Only Elderly Living in Household	Missing Generation Households ²⁵	<u>Households with Children (under 15) and without Elderly</u>	Households without Children (under 15) and with Elderly	<i>Households with Children (under 15) and with Elderly</i>	Households with Adults (16-64) Only
Ghana	5,531,967	4.2	1.4	<u>56.2</u>	3.1	7.8	27.2
Kenya	6,933,337	2.5	1.0	<u>66.9</u>	2.8	9.5	17.3
Malawi	3,071,674	3.0	2.2	<u>73.2</u>	2.4	6.7	12.6
Mali	1,332,939	0.5	0.6	<u>63.6</u>	1.6	25.6	8.2
Mauritius - Pretransfer	334,508	4.8	0.1	<u>46.9</u>	10.5	6.4	31.3
Mozambique	4,610,558	2.5	1.0	<u>73.7</u>	2.1	6.3	14.4
Namibia	415,723	1.7	0.7	<u>50.2</u>	3.1	14.5	29.8
Nigeria	28,882,581	3.0	1.5	<u>64.1</u>	6.2	11.6	13.5
Rep of Congo	954,185	2.4	0.6	<u>64.5</u>	3.3	6.6	22.6
Rwanda	1,891,669	1.2	1.8	<u>75.5</u>	2.5	7.4	11.5
Uganda	5,200,972	1.9	0.9	<u>69.7</u>	1.6	9.6	16.3

²³ Estimated as 100 percent minus the sum of households with children and without elderly, and households with adults presented in the bottom half of Table 5.

²⁴ These main findings hold even using adult equivalent scales.

²⁵ Missing generation households are composed of children under 15 and elderly aged 65 or above. In these households, there are no adults aged 15-64.

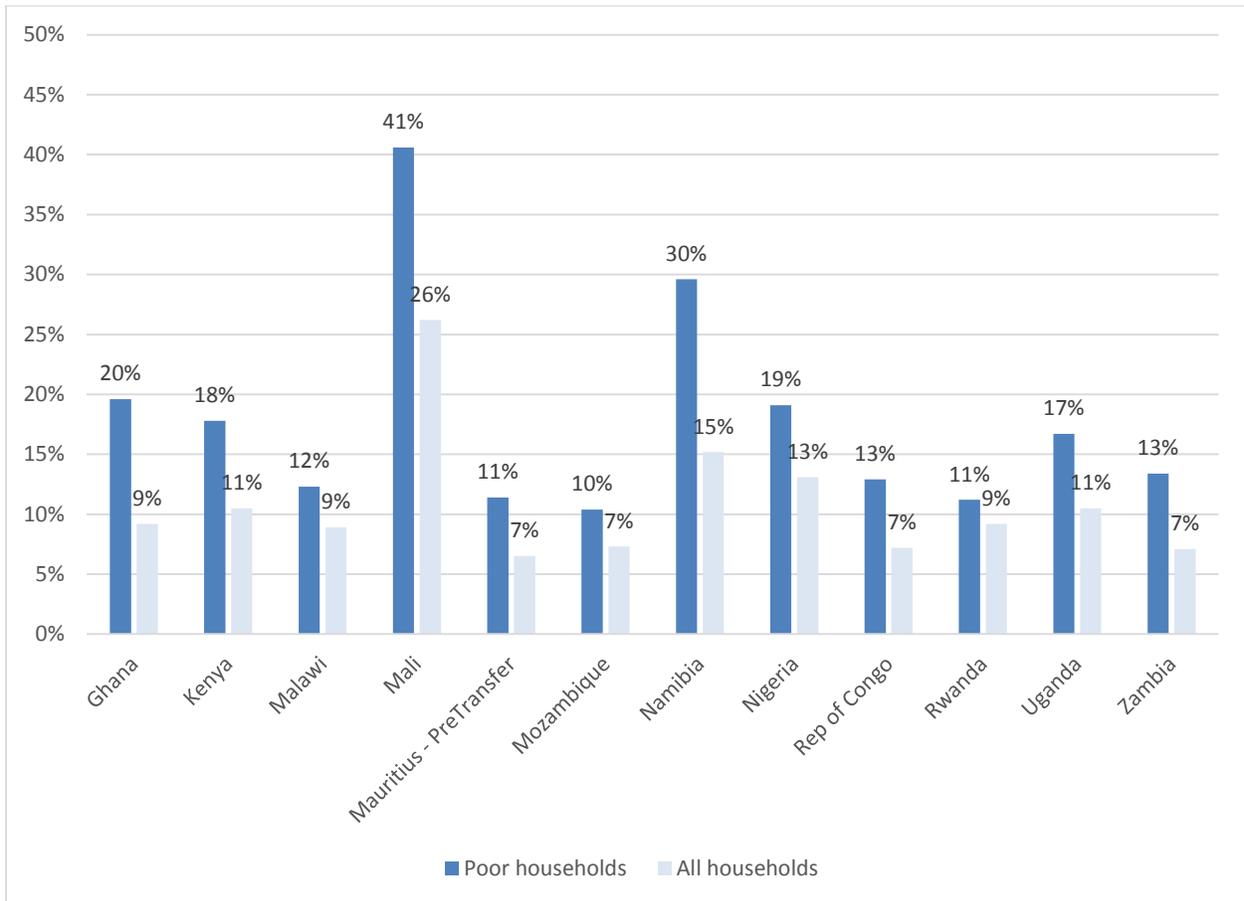
Zambia	2,486,113	1.2	0.6	<u>70.3</u>	2.5	6.5	18.9
				Poorest 10% of the Population			
Ghana	332,992	0.8	1.4	<u>73.5</u>	2.2	18.2	3.9
Kenya	499,024	1.3	1.8	<u>78.5</u>	0.8	16.0	1.6
Malawi	232,100	0.3	2.1	<u>85.4</u>	1.0	10.2	1.1
Mali	77,915	1.0	0.2	<u>54.9</u>	2.0	40.4	1.7
Mauritius - PreTransfer	40,939	12.8	0.2	<u>52.2</u>	14.0	11.2	9.7
Mozambique	362,406	2.8	0.9	<u>80.3</u>	1.6	9.5	5.0
Namibia	42,318	0.2	0.7	<u>61.9</u>	1.9	28.9	6.4
Nigeria	2,063,125	0.7	1.3	<u>73.3</u>	3.6	17.8	3.3
Rep of Congo	68,044	1.1	1.2	<u>83.0</u>	1.3	11.7	1.7
Rwanda	170,837	0.8	3.1	<u>83.8</u>	1.5	8.1	2.8
Uganda	423,076	2.1	2.4	<u>75.7</u>	3.4	14.3	2.2
Zambia	191,336	0.7	1.0	<u>80.0</u>	1.2	12.4	4.8

Source: Authors' calculation based on the following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006; Mozambique 2008; Namibia 2009; Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.

Figure 8 suggests that the spillover effect on children (missing-generation households and intergenerational households with children and the elderly) associated with universal social pensions would reach a mere 9 to 30 percent of all households, since a large majority of households with elderly in our SSA countries sample do not have children. If looking only at the poorest 10 percent of households, the expected spillover effect on children would reach 11 to 42 percent of the households in which they live. Again, if the goal is to develop human capital in children there are more effective ways to achieve that goal than a universal pension.²⁶

²⁶ ILO (2014) indicates, with the caveat of potential underreporting of social pensions in the household surveys, the universal social pensions would reach 22 percent of poor children and 18 percent of all children.

Figure 8: Share of SSA Households with Children Who Would Be Protected through a Universal Social Pension Program



Source: Authors' calculation based on the following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006; Mozambique 2008; Namibia 2009; Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.

Experience with both social pensions and poverty-targeted cash transfers has been far from uniformly excellent. That said, poverty-targeted programs have a larger impact on poverty. For the SSA countries in the study, we compare the poverty impact of cash transfer programs that are given to every elderly individual (i.e., universal social pensions), to programs with similar budgets that are confined to the poor within each population group (i.e., “poverty targeted” transfers). Simulating the impact of two programs that would have the same effect on their respective countries’ budgets (1 percent of GDP) shows that a cash transfer program targeted to the poorest decile of the population would be more effective for poverty reduction than universal social pensions, even in the presence of targeting errors. (The simulation assumed that 25 percent of the current poor were randomly excluded from the targeted cash transfer program, while 3 percent of the non-poor population were included.) The result (Table 6) holds for all

households, including missing-generation households where the elderly either live alone or with orphans—despite the fact that such households are often held up as an example of the benefit to children of social pensions. In addition, due to the fact that households with children are in general much larger, the total number of direct/indirect beneficiaries is larger in poverty-targeted than in universal social pension programs despite the lower number of households being covered.²⁷

27 A broader discussion of the relative benefits of universal programs versus targeted safety net programs is available in the literature, including: Acosta, Leite, and Rigolini (2011), Holman et al. (2009), and Knox-Vydmanov (2011).

Table 6: Simulating Changes in Poverty Rate as a Result of a General Cash Transfer Targeted to the Poor and of a Universal local Pensions Program for 10 SSA Countries, Conditioned on a Fixed Budget

Country	Population of Interest	Total	Only Elderly Living in the Household	Missing Generation Households	Household with Children (under 15) and without Elderly	Household without Children (under 15) and with Elderly	Household with Children (under 15) and with Elderly	Household with Adults (18-64) only	Average Household Transfers	Number of Beneficiaries Households	Number of Direct/Indirect Beneficiaries	Budget (PPP Million)
			(1)	(2)	(3)	(4)	(5)	(6)	(a)	(b)	(c)	(d)= (a)x(b)
Ghana	Current Poverty Rate	10%	1.00%	6.80%	10.30%	5.20%	17.30%	1.60%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -11.28%	0.00%	-30.88%	-11.65%	-11.54%	-9.25%	-18.75%	\$26.30	408,482	2,262,733	\$10.70
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -1.47%	0.00%	-41.18%	0.00%	-5.77%	-5.78%	0.00%	\$11.74	915,051	1,023,973	\$10.70
Mauritius	Current Poverty Rate	10%	0.00%	0.00%	15.00%	2.10%	11.10%	2.10%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -49.05%	-	-	-48.67%	-47.62%	-62.16%	-42.86%	\$197.62	28,201	125,074	\$5.60
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -2.69%	-	-	0.00%	-52.38%	-18.02%	0.00%	\$76.35	72,953	87,539	\$5.60
Mozambique	Current Poverty Rate	10%	8.00%	7.10%	10.10%	5.50%	14.90%	2.70%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -43.11%	-17.50%	-7.04%	-43.56%	-50.91%	-31.54%	-44.44%	\$18.85	400,994	2,197,847	\$7.60
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -4.27%	-100.00%	-29.58%	0.00%	-61.82%	-26.17%	0.00%	\$13.78	548,522	634,822	\$7.60
Nigeria	Current Poverty Rate	10%	2.50%	7.30%	10.20%	4.80%	13.90%	2.50%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -60.10%	-80.00%	0.00%	-60.78%	-81.25%	-45.32%	-80.00%	\$65.00	2,370,736	16,500,000	\$154.10
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -9.08%	-100.00%	-100.00%	0.00%	-95.83%	-30.22%	0.00%	\$23.89	6,451,606	7,446,889	\$154.10
Mali	Current Poverty Rate	10%	10.40%	0.80%	8.10%	6.80%	13.30%	2.70%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -36.25%	0.00%	0.00%	-34.57%	-19.12%	-42.11%	-74.07%	\$65.99	96,195	1,290,752	\$6.30
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -7.23%	-39.42%	0.00%	0.00%	-38.24%	-14.29%	0.00%	\$16.85	376,711	466,101	\$6.30
Uganda	Current Poverty Rate	10%	10.50%	25.20%	9.60%	16.90%	14.10%	2.50%				
	Changes in poverty rates due to: Imperfect targeted program to the poor (pop.)	Δ -41.16%	-38.10%	-58.73%	-42.71%	-49.11%	-32.62%	-12.00%	\$35.95	456,062	3,018,408	\$16.40
	Changes in poverty rates due to: Universal Social Pension's Program (elderly pop.)	Δ -8.11%	-100.00%	-53.17%	0.00%	-68.05%	-29.08%	0.00%	\$22.56	726,625	841,158	\$16.40

Country	Population of Interest	Total	Only Elderly Living in the Household	Missing Generation Households	Household with Children (under 15) and without Elderly	Household with Children (under 15) and with Elderly	Household with Adults (18-64) only	Average Household Transfers	Number of Beneficiaries Households	Number of Direct/Indirect Beneficiaries	Budget (PPP Million)	
			(1)	(2)	(3)	(4)	(5)	(6)	(a)	(b)	(c)	(d)= (a)x(b)
Zambia	Current Poverty Rate	10%	4.90%	16.90%	10.20%	4.90%	17.10%	2.70%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -11.19%	-44.90%	-18.93%	-60.78%	-46.94%	-55.56%	-48.15%	\$38.66	213,238	1,326,446	\$8.20
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -1.50%	-100.00%	-63.91%	0.00%	-77.55%	-51.46%	0.00%	\$30.74	268,254	314,334	\$8.20
Rwanda	Current Poverty Rate	10%	7.30%	15.40%	10.50%	4.40%	10.80%	2.40%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -62.76%	-50.68%	-69.48%	-60.95%	-90.91%	-57.41%	-50.00%	\$17.63	180,276	967,597	\$3.20
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -7.70%	-100.00%	-100.00%	0.00%	-100.00%	-57.41%	0.00%	\$12.94	245,577	291,507	\$3.20
Kenya	Current Poverty Rate	10%	4.30%	13.30%	10.50%	2.30%	13.60%	1.00%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -5.10%	-44.19%	-34.59%	-40.95%	-56.52%	-42.65%	-40.00%	\$33.78	583,333	3,603,682	\$19.70
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -1.09%	-100.00%	-25.56%	0.00%	-82.61%	-25.00%	0.00%	\$17.99	1,095,532	1,279,084	\$19.70
Malawi	Current Poverty Rate	10%	0.83%	10.40%	10.41%	3.25%	13.74%	0.92%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -22.50%	-33.30%	-30.77%	-21.97%	-33.46%	-25.39%	-17.14%	\$20.98	255,688	1,434,052	\$5.36
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -2.99%	-83.20%	-44.38%	0.00%	-67.07%	-16.77%	0.00%	\$12.27	437,027	519,039	\$5.36
Namibia	Current Poverty Rate	10%	0.31%	7.59%	10.49%	5.41%	14.24%	1.23%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -75.00%	-100.00%	-100.00%	-70.48%	-67.54%	-82.09%	-100.00%	\$398.90	30,699	200,465	\$12.25
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -26.04%	-100.00%	-100.00%	-0.15%	-100.00%	-72.72%	0.00%	\$146.12	83,827	100,214	\$12.25
Rep. of Cong	Current Poverty Rate	10%	3.50%	17.50%	11.00%	3.30%	13.80%	1.00%				
	Changes in poverty rates due to:											
	Imperfect targeted program to the poor (pop.)	Δ -10.65%	-11.43%	0.00%	-10.00%	-6.06%	-19.57%	-10.00%	\$92.12	80,517	416,108	\$7.40
	Changes in poverty rates due to:											
	Universal Social Pension's Program (elderly pop.)	Δ -1.82%	-25.71%	0.00%	0.00%	0.00%	-13.04%	0.00%	\$60.24	123,119	143,944	\$7.40

Source: Authors' calculation based on following household surveys: Ghana 2005; Kenya 2005; Malawi 2010; Mali 2009; Mauritius 2006; Mozambique 2008; Namibia 2009, Nigeria 2010; Republic of Congo 2011; Rwanda 2005; Uganda 2009; and Zambia 2010.

IX. Creating or Adjusting a Universal Social Pension Program: Recommendations

As the preceding sections have shown, an examination of countries' experience to date with contributory pension schemes and universal social pensions finds mixed results for both programs. Neither type of pension reaches all of the elderly in a country, nor do they go far to alleviate poverty, even among the elderly. The benefits of contributory pension schemes are limited primarily to those in the formal employment sector, which is a minority of the population in Sub-Saharan Africa. On the other hand, universal social pensions, while they reach more elderly, fail to reach the entire elderly population in these countries. They also are not that effective at alleviating old-age poverty, as the better-off elderly are much more likely to obtain the benefit than the impoverished elderly. A stronger impact on poverty could be achieved by focusing on social assistance programs to cover those in poverty, instead of emphasizing one population group.

From a purely ethical or human rights perspective, horizontal equity is better achieved with universal policies, which treat every member of the society in an equal way. However, a stronger impact on poverty could be achieved by focusing on social assistance programs to cover those in poverty, instead of emphasizing one population group. Rather than argue the merits of these two approaches, we suggest combining them. Universal policies need not stand opposed to targeted policies. Poverty-targeting is not an objective in itself but a method used to improve the impact of some policies, once policymakers find the right balance between the costs of accuracy and errors. By focusing some policies on the neediest, governments maximize impact and minimize cost to achieve a given goal.²⁸ At same time, targeted benefits to the poor and vulnerable improve equity, increase household welfare, and improve risk management. Such economy-wide effects combined with reasonable economic growth can generate significant impacts on poverty (See Hanlon et al. (2010), Coady et al. (2004), and ECLAC (2000)).

Given that one of the main objectives of a universal social pension program is to alleviate poverty in old age, it is important to focus beyond coverage and human rights and evaluate what role social pension programs should play in reducing poverty among the elderly in Sub-Saharan Africa. To this end, one should take a holistic view in measuring their effectiveness over alternative social policies in addressing poverty, bearing in mind scarce resources, opportunity costs, and poverty rates among the elderly relative to other groups (e.g., children), among other considerations.

²⁸ In practical terms, governments and policy makers have any (or all) of three reasons for targeting: (i) Economic: given limited resources targeting is needed to maximize coverage of the poor; (ii) Investment: spending on social programs is an investment in human capital, so to maximize the payoff, investment should focus where returns are highest (the poor); and (iii) Justice: public spending has historically tended to go to higher-income groups who have more means, information, and connections (especially to those employed in the formal sector, where the poor are few).

The preceding sections underline the importance of conducting country-specific analysis before assuming that universal social pensions are always the right policy tool, keeping in mind the widespread poverty rates in this region. Therefore, the main findings of our analysis of household data and of the literature suggest that policy makers need to assess whether enough of the elderly are indeed among the poorest segment of the population to justify an elderly-focused cash transfer program (i.e., social pensions).²⁹

Universal social pensions are one of many tools countries can include in a social safety net, but care is required to ensure that the pensions effectively benefit needy elderly. Policymakers cannot afford to oversimplify implementation of any cash scheme, including universal social pensions.

Conduct a Cost-Benefit Analysis

Experience shows that universal social pension programs can indeed expand coverage of the elderly population in Sub-Saharan Africa but at a high cost, and are not necessarily an effective policy for poverty reduction. While these programs have proved to be a promising policy tool over the contributory schemes that have failed to expand coverage beyond a fraction of the elderly, the implication of universal social pensions in the region on the overall budget allocated to safety nets is significant. As Monchuk (2013) shows, in most African countries, especially low-income countries (LICs), average spending on social safety nets of 1.1 percent of GDP is low in comparison with spending in countries worldwide.³⁰ In the SSA countries with large social pensions (e.g., Lesotho, Mauritius, and Namibia), most of the spending on safety nets goes to old-age programs. For example, in Lesotho, almost 40 percent of the 4.65 percent of GDP spending on safety nets is for universal social pensions, while in Namibia the share is 61 percent of the 1.8 percent GDP spending in safety nets. However, the allocation of significant resources to social pensions does not translate into poverty reduction.

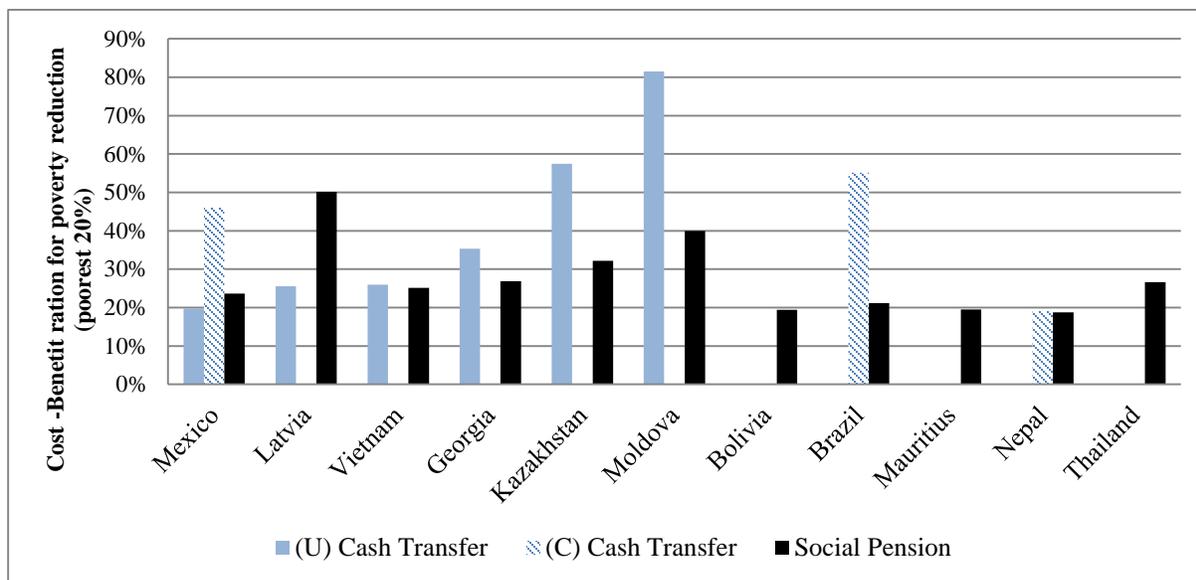
One tool that can be used to assess the effectiveness of a cash transfer program in reducing poverty is the cost–benefit ratio, an indicator that measures the poverty gap reduction a program generates as a result of every dollar invested in program benefits. Based on the World Bank ASPIRE database, which compiles social protection indicators for more than 50 countries, out of which a few have universal (or pension-tested) social pensions, we found that in the large majority of cases (except Latvia and Nepal), cash transfers (either unconditional or conditional)

²⁹ This analysis does not present findings using either adult equivalence scales or economies of scale. However, Annex 1 includes two examples of such an analysis, for Ghana and Mauritius. They show that the poverty trend is immune to scales. Such an analysis for all countries would be valuable; unfortunately, the data available for most of the countries lacks an official adult equivalence scale.

³⁰ Grosh et al. (2008) shows that average spending on social safety net programs is 1.9 percent of GDP, and that in high-spending countries such as Malawi and Ethiopia, only a tenth of the 4.5 percent of GDP invested in social safety nets is domestically financed.

would have a larger impact than social pensions for the poorest 20 percent of the population (Figure 7).

Figure 9: Cost–Benefit Ratio of Social Pensions and Cash Transfers in Countries Worldwide



Source: Authors' calculation based on World Bank ASPIRE database (2014).

Given scarce fiscal resources, the high percentage of pension spending creates tradeoffs for other safety net programs, crowding out spending on essentials such as health and education or on programs that more effectively reduce poverty. For example, Monchuk (2013) shows that roughly 15 million people, about 30 percent of South Africa's population,³¹ receive at least one type of social grant; but allocation is skewed towards the old-age grant (representing around 50 percent of the overall budget), which reaches 2 million people, because of its generosity. On the other hand, an analysis of the household survey data indicates that the child support grant (CSG) is the main contributor to the 60 percent income increase for the poorest 20 percent of the population that is associated with the social grants. The CSG benefit is about 23 percent of the benefit allocated to the elderly under the old-age grant. In this instance, a small program targeted to the poor has a much larger impact on the poorest population than a large, well-funded social pension program. The level of the benefit also determines the tradeoffs; in Botswana, for example, total spending on the universal social pension is lower due to a lower relative benefit level, minimizing the pension's potential impact on poverty.

These findings do not point to a crowding-out problem where governments should look for one of the two programs, that is, social pensions or poverty-targeted cash transfer. They simply show

³¹ South Africa spends around 3.5 percent of its GDP on its social grants programs, which include several types of means-tested grants targeted to the elderly, poor families with children, foster families, people with disabilities, and war veterans.

that if the objective is reducing poverty, universal pensions may not be as effective and a cash transfer targeted to the poor, where the elderly poor are also beneficiaries, may be preferable.

Invest in Implementation

The implementation of a universal social pension program requires as much investment as any other cash transfer program, as can be seen by the experience of nations that have tried it. For example, Knox-Vydmanov (2010) shows that the running cost³² of the Katete social pension scheme in Zambia is around 6 percent of the total transfers, while the pilot in Kalomo had costs of 15–17 percent. Stewart and Yermo (2009) discover that in Namibia, the universal pension scheme known as the national pension scheme (NPS), a social pension funded by taxation, has relatively high overhead costs (however, adding poverty targeting to program criteria does not increase costs substantially). Watkins (2008) evaluated the administrative costs of different targeting tools in Zambia and found that targeting specific population groups (the elderly, the disabled or women-headed households) is marginally cheaper than using poverty targeting methods, such as a means test or proxy means test. Skoufias et al. (2010), Caldés et al. (2006), and Coady (2002) confirm this finding, showing that the running cost, one element of administrative costs, is significant while setting up the program but decreases as the program matures. Generally, once a targeted program has expanded, the running cost falls below 10 percent, as seen in the programs in Brazil (*Bolsa Família*), Chile (*Solidario*), and Mexico (*Progres/Oportunidades*).³³

Table 7: Running Cost of *Progres* in Mexico

Year	Transfers	Administrative Cost	Running Cost	Evaluation Cost	Percent of Running Cost	Cost-Transfer Ratio
(Thousand Pesos Mx\$)						
	(a)	(b)	(c)	(d)	$[c/(a+c)]$	$[c/a]$
Dec-97	265,619.8	28,375.0	223,664.6	36,018.6	46%	0.842
Dec-98	2,927,151.0	44,649.0	471,574.3	137,215.6	14%	0.161
Dec-99	6,527,703.5	39,057.0	396,667.0	103,613.4	6%	0.061
Dec-00	8,478,476.2	14,866.0	304,416.6	140,463.0	3%	0.036
Total 1997-2000	18,198,950.5	126,947.0	1,396,322.5	417,310.6	7%	0.077

Source: Coady (2000).

32 The running cost includes all costs linked to the execution of a program such as identification of the population, delivery of transfers, verification of compliance, cost of payment, etc.

33 Overall administrative costs that include management, strengthening of information systems, oversight, monitoring and evaluation, payment delivery, asset buying, beneficiary identification, etc., are inevitably higher (as a share of total budget), because such investments are needed to develop and implement the required infrastructure to run the program.

In order to address challenges of mobility and illiteracy and ensure eligible individuals receive regular services, administrators need to prepare a detailed assessment of the accessibility of beneficiaries to payment centers so that mitigation measures are in place to account for these costs for this segment of the population and to protect the illiterate and semi-literate from fraud and corruption.

Finally, the administration of a universal social program requires an efficient and reliable social registry linked to other databases such as a civil registry that allows for tracking of the deceased. This will eliminate fraud and errors. To cite a specific instance, in Namibia 91.9 percent of the total number of elderly are receiving old-age pensions—which would seem to indicate observed exclusion errors (see table 3). ILO (2014) reports that comparing 2011 administrative data with the latest census population counts shows that regional coverage rates vary from an estimated 73 percent in Erongo to 112 percent in Oshana. As mentioned before, such errors can be partially linked to population migration or imperfect data, but as the ILO (2014) report states, “it could also be a sign of a different kind of administrative leakage wherein persons aged below 60 years of age also access the benefit.” We may refer to these as inclusion errors of targeting. To mitigate such errors, a system is needed to monitor beneficiaries and cross-check information with other databases (e.g., civil registry or contributory pensions). In short, a more developed system and better implementation are needed to prevent these types of targeting errors in universal social pensions.

At the same time, the social registry should be able to provide data for those who reach the eligibility age for the universal social pension on a regular basis—not just during program implementation—since age is a dynamic variable and people enter the program every day. Using the data from the registry, administrators can create a dynamic roster of beneficiaries linked to other databases, which would allow for updating payrolls by adding those who reach the eligibility age and by removing the deceased.

Use Pensions to Improve the Status of Elderly in the Household

Poverty-targeted cash transfer programs do not necessarily promote the status of a household’s elderly, but it is possible to design or redesign programs with that aim in mind. One example in the SSA region is a new program being implemented in the Republic of Congo: the Lisungi Cash transfer program. This poverty-targeted cash transfer program has three separate pots: one directed at the general household, to increase household consumption; one for children, to improve their human capital; and one for the elderly, to promote their status in the household

and to protect them from poverty. A poor household can thus receive as many as three separate cash benefits if it is deemed eligible for cash-transfer intervention.³⁴

³⁴ The Lisungi project aims to be a pillar of Congo's social protection system, and the cash transfer program is the first to use the system. Households can receive a fixed transfer of \$20, a variable per-child transfer of \$5 (to a maximum of three per household) and an individual transfer of \$20 per elderly member. Depending on household composition, transfers can range from \$20 to \$45 dollars a month, since the government has limited their total to a maximum of \$45 a month.

Conclusion

We may assume that the ultimate goal of providing pension coverage to the elderly in Sub-Saharan Africa is to reduce old-age risks. Pension systems are designed to help populations manage risk in old age, but protecting all of the elderly in SSA will require intensive reform of the current pension schemes. A set of coordinated and balanced interventions is needed to reduce the risk of poverty in old age, as one moves from work in retirement. In setting out this broad objective, policy makers need to consider an array of questions to better deal with the poverty and vulnerabilities of different income groups. Key questions for consideration in this context are, for example: How much of a country's scarce fiscal resources should be devoted toward providing old-age poverty protection if data suggests that other groups may face greater poverty prevalence or vulnerability? To what degree should a society aim to redistribute income through the pension system, and how can it ensure that this redistribution is made transparent and progressive? To be clear, we do not argue against the value of social pensions but against misunderstandings related to their main objectives: helping people deal with and hopefully overcome multiple risks.

The increasing support for implementation of social pensions in low- and middle-income countries should serve as a wake-up call to their governments that such policies must be designed as part of a larger social protection and labor (SP&L) agenda, since social pensions can have implications for contributory schemes and overlap with other poverty-targeted transfers. SP&L policies are needed to widen access to social security in old age, heighten income security, reduce elderly poverty, and minimize intergenerational poverty by improving the human capital development³⁵ of children when the families themselves are unable to do so. It would be somewhat naïve to expect a social pension to improve all of these indicators at once, and the trade-offs are not negligible. However, social pensions could help close the old-age social security gap for those not covered by contributory schemes in the interim while social security reform is being implemented. An effective targeted social pension would complement the contributory pension schemes extant in many SSA countries.

Universal social pensions are one element of a SP&L system and must be integrated in the long-term government strategy of poverty reduction and risk mitigation. The current debate regarding poverty-targeted or universal policies misses the broad objective of social policies. The discussion regarding a universal social pension or a poverty-targeted cash transfer program has often failed to consider the objective of the program. Alderman and Yemtsov (2012) highlight the main

³⁵ By human capital development, one must understand that due to HIV or other diseases or adult migration; often the elderly are in charge of raising grandchildren, that is, the elderly are the main caretakers of the family. Given the lack of income or the irregular remittances received, social pensions can generate some impact on children outcomes, mainly on health and education.

problem around the targeting discussion as follows: “The greater problem is that the relative weights placed on these objectives are not overt and, thus, projects may be assessed on criteria that may differ from the goals.” In other words, discussions are based on elements that are not directly associated with the main objectives of the program.

Other cash transfer programs have been shown to be more effective at reducing poverty than grants to the elderly. In South Africa, Monchuk (2013) shows that the child grants program accounts for 60 percent of the income increase in the poorest groups despite a much smaller budget allocation than the old-age grants. Soares et al. (2006) show that both BPC—a means-tested old-age pension and disability grant program—and the *Bolsa Família* program, which does not exclude household with elderly only as beneficiaries, jointly were responsible for 28 percent of the fall in Brazil’s Gini inequality between 1995 and 2004. The two benefits may be combined for some households, since neither BPC income nor *Bolsa Família* income are included in calculating per capita income. The contribution of *Bolsa Família*, however, was three times larger than that of the BPC (21 and 7 percent, respectively), despite the fact that the BPC budget is almost three times larger than *Bolsa Família*’s budget.

Thus, broader cash transfer programs targeted to the poor that include the elderly poor can be more effective in poverty reduction, as they capture more vulnerable populations than a single program targeted to one population group, such as the social pension. This broader program definition does not exclude a social pension because those programs have complementary objectives.

To summarize, complementary policies that benefit all of the elderly — but perhaps reserve social pensions only for the impoverished among them — need to be designed under the SP&L system. The literature shows that any kind of unconditional cash transfer, inclusive of social pensions, leads to improvements in intermediate human capital indicators and consumption as do conditional cash transfers (that are part of human capital investment interventions), and both lead to poverty reduction. Cash transfers have multiple benefits for the population as well for the elderly. Increasing coverage to the elderly at risk of poverty such as in Chile (where social pensions are designed to exempt the top 40 percent of income earners from coverage), Brazil (whose *Benefício de Prestação Continuada* is means-tested to the poor), or Mexico (*70 y Más* is a targeted intervention for the elderly poor) can be valuable to mitigate the risks of old age in synchronization with other targeted policies to the poor such as Chile’s *Solidario*, Brazil’s *Bolsa Família*, or Mexico’s *Oportunidades*, in each respective country. Complementary policies, where programs are targeted to the poor, and not solely to a particular group, can generate better results in poverty reduction in Sub-Saharan Africa as has happened in other regions.

In the end, social pensions (universal or not) should fit into a broader agenda of SP&L reform.³⁶ They must be integrated with the government's long-term strategy of poverty reduction and risk mitigation. The current debate vis-à-vis poverty-targeted or universal pensions misses the broad objective of social policies. Universal and targeted policies are not rivals. What matters most is not the abstract question of whether or not to target pensions; rather, it is how best to design and implement a policy or a mix of coordinated and harmonized policies under a system that allows government to reach its main objectives: helping people deal with and hopefully overcome multiple risks.

³⁶ Social Protection and Labor Programs are social assistance (social safety nets) such as cash transfers, school feeding and targeted food assistance; social insurance such as old-age and disability pensions and unemployment insurance; and labor market programs such as skills-building programs, job-search and matching programs, and improved labor regulations.

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Annex I: Adult equivalence scales

Figure A1.1 Poverty rates using per capita or adult equivalence scales by age

Ghana 2010 : Poverty line 2\$PPP a day

Dark line: Poverty rate using per capita welfare

Dotted line: Poverty rate using adult equivalent welfare scale

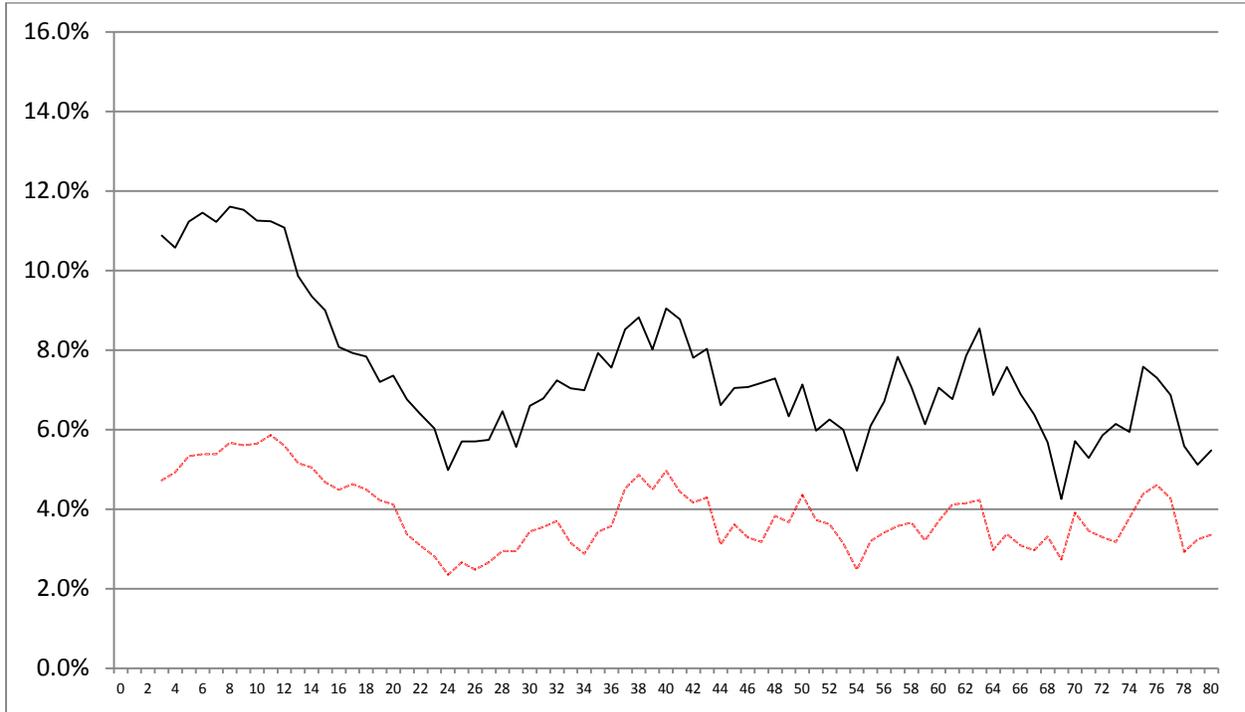
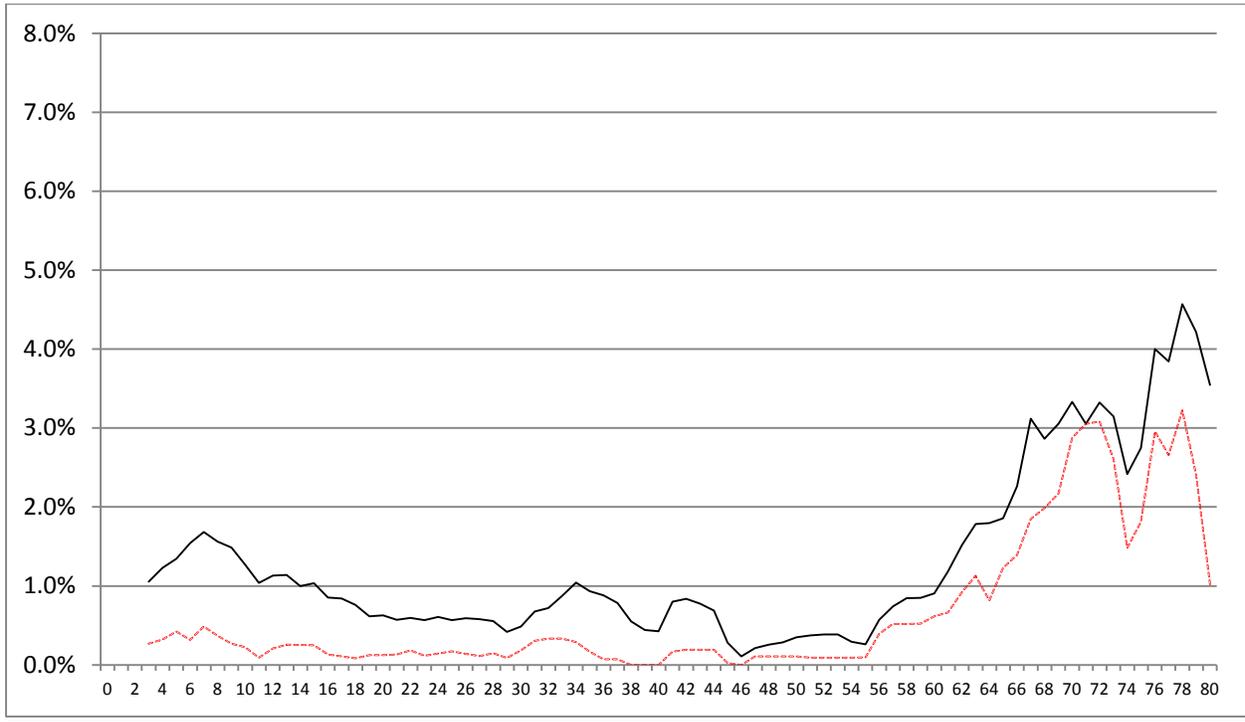


Figure A1.2 Poverty rates using per capita or adult equivalence scales by age

Mauritius 2006 : Poverty line 2\$PPP a day

Dark line – Poverty rate, using per capita welfare

Dotted line - Poverty rate, using adult equivalent welfare scale



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Abstract

The lack of efficient social security systems, the presence of large informal sectors, and the pace at which the population is aging in some Sub-Saharan African countries are red flags warning of a potential long-term problem: that is, the inability of countries to provide old-age income security to all. Many adults in the region have difficulties accessing health care and other essential services, increasing their vulnerability and their likelihood of becoming impoverished as they age. Since the coverage of contribution-based pension schemes has remained low for decades, direct cash grants (henceforth, universal social pensions) are increasingly proposed as a way to address the coverage gap and to fight poverty among the elderly. This paper explores the role of universal social pensions in 12 Sub-Saharan African countries, showing that they may be part of the answer to the coverage gap in pensions and may be important from a human rights lens. However, they have limited impact on poverty because a significant share of the elderly population is found not to fall into the poorest and most vulnerable segments of society. Universal social pensions can also be quite costly, difficult to sustain in low-income settings, and less cost-effective at fighting poverty compared to poverty-targeted cash transfer programs. Implementation errors are quite prevalent in universal social pension schemes, contradicting the apparent simplicity of identifying program beneficiaries. The report's main findings are that a discussion of poverty targeted programs vis-à-vis universal programs is less relevant for policymakers than how to design and implement a policy or a mix of coordinated and harmonized policies under a robust system that allows governments to reach their main objectives of meeting the basic needs of their most vulnerable citizens.

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