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Non-contributory pension schemes: A new model for social security in the South?

Armando BARRIENTOS, Peter LLOYD-SHERLOCK
University of Manchester, University of East Anglia
United Kingdom

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Armando Barrientos
IDPM, University of Manchester, UK

Peter Lloyd-Sherlock
School of Development Studies,
University of East Anglia, U.K.

Abstract:

This paper considers existing non-contributory pension programmes, or more accurately cash transfers for the old, in Africa and Latin America. It evaluates their impact on poverty and vulnerability of the old, on aggregate poverty, and on household investment in physical and human capital. The paper argues that these programmes have a significant impact on poverty and social investment in developing countries.

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Correspondence to:

Armando Barrientos, IDPM, University of Manchester, Oxford Road, Manchester M13 9GH, U.K. Phone: +44 (0)161 275 2811; Fax: +44 (0)161 273 8829;
E-mail: armando.barrientos@man.ac.uk

Peter Lloyd-Sherlock, School of Development Studies, University of East Anglia, Norwich, Norfolk NR4 7TJ, U.K. Phone: +44 (0)1603 592327; Fax: +44 (01603) 451 999; E-mail: peter-lloyd-sherlock@uea.ac.uk.

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Introduction[1]

The issue of pensions for the poor is central to the extension of social protection in developing countries. The process of population ageing will accelerate in the developing world in the first half of this century, and the association existing between old age and poverty is as striking there as it was in advanced economies in the aftermath of their industrialisation. To date, most developing countries have given very low priority to developing policies to deal with issues of population ageing and old age poverty, seeking instead to focus anti-poverty programmes on 'prime' age individuals and the young. Policy makers have commonly assumed that older people have little to contribute to the development process. The impact of the HIV/AIDS pandemic in the developing world provides a sharp refutation of these views. In countries affected by the pandemic, many traditional multigenerational households have become missing-generation ones, with responsibility for sustaining the household falling squarely on older people. Rapid economic and social change in developing countries is having similar effects, and migration, unemployment, and globalisation, have further implications for intergenerational support. Old age support is therefore an urgent issue for developing countries.

There is an emerging consensus among multilateral institutions about the need for developing countries to strengthen and develop social protection policies and programmes in response to economic crisis and rising vulnerability (IADB 2000; Asian Development Bank 2001; ILO 2001; World Bank 2001).[2] Social protection has been defined as consisting of "public actions taken in response to levels of vulnerability, risk, and deprivation which are deemed socially unacceptable within a given polity or society" (Conway, de Haan et al. 2000). It covers a wider range of programmes, stakeholders, and instruments than alternatives such as, 'social security', 'social insurance', or 'safety nets'. The new consensus around social protection as the framework of social policy in developing countries is a consequence of globalisation trends which increase risk and vulnerability, and therefore the demand for social protection, while at the same time restricting the capacity of governments to respond (Rodrick 1997; Alesina 1999; Tanzi 2000). In this context, social protection can provide a more appropriate framework for addressing rising poverty and vulnerability in the context of current conditions prevailing in developing countries.

The distinctiveness of social protection lies in its focus on risk and vulnerability as the main factors behind poverty and deprivation. Social protection identifies the key risks affecting households in developing countries, and the policy interventions which could help them prevent, ameliorate, or cope with the materialisation of these risks (Holzmann and Jorgensen, 1999). Social protection therefore has a strong poverty focus. It places great importance upon the labour market as a major source of risk and insurance for poorer households. It includes a wide range of stakeholders and providers, including public providers, private providers, NGOs and other not-forprofit agencies, at both a national and international level. And it gives households an important role in the management of their assets to address their risks and vulnerabilities. Social protection recognises the central role of governments and public providers, but argues that this should be developed in partnership with the other institutions listed above.

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[1] The authors are participating in a research project on "Non-contributory pensions and poverty prevention in developing countries? A comparative study of South Africa and Brazil", funded by the Department for International Development of the UK Government, and with the participation of Monica Ferreira and Valerie Moller from South Africa, and Joao Saboia and Maria Lucia Werneck from Brazil. Information about this project is available from helena-legido.quigley@man.ac.uk or at: http://idpm.man.ac.uk/ncpps .

[2] There are also important similarities between social protection approaches and the sustainable livelihoods approach of the UNDP and DFID.

Within social protection, pensions already play an important role, but to date the emphasis has been on contributory pensions. On paper, most multilateral agencies concur in the desirability of establishing and developing multi-pillar pension systems in developing countries. However, in practice interest has centred on the second, contributory pillar, at the expense of much needed discussion about a first, tax financed basic pension pillar.[3] Yet this first pillar is more likely to have an impact on poverty, risk, and vulnerability in developing countries. A useful first step in focusing attention on first pillar pension programmes is to review the evidence emerging from the handful of developing countries with established cash transfer programmes for the old. This paper aims to make a contribution in this respect.

Table 1 below provides basic information on non-contributory pensions in a handful of countries in Africa and Latin America.[4]

Table 1. Old age non-contributory pensions in Africa and Latin America

Country	Type	Age of entitlement	Monthly benefit in US$	Number of beneficiaries
Botswana	Universal	65	23	71,000
Mauritius	Universal	60	55	109,000
Namibia	Universal	60	26	82,000
South Africa	Means tested	M65, W60	80	1,800,000
Costa Rica	Means tested	65	30	41,620
Argentina	Means tested	70	105	120,006
Chile	Means tested	70	60	163,338
Brazil urban	Means tested	67	108	1,963,160
Brazil rural	Means tested	M60, W55	108	4,305,300
Uruguay	Means tested	70	90	64.600
Boliviaº	Universal but cohort restricted	65	20	NA

Data points are for 1999/2000

º. Bolivia's programme was intended to provide an annuity payment to all aged 20 and over in 1995. It began operating in 1997 but was discontinued in 1998.

Sources: (Barrientos 1998; Fultz and Pieris 1999; Willmore 2001; Bertranou and Grushka 2002; Schleberger 2002; Werneck Vianna 2002).

[3] A full discussion of the reasons why this agenda has dominated pension debates is outside the scope of this paper, but see (Barrientos 1998; Mesa-Lago 1999; Muller 2000).

[4] The concept of non-contributory pensions is to an extent problematic. It is inaccurate to refer to these pension schemes as non-contributory in the sense that most, if not all, beneficiaries have made and are currently making a contribution to their economies and societies. They are non-contributory in the very limited sense that payroll contributions to social insurance schemes do not constitute a pre-requisite for entitlement. This is itself problematic, where the contributory record required is in practice a simple, and sometimes meaningless, administrative hurdle. In Brazil, for example, supporting letters from the local trade union or producer association, and in Uruguay, two affidavits from ex-colleagues or acquaintances, are required to establish contribution requirements. Cash transfer programmes for the old is perhaps a more accurate term for the schemes considered here.

Table 1 distinguishes between universal pension schemes covering all citizens regardless of their financial situation, and schemes including a means test. In some countries, entitlement to pension benefits also requires an inactivity test, with important implications for the labour force participation of beneficiaries.

The evaluation of non-contributory pension schemes

The paper evaluates the impact, effectiveness and sustainability of these cash transfer programmes, and draws some conclusions about the feasibility and potential benefits of establishing these programmes more widely in developing countries. The evaluation of these programmes is complex because they address a variety of objectives and have a measurable impact on a variety of dimensions. The heterogeneity of conditions observed in developing countries adds a further layer of complexity to the evaluation. Cash transfer programmes for the old have important effects within three specific dimensions. Firstly, these programmes can have a strong impact on reducing poverty and vulnerability among older people as individuals. Second, they have effects upon aggregate poverty because of their considerable advantages as a demogrant: a benefit that targets the poor because of the strong association between old age and poverty, or more precisely, between poverty and households containing older people. It is important in this respect to determine the relative advantages of pension schemes over alternative social protection programmes. Third, cash transfer programmes for the old can work as an instrument of development policy, by encouraging and facilitating investment in physical, human, and social capital. Here, it is necessary to assess the secondary effects of pension provision on social and economic investment. A brief discussion of these three areas of evaluation follows.

The immediate objective of cash transfer programmes is to alleviate hardship among older groups. In most societies, vulnerability rises with age for numerous reasons: a decline in job opportunities (especially in formal employment), reduced pay for those in employment, increased vulnerability to health conditions, limited mobility, discrimination in access to credit and financial markets, restrictions in access to basic services, such as education or health, and changes in household composition and status. These justify focusing social protection programmes on the old, not just in order to compensate for declining opportunities, but also to facilitate older people's efforts to cope with their increased vulnerability. It is an issue, in this respect, that in most of the countries reviewed, benefit levels are set at a minimum income standard, be it the national poverty line or the minimum wage. In other countries, the benefit level is set below the poverty line.[5] The vulnerability of older people also influences their status within their households and communities, and pension provision can have an impact on these. Cash transfer programmes to the old may empower older persons, and thus improve agency.

In developing countries most older people live in multigenerational households, and so their poverty and vulnerability, and the likely impact of pension benefits on these, is as much a household issue as an individual one. Pension provision has the potential to impact on poverty on

[5] This is why the words 'alleviation' and 'hardship' are used above. In fact, a necessary step in extending cash transfer programmes to the old is to raise the level of benefits at least to the national poverty line.

a wider scale than just older groups. To the extent that coresidence of older and younger people is more common in developing countries, and given the absence of comprehensive safety nets, pension benefits can have a wider role in poverty alleviation.

Households are both providers of support and economic units. The inability of poorer households to invest in the productive capacity of their members, especially the education and health status of children, has implications for the persistence of poverty and deprivation. This also applies to the issue of physical investment, as in the seeds and tools needed for agricultural production, or the basic equipment for home production of garments. Cash transfer programmes to the old providing a steady, and reliable, source of income can have significant effects upon the capacity of households to invest in human and physical capital, and overcome the threat of long term, persistent poverty.

This paper examines these three dimensions of evaluation: the impact of pensions on old age poverty and the status of older persons, their impact upon aggregate poverty, and their impact upon the economic activity of the household. Chart 1 shows in summary form these key dimensions, and the related conditions, design issues, and impact indicators.

Chart 1. Evaluation of non-contributory pension schemes

Social Protection Dimension	Conditions for applicability	Design Issues	Impact Indicators
Poverty and vulnerability of older people	▪ Correlation of old age and poverty ▪ Political support	▪ Adequacy of benefits ▪ Administration of entitlement and delivery systems	▪ Reduction in old age poverty ▪ Improvement in status of older people
Aggregate poverty	▪ Co-residence of old and young ▪ Intergenerational support norms	▪ Effectiveness of tagging in improving targeting and reducing costs	▪ Reduction in aggregate poverty and vulnerability
Household investment	▪ Older people's influence on household expenditure decisions ▪ Intergenerational support norms	▪ Regularity and certainty of benefit ▪ Absence of inactivity test	▪ Improvement in school enrolments ▪ Improvement in health status ▪ Increased economic activity ▪ Reduction in chronic poverty

The main part of the paper draws on existing evidence to assess the impact of non-contributory pensions in these three dimensions. In addition, the paper considers the administration and financing of these programmes, and the feasibility and desirability of establishing them in low

income countries. The paper will draw on the experiences of a number of countries in sub-Saharan Africa and Latin America.

Cash transfers, poverty and deprivation

The available evidence from developing countries clearly demonstrates that cash transfer programmes have a significant impact on poverty among older people and their households. Precise measurement of the impact of specific programmes on poverty is a considerable challenge because of the difficulties involved in establishing the counterfactual as a benchmark. As a result, studies have focused on determining whether cash transfer programmes target the poor, and on comparing the adequacy of household income with and without the pension income component.

A study of South Africa's social pension by Case and Deaton used a US$1 per day poverty line to examine the impact of the pension programme on poverty. Using data for 1993, the authors estimate that poverty headcount would have been 5 percentage points higher at 40 percent if "the pension incomes were removed and there was no offsetting charges in pre-pension incomes" (Case and Deaton 1998, p.1342). The gross impact of pension incomes is to reduce poverty by 12.5 percent. A recent study on Argentina relying on data from 1998 (i.e. before the current economic crisis) finds that headcount poverty rates among households with a non-contributory pension recipient aged 65 or over would be 5 percent higher if their pension income were left out (Bertranou and Grushka 2002).[6] Interestingly, extreme poverty would have been 16 percent higher in the absence of pension incomes.[7]

A study on the rural social pension in Brazil compares headcount poverty among households with a pension beneficiary and those households without one (Delgado and Cardoso 2000). Using a poverty line of half the minimum wage, it finds that headcount poverty is substantially higher among households without a pension beneficiary. In the Northeast region of Brazil, 51.5 percent of households without a pension beneficiary have per capita incomes below one half of a minimum wage, but the figure is only 38.1 for households with a pension beneficiary. In the South of Brazil, the figures are 18.9 and 14.3 respectively. The authors of the study conclude that rural pensions have therefore a significant impact on rural poverty in Brazil.

A key issue here is whether pension benefits are well targeted on the poor. In terms of the evaluation of the effectiveness of cash transfer programmes, this is of greater relevance for universal than for means tested ones.[8] Some commentators have argued that the link existing between old age and poverty in advanced economies and some middle income developing countries is weak (World Bank 1994; Whitehouse 2000). There is, unfortunately, only sparse information on old age poverty in low income countries, but the information available suggests a strong link between later life and poverty (Barrientos, Gorman and Heslop, forthcoming). In middle income countries, the evidence for this is mixed, but for most countries poverty rates

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[6] The study focuses on all non-contributory programmes but among households with older persons, the figures reflect primarily the impact of non-contributory old age pensions.

[7] Extreme poverty applies to households whose income is less than a basic basket of food (around US$ 2.3 a day for Buenos Aires in 1999). The poverty line is defined as the cost of a minimum basket of food and non-food goods and services.

[8] It is particularly important in countries like Argentina, where discretionary pension awards are made and are administered under the same programme.

among older people are similar to poverty rates for the population as a whole. Furthermore, conventional techniques for estimating poverty rates are likely to bias poverty among the old downwards (Barrientos, 2002).[9]

In conclusion, to the extent that there is a close correlation existing between old age and poverty in developing countries, that pension income is fungible with other income sources within the households, that co-residence of young and old is common in developing countries, and in the absence of comprehensive safety net programmes, cash transfers to the old constitute an effective instrument of social protection.

Non-contributory pensions and household dynamics.

The experience of advanced economies suggests that economic development is associated with an increasing proportion of older people living alone (Ruggles, 2000). A key factor in this process has been the extension of pension provision, which has increased recipients' financial autonomy, thus facilitating residence away from younger relatives. However, the limited evidence from developing countries shows that rapid socio-economic change does not inevitably lead to comparable trends (Palloni, 2000). In most low and middle income countries the great majority of older people typically live with younger relatives, often in extended households, or in "skip generation" ones (i.e. with grandchildren but not children). For example, a 1993 South African survey found that 61 per cent of African pensioner households contained three generations, and a further 14 per cent were skip generation ones (Case and Deaton, 1996).

In some contexts, cash transfers may increase incentives for other family members to live with elders, and may create new possibilities for intergenerational reciprocity. This is likely to be particularly evident where alternative sources of income for younger generations are scarce. Edmonds et. al. (2001) studied the effect of the social pension on black South African households. They found no increase in the propensity of older people to live alone. Instead, they observed a rise in the number of children living in pensioner households. Where the pensioner was female, the increase in children aged up to six was particularly marked. For Brazil, Camarano (2002) reports that in the years following the extension of pension entitlements there was an increase in co-residence with grandchildren for elder-headed households. This was particularly apparent in poor rural areas and where the head was female. As a result, by 1999 about 12 per cent of all children aged under 14 lived with an older person.

Access to cash transfers may increase the flexibility of household structures to respond to vulnerability and opportunity. This can be seen in a study of Namibia, which suggests that the pension increased levels of migration from rural areas (Adamchak, 1995). By providing a secure income, young adults were freer to leave their households in search of employment, while remaining members cared for children. This can give young adults a chance to take the risk of migrating without a definite job, or to extend the employment search process.

Non-contributory pensions are usually pooled within households, and pooling has been found to be particularly important in contexts of poverty (Saad, 1999; Burman, 1996; Sagner and Mtati, 1999). In contexts of very high unemployment, old age pensions frequently represent the only

[9] Further analysis is needed to identify any impact of pension receipt on consumption patterns. Case and Deaton investigate this issue in the context of South Africa and find no significant difference between expenditures financed from pension and non-pension income (1998).

reliable source of income for entire households (Ardington and Lund, 1995). By 1999, Brazilian elders were contributing more than half the total income of the households in which they lived, with the pension benefit accounting for a large share of this contribution (Camarano, 2002). There are indications that older women are particularly inclined to pool their pension income.

Across African societies, the central role of grandparents in caring for young children is well recognised (Moller, 1994; Bozalek, 1999; Mohatle and Agyarko, 1999). For example, in a survey of African women aged over 60, Burman (1996) found that 83 per cent provided significant childcare, which was almost always unremunerated. Given this role, it is likely that young children will derive large, direct benefits if their grandparents have access to a reliable flow of cash income. In South Africa, children with a low household per capita income are more likely to be living with a pensioner (Case and Deaton, 1996). Consequently, the social pension effectively reaches impoverished children.

There is a small but growing body of evidence that access to non-contributory pensions can improve the health status of young children, by improving their nutrition and access to drugs and health care. One study from South Africa found that pensions received by women had a significant impact on the anthropometric status of girls (Duflo, 2000). Subsequent research found that for both African and coloured people, the presence of a pensioner in the household was positively correlated with childrens´ height: the presence of one pensioner is associated with an additional 3 to 4 cm (Case, 2001). Similarly, it is thought that access to a non-contributory pension may also influence childrens' attendance at school and pre-school, by reducing the need for young children to work and by helping with school-related expenses. De Carvalho Filho (2000) found that Brazil's rural pension was significantly associated with increased school enrolment, particularly for girls aged 12 to 14. The effect was particularly strong when they were living with female pensioners. In South Africa, the relationship has been harder to isolate, due to numerous intervening effects. Since the country's pension was up-graded, school feeding programmes have been introduced and there have been renewed efforts to improve the educational infra-structure of poor areas (Moller and Devey, 2001).

There are good reasons to believe that access to pension benefits improves the status of older people within their households. At the very least, non-contributory pensions create an incentive for household members to extend the survival of the beneficiary, in order to guarantee the continuity of this cash stream. However, the effects on pensioners' status are likely to go beyond this basic consideration. Insights from gender studies suggest that access to an independent source of income is likely to increase the power and status of an individual within a household. This is likely to be especially significant for older women, who suffer the combined disadvantages of their gender and age. As frail older people become increasingly dependent on their families for instrumental as well as financial support, their access to a cash transfer may reduce power asymmetries in inter-generational relationships. This becomes especially important as their ability to make reciprocal household contributions, such as childcare, diminishes.

The abuse of older people within households is not well documented in developing countries, but there are indications that it is widespread and serious (Breslin et. al., 1997; Mohatle and de Graft Agyarko, 1999). Access to a pension does not guarantee that such abuse will not occur; indeed, there are anecdotal reports of older people surrendering their pensions to other relatives against their will. Burman (1996) recognises that the quality of elder care in South Africa is far from

ideal, but adds: "the dependence of the family on their pensions at least ensured a roof over their heads, a modicum of food, and, for those with more dutiful children or in a better position to assert themselves, incorporation into a family structure and even some power within it." (p.591).

As well as increasing the *incentives* for households to care properly for elders, non-contributory pensions can strengthen their *capacity* to do so. Research from Ghana found that the worsening economic situation of younger generations was often the main reason for reduced support for elders (Aboderin, 2001). The expense of caring for frail older people, including medical care and opportunity costs, should not be under-estimated. In a context of extreme poverty and household vulnerability, it may prove impossible to reconcile cultural norms of reverence and support for elders with daily demands of care-giving.

Rather than promote household support, it is sometimes argued that formal pensions and other cash transfers may "crowd out" other forms of informal support for vulnerable groups (World Bank, 1994). However, empirical evidence for this is scant and inconclusive.[10] Jensen (1996) investigated the relationship between South African migrant remittances and the presence of a pension in the household which the migrant left to find work. He found that for each Rand of pension income, there was a 40 to 50 cent reduction in migrant remittances. He notes that the net effect is a transfer of income to urban areas, which is where most migrants reside. Subsequent research by Posel (2000) questions the directness of this relationship, noting that the scale of remittances is influenced more by the nature of the remitting household than by the pension status of recipients. If the remitting household contains children of school age, they are less likely to send money. This shows competing claims within the remitting household, rather than the pensions, to be a more likely factor crowding out transfers.

In low income countries very few people of pensionable age live alone. Consequently, non-contributory pensions should be understood in terms of a cash transfer to households, not to elderly individuals. There are clear signs that older people, particularly women, are inclined to allocate this income in ways which directly benefit more vulnerable household members, such as young children. For older people in good health, access to a dedicated cash transfer can strengthen their capacity to contribute to household welfare on a number of different fronts. This may cement their position of household heads, and enable them to hold families together in the face of crises associated with AIDS and extreme poverty. In the case of very old and frail individuals, access to a dedicated cash transfer may at least guarantee a basic level of care and status within households, and reduce the risk of abuse. Cash transfers and coping with HIV/AIDS.

Levels of HIV/AIDS infection among older age groups in developing countries have been significantly under-reported (UNAIDS, 2002). However, the principal impacts of the epidemic on older people are indirect: changes in household structure, loss of income, healthcare consumption needs, community breakdown and so forth.

Increasing attention is being paid to the role of grandparents in caring for people with AIDS, as well as surviving relatives, such as grandchildren (Mupedziswa, 1997; Williams and

[10] The best-known study is by Cox and Jimenez (1992), which claims that informal transfers to older people in Peru would have been significantly larger if there were no social security scheme in operation there.

Tumwekwase, 2001). To date, reliable empirical research about these issues in Africa remains scant. One exception is a series of four surveys in six districts of Uganda (Ntozi and Nakayiwa, 1999a and 1999b), which found that:

- Between 1992 and 1995, the number of households headed by over 61 year-olds rose from 23 to 27 per cent.
- In 1995, parents were the main group of prime carers for AIDS patients, accounting for 32 per cent of cases.
- In 1995, grandparents were the main group of prime carers for AIDS orphans, accounting for 34 per cent of cases.
- Over half of those surveyed reported that a lack of reliable funds was a major impediment for orphan care.

An on-going WHO study of 685 households affected by AIDS and containing older people in Zimbabwe found that in 84 per cent of cases, elders were the main care givers for orphans and children with AIDS. The survey stresses the financial problems faced by older carers, including the loss of remittances and other financial support, a lack of food and clothing, high cost of medical fees during illness, an inability to pay school fees for orphans, a loss of economic support and diminished livelihood opportunities (WHO 2002).

These findings highlight the importance of older people as carers for both orphans and children with AIDS in Africa. Completed studies are not yet available to assess the effects of cash transfers on the capacity of households to perform these roles.

However, the available evidence suggests that such transfers could be of great importance. As seen above, pension income is usually pooled within households, and younger members have been demonstrated to benefit from it. The presence of a steady income stream is likely to help households with the costs of medication, meet funeral expenses, and compensate households for the illness and death of breadwinners. At first sight, non-contributory pensions may appear to be an unaffordable luxury in the context of high HIV/AIDS prevalence. However, they may actually represent a key tool for helping households and communities deal with the crisis.

Non-contributory pensions and beneficiary health status

The limited epidemiological evidence indicates that older people in regions such as sub-Saharan Africa are exposed to avoidable and unnecessary levels of morbidity and mortality (McIntyre, 2002). In part, this reflects a strong bias of existing health care services towards mothers, children and "people of working age" (Lloyd-Sherlock, 2000; Mohatle and de Graft Agyarko, 1999) . It also reflects a lack of access to cash income in households containing elders. Both of these problems are particularly severe in rural areas, which is where the majority of older people in sub-Saharan Africa continue to live. Survey data from Tanzania, the Ivory Coast and South Africa show that per capita spending on health services by people aged 50 or more was significantly higher than for other age groups (in South Africa it was 4.5 times higher). However, data for Tanzania and Ivory Coast (where pension schemes are weakly developed) found that significantly higher proportions of those aged over 50 did not seek treatment when ill than was

the case for younger age groups (McIntyre, 2002). With the introduction of user fees in many developing countries from the early 1980s, the link between access to cash and access to health services became more direct (Russell, 1996). Relatively few countries have included older people in those groups exempt from paying user fees. Panel survey data from Kwazulu Natal in South Africa indicate that user fees had a particularly strong effect on the health service utilisation of people aged 50 and over (McIntyre, 2002).

As such, it would seem likely that access to a cash benefit will significantly improve the health status of beneficiaries. There is already some evidence to support this possibility. A recent study in South Africa found that older people in receipt of non-contributory state pensions had a significantly better health status than other household members, controlling for age, sex and other factors, when the pensioner did not pool their resources with the rest of the household (Case, 2001). In households that pooled all their income, the health status of all members of pensioner households was significantly higher than in households which did not contain a pensioner. It has also been found that self-reported health status for South African women improves dramatically when they reach 60 years of age, which is when pension eligibility begins (Case and Wilson, 2000).

There are strong associations between poor health and household poverty. Sustaining the health of older people increases their capacity to continue in economic activity or to contribute to households in other ways. It also reduces the potential burden of care on other household members. The positive health effects found in South Africa suggest that the benefits of non-contributory pensions may off-set pressures on health provision, in which older people are becoming increasingly significant.

Potential impacts of cash transfers on the economic activity of older people and their households.

Cash transfers for the old constitute a significant monetary injection in poor communities, especially in rural areas. Evidence from countries with non-contributory pension schemes suggests that these benefits provide an important stimulus for economic activity in poorer communities. Delgado and Cardoso (2000) consider this in the context of rural regions in Brazil. Their analysis of household survey data shows that around one half of respondents use their pension benefits to finance rural economic activities, and that, against a background of the introduction of extensive liberalisation in the country's agricultural sector, benefits performed a crucial income stabilisation and insurance function. The regularity, certainty, and liquidity of pension benefits meant that they played a key role in shifting households from subsistence to surplus agriculture. Similar observations have been made in South Africa, where pension benefits have been associated with the establishment and expansion of micro enterprises, as well as other forms of household economic activity. In remote rural communities, the injection of liquidity can have a major impact, and pension payment days attract traders and create markets. In this way, pension benefits can have a large multiplier effect on local communities.

Evidence about the impact of pension provision on the labour supply of beneficiaries and their dependants is more mixed. Basic economic theory suggests that non-contributory pension benefits, other things being equal, could detrimental effects on incentives to save and work. An injection of income unrelated to employment may have the effect of reducing incentives for work among beneficiaries. These likely effects are exacerbated by means tests which reduce incentives

for earnings above allowable amounts, and by inactivity tests which require beneficiaries to stop working. In practice, it is difficult to disentangle these predicted effects from what would have been the case in the absence of pension benefits. In Brazil, where no means or inactivity tests are applied as a requisite to accessing benefits, there is some evidence that this encourages continued activity by older people (Delgado and Cardoso, 2000). However, aggregate data from Brazil shows a decline in the activity rates of older people over time. Analysis is hampered by the difficulty in controlling for age-declines in job opportunities which have become more pronounced in the 1980s and 1990s in most Latin American and African countries. What can be said with some confidence on this issue is that means and inactivity tests associated with cash transfers to older people reduce incentives for work, and therefore limit their potential economic contribution to the development process.

The financing of cash transfer programmes

In most developing countries cash transfers for the old are mainly financed from general government revenues. It is in the nature of these programmes that no other source of finance has in the past been available. However, alternative sources of financing must be explored if programmes of this type are to be established in low income countries, as their tax base is narrow. Also for middle income countries, new funding channels are needed to ameliorate the cyclical pattern of government spending. In Brazil sources of financing for non-contributory benefits include transfers from the social insurance programme (which in turn collects contributions from employers and employees in formal employment), revenues from excise duty, and taxes on large firms. For the rural pension programme, a tax is also levied on sales of agricultural produce, although the revenues from this cover only one tenth of benefits, and the majority of funding still comes from the urban social insurance scheme and government revenues (Schwarzer and Delgado 2002). Bolivia's (now indefinitely suspended) basic pension benefit was financed in part from a fund set up with the proceeds of privatisations.

For very low income countries, regardless of local political commitment, external sources of financing are likely be crucial to the establishment of such programmes.[11] There are few signs that community sources of finance can make a significant impact, especially as micro-insurance and micro-finance normally exclude older people.[12]

Long-term external financial commitment to universal, non-contributory benefit schemes may seem, at first sight, quite unrealistic. However, it should be noted that the overall costs of such programmes are not very large. As expected, these are larger in countries with universal provision. In Namibia, the old age cash transfer programme requires just under 2 percent of GDP (Subbarao 1998; Schleberger 2002). In South Africa, estimates of the costs of the social pension estimate it at between 2 and 3 per cent of GDP (Barrientos 2002). In Brazil, the cost of the rural pension programme is around 1 per cent of GDP. In Argentina, the costs of the entire non-contributory benefit programme, of which old age pensions account for a fraction of expenditure, averaged 0.20 percent of GDP in the period 1994-2000 (Bertranou and Grushka 2002). Clearly, the amounts involved are important, but considerably smaller than other social sector

[11] The ILO's Global Social Trust is an important and timely initiative seeking to collect funds from unionised workers in the North, and provide medium-term financing and training for social protection programmes in low income countries.

[12] Experience of community financing in other areas, notably the provision of health and water services includes some important successes in Africa and beyond (Precker et. al., 2002). However, there are no reported examples of community financing playing a major role in pension provision, and the prospects for this do not look strong.

programmes. Concerns about the rise of pension liabilities as a result of population ageing fail to take account of economic growth and rises in incomes following development, and, more importantly, fail to take account of the beneficial impact of the pension programmes themselves.[13]

The scope for developing cash transfer programmes for the old may be strengthened by their integration into existing social insurance pension schemes. There are numerous examples of this in Latin America. In Uruguay a first tranch of pension contributions are directed to a fund to pay for basic first pillar pensions which includes a non-contributory component. This follows from the solidarity and redistribution objectives built into the pension scheme. The Colombian individual capitalisation pension scheme also includes some transfers from pension contributions to a fund used to integrate poorer, older heads of household into the pension plans. This is an avenue for financing which is worth exploring, but which has the effect of linking the financing of the non-contributory programmes to strongly cyclical and politically complex governance systems.

In sum, cash transfer programmes for older people are eminently affordable for many developing countries. Where they exist, these benefits are usually funded by government transfers. However, the contracting tax base of developing countries associated with globalisation, and the cyclical pattern of government spending, makes it imperative to consider alternative sources of finance. In very low income countries, external financing is a possibility, while in middle income countries, integration of the cash transfer programmes with existing pension provision could provide another source of financing.

Administering cash transfers

There are two important issues regarding the administration of non-contributory pensions: the effectiveness and timeliness of the administrative procedures, and costs associated with programme administration. The expectation is that universal pension programmes will have lower costs and 'lighter' administrative procedures. An issue in developing countries is that the administrative and financial capacity to reach poorer communities, especially in remote rural areas, adds further complication. Namibia is a good example of these pressures. Schleberger (2002) finds that the administration costs of the programme accounted for around 15 percent of pension payments in 1996, and there were some difficulties in reaching rural areas. In 1996, the management of cash payments was out-sourced to private providers using 'mobile banks' to reach less accessible areas. Beneficiaries were provided with electronic cards to verify their identity. Administrative and payment services improved, but the costs of private providers take up around 9 percent of pension payments, in addition to the costs of public agencies. The same private providers operate in South Africa's rural areas, where the costs of provision have also risen. In Botswana and Mauritius the administrative costs of the pension programmes have been estimated at between 2 and 3 percent of benefit payments. In Argentina, the administrative costs of all non- contributory pensions (including old age cash transfer) has been estimated at 0.4 percent of the total budget, but problems with the administration and quality of service remain. In Brazil, a study by IPEA found high levels of satisfaction with the quality of service of public

[13] A separate issue is the relative effectiveness of non-contributory pensions and alternative programmes such as cash transfers to the unemployed, or children. Dealing with this complex issue would take us outside the scope of this paper, but see the discussion in Barrientos (2002, forthcoming) and Lloyd-Sherlock (2000).

agencies, and with the promptness of payment (Delgado and Cardoso, 2000).

The effectiveness of cash transfer programmes in developing countries requires an effective administrative and financial infrastructure as well as simple but accurate routines to establish entitlements and process payments. The challenges of establishing such routines should not be under-estimated. Key concerns include:

1. the difficulty in collecting, processing, and accessing demographic and occupational information to establish entitlement;
2. the length of time and bureaucratic demands to process pension applications;
3. the certification process for payment of benefits;
4. the administrative and financial difficulties with the payment of pension benefits in countries where the banking or financial systems has poor coverage both geographically, and of the poor;
5. the capacity to deal with instances of corruption with efficiency and sensitivity.

Issues of administration are particularly important in the context of cash transfer programmes. The constituency of beneficiaries is a most vulnerable group, and even small administrative problems and delays can have devastating effects on them. In addition, instances of maladministration, inefficiency and corruption undermine political support for these programmes in ways that do not apply to social insurance and occupational pension programmes. There is considerable innovation to be observed in existing programmes, and there is much scope for partnerships between public, private, and not for profits agents in the monitoring and delivery of the benefits.

The role of pensions in the extension of social protection

Issues of political sustainability are as important as issues of financial sustainability. At a basic level, the introduction, universalisation, and sustainability of non-contributory pension schemes require a measure of political support. In addition, the introduction of effective cash transfer programmes have a feedback effect upon the political support for further extensions of social protection. Once introduced, effective non-contributory pensions can help strengthen the extension and development of social protection.

In the context of non-contributory programmes in developing countries in particular, the introduction and extension of non-contributory pension programmes reflects the presence of strong solidarity values in society. In some countries, non-contributory pension programmes were set up in the context of social insurance programmes as a safety net in old age (e.g. Argentina, Chile, Uruguay). More recently, the extension of non-contributory pension programmes reflect renewed ‘social contracts’ after the fall of apartheid in South Africa, and the end of two decades of dictatorship in Brazil. In South Africa, the fall of apartheid led to full parity in pension entitlements for blacks, and in Brazil, a new Constitution in 1988 led to the extension of social protection to workers in rural areas and informal employment. In both these countries, the extension of non-contributory pension programmes reflected the extension of solidarity values.

In developing countries, non-contributory pension programmes can also serve as catalysts for the extension of social protection. The experiences of South Africa and Brazil shows that attempts at universalising pension provision for the poor can be effective and can attract strong political support. In South Africa, the effectiveness of the social pension as an anti-poverty instrument led to the development of cash transfer programmes for children, and more recently to debates around a basic income proposal. In Brazil, the effectiveness of the rural pension scheme has focused attention on the limitations of the non-contributory pension programmes for older people in urban areas. Non-contributory pension programmes can have an important role in strengthening and extending political support for the extension of social protection.

Conclusions

This paper examined non-contributory pension schemes found in a number developing countries, evaluated the effectiveness of these programmes on the basis of the available evidence, and considered the advantages of introducing similar schemes in other developing countries. It concluded that non-contributory pension programmes can make a significant contribution to improving the well-being of older people, reducing poverty, and facilitating economic development.

The paper identified three main dimensions for evaluation. Firstly, cash transfer programmes for the old have as their primary aim the prevention of poverty and vulnerability among this age group. Second, given that the majority of older people in developing countries live in multigenerational households, cash transfers to the old can also be an instrument in reducing and preventing aggregate poverty. Cash transfers for the old have a number of advantages over alternative poverty policy instruments. Older people can be identified with relative ease, and therefore at lower cost. Potential disincentives to work or save resulting from cash transfers to the old are lower than for other groups. Also, cash transfers to older people promote their status and decision making powers within the household, with potential benefits in terms of the allocation of income. Thirdly, cash transfers to the old can facilitate investment which reduces the incidence of risks, and therefore of future poverty. Investment in physical, human, and social capital reduces the intergenerational transmission of poverty, and therefore the persistence of poverty over time. In so far as cash transfers reach the very poor, and given the restricted access of older people and their households to other sources of investment, cash transfer programmes can have a significant effect on economic activity and the development process.

It is important to be aware that of potential conflicts between these different objectives. While the design of cash transfer programmes should aim to combine and maximise these positive impacts, emphasis should be given to the primary objective of cash transfer programmes which is to reduce poverty among the old. Pensions may be effective in enhancing the economic activity of households, but it would be a matter for concern if this were to happen at the expense of the well being of the current old. Similarly, co-residence of older people and children may enhance the impact of the programme on aggregate poverty, but it may also have the effect of bestowing unmanageable responsibility upon the old for the care of their grandchildren. The challenge is to ‘tie ‘ these effects in, and to consider the impact of cash transfer programmes in the round. This is not an easy task, as determining the impact of pension provision on aggregate poverty and on the

intergenerational transmission of poverty demands better research tools and data than those currently available. The extent to which cash transfers facilitate economic activity and development depends on the presence of means and inactivity tests. The paper found that the absence of such tests, or their limited application in practice, strengthened the development impact of the cash transfers.

It is also important to take account of heterogeneity in demographic and economic conditions in developing countries. In terms of their impact of non-contributory pension programmes upon aggregate poverty, for example, this depends on the extent of co-residence, and on the cultural norms and practices regulating intra-household distribution of income. Cash transfers to the old may be a less effective instrument in reducing aggregate poverty if, as is the case in transition economies or middle income countries in Latin America, a growing minority of older people start to live alone. However, there are no signs of this occurring on a significant scale in low income countries.

Overall, the discussion in the paper supports the conclusion that cash transfer programmes for the old do indeed have the potential to make a significant contribution to reducing poverty and vulnerability, as well as reducing the intergenerational transmission of poverty. Cash transfer programmes to the old also provide an important stimulus to economic activity, and can act as valuable insurance against risks to household consumption and investment. These programmes have the potential to make an important contribution to the development process. The experience of the countries reviewed confirms that these programmes are able to deliver in all three dimensions, and with the right design and financing features, they could constitute the embryo for more embracing social protection systems in the developing world.

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