ADB

Social Protection for Older Persons

Social Pensions in Asia

Edited by Sri Wening Handayani and Babken Babajanian

Asian Development Bank

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Abbreviations

ADB	–	Asian Development Bank
BIDS	–	Bangladesh Institute of Development Studies
BRAC	–	Bangladesh Rural Advancement Committee
DFID	–	Department for International Development of the United Kingdom
DSS	–	Department of Social Services
EPF	–	Employees Provident Fund
FGD	–	focus group discussion
FSU	–	former Soviet Union
GPF	–	Government Pension Fund
GDP	–	gross domestic product
HLE	–	healthy life expectancy
ILO	–	International Labour Organization
IMF	–	International Monetary Fund
Lao PDR	–	Lao People's Democratic Republic
LE	–	life expectancy
M&E	–	monitoring and evaluation
MIS	–	management information system
MOF	–	Ministry of Finance
MOSWL	–	Ministry of Social Welfare and Labour
MoSW	–	Ministry of Social Welfare
NESDB	–	National Economic and Social Development Board
NGO	–	nongovernment organization
NLSS	–	Nepal Living Standards Survey
OAA	–	old-age allowance
OECD	–	Organisation for Economic Cooperation and Development
PAYG	–	pay-as-you-go
PRC	–	People's Republic of China
SSF	–	Social Security Fund
TFR	–	total fertility rate
Tk	–	taka
UN	–	United Nations
UNDESA	–	United Nations Department of Economic and Social Affairs
UNDP	–	United Nations Development Programme
UNFPA	–	United Nations Population Fund
UNRISD	–	United Nations Research Institute for Social Development
USAID	–	United States Agency for International Development
VAE	–	Vietnam Association of the Elderly
VDC	–	Village Development Committee
WHO	–	World Health Organization

Foreword

The growing aging population in developing Asia and the Pacific has significant consequences for providing social protection to the elderly. Social protection in the region has historically been weak and fragmented, and has mainly supported small segments of the population in the formal sector. Many older people do not receive pension support and rely on their families and informal social networks for survival. Yet the support provided by such networks is becoming less dependable in the face of rapid urbanization and modernization.

The region's "graying" demographic profile, rising old-age dependency ratios, and changing living situations of older people call for greater attention and more resources from governments and the international development community. Many governments in developing Asia and the Pacific are setting up non-contributory programs to assist elderly people, most of whom are not covered by formal pension schemes.

These programs, known as social pensions, provide transfer payments financed by the government budget. Experience has shown that they can help reduce poverty and vulnerability by providing beneficiaries with predictable income.

There are still large gaps in our knowledge about the role of social pensions in tackling old-age poverty. That said, information about the impacts, institutional design, and delivery of various social programs, has become increasingly available in the last decade. Nevertheless, further analysis is needed to inform government policy and practice.

This publication aims to address the knowledge gap of social pension reform in Asia and the Pacific. In particular, it examines what has been learned from programs operating in different countries, and highlights key policy and budgetary issues that arise. The publication also addresses the application of social pensions in various social, political, and institutional contexts. Ultimately, it concludes that social pensions represent an important component of an institutional foundation for old-age social protection. As such, social pensions contribute to inclusive growth in a region increasingly challenged by rapid demographic change and socioeconomic transformation.

We hope that the analysis and experiences featured in this publication contribute to informed policy deliberations on the role of social pensions within the broader social protection framework under construction in the developing countries of Asia and the Pacific.

Seethapathy Chander
Director General
Regional and Sustainable Development Department
Asian Development Bank

Acknowledgments

This book is an outcome of a study of the Asian Development Bank (ADB) that sought to gather evidence on the effectiveness and relevance of social pensions in Asia. The study commissioned thematic papers to examine specific themes and issues related to social pensions for older persons and distill policy lessons. It also supported country case studies to capture the breadth and variety of different initiatives in the region. The papers were presented and findings were discussed at the ADB Regional Workshop on Social Protection for Older People in Asia in February 2011.

The workshop brought together international experts, representatives of relevant government agencies of developing countries, nongovernment organizations, and donor agencies, including the International Labour Organization (ILO), United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), United Nations Population Fund (UNFPA), United Nations Research Institute for Social Development (UNRISD), the World Bank, and other stakeholders. The workshop concluded that social protection programs, including social pensions, are crucial for reducing the vulnerability of older people in the region.

On the basis of those papers, the Regional and Sustainable Development Department of ADB, under the direction of Xianbin Yao and Bart Édes, and a team headed by Sri W. Handayani and Babken Babajanian, prepared this book. Marife Principe, Rowena Mantaring, Nicole Garingalao, Princess Lubag, and Honey May Manzano-Guerzon provided support in finalizing it.

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Overview

The Challenge of Rapid Aging: Development of Social Pensions in Asia

Sri Wening Handayani[1]

Introduction

Aging populations are a global phenomenon with potentially significant consequences and repercussions for, among other things, health care, pensions, and old-age care—particularly so in Asia where populations are aging fast, because of declining fertility rates and increasing longevity. Many countries in the region, however, lack effective social protection schemes, where paradoxically, the greatest number of people live in absolute poverty. Asia is also home to an ever-increasing number of older people or people aged 60 and over.

Older people already constitute a large proportion of the poor in Asia. With their number expected to triple from 410 million in 2007 to around 1.3 billion by the middle of this century, there will be more older people in the region than people of working age to support them.

Many governments are now confronted by a substantial and highly vulnerable segment of the population in urgent need of some form of social protection, largely because older people are disproportionately affected by poverty. The majority of these people in developing countries have no regular incomes. The majority of women who either work at home or are employed in the informal sector rarely have any form of social protection. They also tend to live considerably longer than men, working until advanced old age, looking after younger family members and undertaking household chores. Widowed women without any form of external assistance are especially vulnerable. All these factors present a serious public policy challenge for governments in the Asia and Pacific region.

[1] Asian Development Bank (ADB).

Economic Growth and Social Protection

The rapid economic growth of the region in recent decades has exacerbated, not diminished, the challenges and costs of aging populations. People in the region today generally live considerably longer than their parents' generation. And in the face of rapid modernization and urbanization, traditional family and informal support systems for older people have weakened, or in some cases, broken down. Despite tremendous economic progress in many countries, older people today often find themselves impoverished, neglected, and deprived of access to essential medical or other social services.

Social protection schemes have historically been weak and fragmented in the region and have failed to keep pace with economic growth. Consequently, old age has too often become an expensive burden for individuals, families, and society. Formal contributory pension arrangements cover only a relatively small number of people, mainly because very few poor people can afford contributions. Such arrangements are also difficult to design and administer for the informal sector, where many poor people work. Thus, a potentially dangerous gap has appeared between the needs and delivery of social services for aging populations.

Social protection is not only important in reducing old people's vulnerability—pensions can also boost economic growth by providing income for individuals. Some countries have introduced noncontributory pension systems that provide cash benefits to older citizens, but much is yet to be learned about their impact and possible replication in others.

Formal social protection remains in its infancy in Asia and the Pacific. Despite the enormous potential of social pensions, they remain an underutilized instrument for achieving just and equitable societies.

Potential Benefits of Social Pensions

Evidence from other regions suggests areas in which social pensions—aside from reducing the scope and severity of income poverty—can benefit individuals, families, and wider society.

First, they can enable older people to gain access to health care, as well as reduce the drain on household expenditures caused by the regular purchase of medicines on which older people depend. Second, they can greatly enhance the status and social standing of older people among families and communities. Social pensions do not just boost psychological well-being; often, they may provide the difference between dignity and degradation in old age.

Third, they can help reduce child poverty as well as boost school enrollment and nutritional intake of the young. Older people traditionally look after children and grandchildren. If they receive social pensions, they can share their benefits with younger family members and help enhance the well-being of succeeding generations. Fourth, social pensions can support economic growth. Pension income may be invested in productive enterprises, making older family members producers rather than just consumers. Fifth, social pensions can promote gender equality. Many women in developing countries face perilous old age because they lack savings or any form of social security. Millions of women already face constant discrimination in terms of employment, inheritance and property laws, as well as limited access to resources and services.

Social pensions are not a panacea. Rather, they should be part of a wide-ranging set of program and sector reforms. Moreover, the differences in cultures and stages of economic development across the region must also be taken into account.

Structure of the Book

The book discusses the challenge of rapid aging and distills policy lessons in developing and running social pension programs in Asia and the Pacific. The early chapters investigate the conceptual framework of social pensions. The later chapters are case studies on designing and implementing them.

Chapter 1: The Political Economy of Social Pension Reform in Asia

Chapter 1 explores the factors that influence the design of social pension programs in selected Asian countries in comparison with pension systems in Latin America and Africa. Understanding the political process and power relations among actors, interests, and context variables that drive the introduction and implementation of social pension reforms identifies policy lessons for the design and implementation of social protection schemes of older people in the region. The authors argue the necessity of studying pension schemes and antipoverty programs as part of the broader development and welfare regime of each country. They further hypothesize that social pension reform is part of either one or both the larger package of reforms in the existing pension system or the broader antipoverty policies of the country.

The chapter provides a framework for analyzing the determinants of social policies (economic and political contexts, external shocks, crises, and demographic trends) and its role in shaping fiscal policy and social policy priorities. The countries reviewed reveal that drivers of policy choices are highly context specific. For instance, in low-income contexts where aging is not a critical issue and poverty rates are high, programs directed at other social groups are given priority.

The chapter concludes that: (i) social pensions are attractive to policy makers in countries where poverty rates are high since the target group is clearly defined and liabilities are easier to manage, generational and urban–rural redistribution is possible, and poverty measures can be more effective; (ii) pension reform is more conducive with clear problem analysis, reform bundling, linkage with the national poverty agenda, and political support; and (iii) extension of social pensions regionally faces challenges in providing basic protection to low-income and informal urban workers, building popular support, ensuring elderly support in political decision making, and designing comprehensive and integrated systems.

Chapter 2: Social Pensions for the Elderly in Asia: Fiscal Costs and Financing Methods

Chapter 2 examines the determinants of short- and long-term fiscal costs of social pensions in Asia. Demographic trends, behavioral responses, political economy, and public expectations can influence the long-run fiscal costs of social pensions. However, the needed fiscal space can be moderated by better design, implementation, and governance of social pensions and improved coordination with the existing pension system.

Improved capabilities in public financial management are needed to enhance fiscal space. This includes better utilization of conventional and nonconventional revenue sources, reallocation of budgetary expenditure, and improvement of outcome orientation. This could include the openness to experiment with various organizational structures including public–private partnerships for financing and delivery of public services such as social pensions.

There is a strong consensus that social pensions can have a significant role in mitigating old-age poverty in Asian countries. This chapter suggests that success in using social pensions to mitigate it are more likely to occur in Asian countries that can find an appropriate balance between the development perspective of fiscal space and the fiduciary perspective emphasizing fiscal and financial sustainability.

Chapter 3: The Design and Implementation of Social Pensions for Older Persons in Asia

Chapter 3 identifies the lessons from regional experience of 11 lower- and middle-income Asian countries in designing and implementing social pension programs to provide a road map for more effective programs. Data reveal that social pensions are affordable and sustainable. The author presents evidence of the impact of social pensions in Asia on poverty reduction, food security and nutrition, access to health care, human capital development, livelihood and labor market engagement, economic activity, and social capital.

Evidence in Asia particularly indicates the importance of minimizing exclusion error in targeting beneficiaries and the failure of pensions to reach the poor and vulnerable. Targeting and registration systems face the challenge of inappropriate selection due to politics, corruption, and discrimination in selection. A technology-based management information system (MIS) for registration is critical to centralize registries, away from the current manual approaches.

The chapter provides the following policy lessons in designing and implementing social pensions in Asia: (i) identification of an appropriate social protection instrument in the country is a feasible starting point in social pension design as countries generally start with low pension benefit levels then progressively increase to a more extensive program; (ii) the targeting question in design is essentially political and rooted in ideology and resource allocation as countries commonly tend to move from targeted to universal benefits because of lower social and economic costs, greater political support, reduced corruption, and better integration in retirement savings systems; (iii) the registration process in social pension delivery and implementation is the best opportunity to raise awareness of the program with the poor better targeted through publicizing information and streamlining document access; (iv) and the design phase of social pension provides the window in developing a monitoring and implementation framework to provide feedback in improving program delivery.

Chapter 4: Gender and Old-Age Pension Protection in Asia

Chapter 4 examines the changes of demographic and socioeconomic patterns in Asia including population aging, intergenerational support, living arrangements, and women's participation in the informal labor market, as well as the role of social pensions in providing old-age protection to women.

Women's life expectancy is rising and their disability-free years are declining. There is also overrepresentation of women in informal care, affecting their pension accumulation and ability to join the labor market. Thus, old-age social protection is a major challenge for low-income countries.

The authors show that traditional pension systems offer inadequate protection for the minority of women employed in the formal sector with diverse working lives involving periods of part-time work and caregiving resulting in low incomes and deleterious effects on pension eligibility. Women workers in the informal sector—who constitute a majority of the workforce—are excluded from the mainstream contributory pension systems that were designed for formal workers, and lack safety nets.

A country's administrative capacity and political will are sometimes better indicators of social pension effectiveness than poverty alleviation. The authors recommend including gender dimensions during pension design rather than during evaluation to enhance better targeting of older people.

The chapter concludes with the advantages of social pensions from a gender perspective, in that they: offer a safety net for workers of the informal sector; more likely target women than men; provide support to grandchildren in the absence of working-age adults; act as a mechanism for alleviating extreme poverty and promoting gender equality; affect intrafamily dynamics by investing in family well-being; and provide economic assistance to older women who are more likely to reduce economic activity later in life.

Chapter 5: Providing Social Security in Old Age — The International Labour Organization View

Chapter 5 stresses the importance, from the perspective of the International Labour Organization (ILO), of providing a social protection floor that provides a minimum level of income security through a modest set of guarantees such as social transfers rather than benefits. The authors present the advantages of a universal pension solution such as avoidance of stigma and exclusion commonly found in means-tested pensions and argue that contributory pensions cannot effectively cover the majority of workers in the informal sector. Introducing noncontributory interventions and going beyond earnings-related contributory pensions through redistributive measures such as state guaranteed budget funds, employee subsidies or employer contributions, and a universal pension can deliver minimum income security. Countries that have moved from a means-tested pension to universal, noncontributory social pensions are highlighted.

The chapter concludes that the introduction of a complete package of basic social security benefits can and should be done for low-income countries, especially as their economies are reaching a higher level of development. However, this will require committed resources greater than their current social security spending.

It makes the following policy recommendations: the basic social security package should be introduced gradually; and joint national and international efforts, such as refocusing international grants on the direct financing of social protection benefits, will help strengthen delivery mechanisms and administrative capacity of national protection systems.

Chapter 6: Development of the Old-Age Allowance System in Thailand: Challenges and Policy Implications

Chapter 6 examines the development of the old-age allowance or social pension system in Thailand, discussing the challenges and implications of its movement from a means-tested system to universal coverage. The first case study argues that the movement to a universal social pension in 2010 helped remove some drawbacks associated with means-tested targeting, such as favoritism in beneficiary selection.

This chapter concludes with possible lessons for other Asian countries, mainly that even a fairly small pension can have important impacts on older people and on wider poverty rates; such impacts can be achieved at quite low cost; for a means-tested social pension, a strong targeting system is crucial; political support for reform is vital; and the design of a social pension should be part of a wider system of support for older people.

Chapter 7: Social Pensions in Viet Nam: Status and Recommendations for Policy Responses

Chapter 7 presents findings of a qualitative assessment of rural communities in Viet Nam and argues that the social pension scheme helped recipients to cope with poverty and risks. Viet Nam's social pension system was introduced in 2000 as a targeted scheme using age, health status, and poverty incidence as criteria. This chapter shows that social pensions can reduce economic vulnerability of older people, especially those without permanent income, and can provide benefits to older people living in rural areas. The authors also discuss the challenges of social pension implementation such as fiscal sustainability, beneficiary identification, low coverage, corruption in delivery systems, lack of professional staff, and weak monitoring and evaluation systems.

The chapter concludes with the following policy implications: a universal social pension can work in low-income countries despite limited initial expenditure; a program with low benefits to many beneficiaries is more beneficial than high benefits to few beneficiaries in reducing poverty; incremental expansion is recommended; a universal approach is simpler to run than a targeted approach; a social pension is only one of several instruments to reduce poverty; and elderly associations play an important role in monitoring and implementing the social pension system.

Chapter 8: Social Pensions for Older People in Bangladesh: An Overview of the Social Assistance Programme for Older People

Chapter 8 reviews the Old Age Allowance Programme in Bangladesh. Its information is based on focus group discussions and interviews. The government has various safety net programs, but, launched in 1998, this is the only official program specifically targeting older people.

The author discusses the impacts of the allowance such as beneficiary spending specifically on basic food needs, enhanced access to health care services, mental satisfaction and happiness, economic security, and social benefits such as longer time with grandchildren and preservation of traditional values. The program faces challenges such as corruption and exclusion in beneficiary selection, selection committee ineffectiveness, staff shortages, and inefficient payment and monitoring systems.

This chapter presents policy implications for Bangladesh and possibly other countries with, or considering, similar programs. Governments should: ensure an open and transparent beneficiary selection process with the involvement of civil society and without giving undue power to selection committee heads; provide a clearer description and orientation of the program with local leaders to determine the most deserving candidates; increase or double the benefit amount to improve the lives of older people; improve the benefit delivery by fixing payment dates to decrease financial and social costs to beneficiaries or exploring the use of a mobile bank payment system; strengthen the political will of the government to improve benefit administration; and scale up the program to a national level to provide a sustainable universal pension.

Chapter 9: Nepal's Senior Citizens' Allowance: A Model of Universalism in a Low-Income Country Context

Chapter 9 presents Nepal's universal and noncontributory social pension, the Senior Citizens' Allowance, the main pillar of the country's social assistance. The program addresses not just poverty reduction but also social inclusion, given Nepal's complex caste and ethnic system, and is a good example of a low-income country providing an effective rights-based and universal social pension. The author shows that countries can initiate social pensions with limited coverage and low benefits and progressively increase the size of the transfer and old-age eligibility over time.

The author discusses the impact of the allowance on the basic consumption requirements of the poorest beneficiaries, their household expenses as a result of the free medical care and hospital treatments from the pension, and overall social norms given the perception that social pensions are viewed as a symbol of inclusion. Numerous challenges, such as irregularity of payment, lack of an independent oversight system, and limited outreach campaigns in remote rural areas, affect the program.

This chapter concludes with the lessons for policy and practice such as: strengthening program effectiveness to ensure reliability of the allowance for older people; increasing local government capacity to deliver the program in remote rural locations; building better systems for independent monitoring and rights protection; creating an independent and credible impact assessment; lowering age eligibility and increasing benefit levels; and consolidating the allowance into a more comprehensive system of social protection.

Chapter 10: Social Protection for Older People in Central Asia and the South Caucasus

Chapter 10 details the economic and political transition of pension system in the 1990s until the mid-2000s in Central Asia and South Caucasus. It focuses on current pension systems, structure of the benefit systems, and reforms in four countries: Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan. These countries reveal the implications of moving away from the Soviet old-age pension system and present the differences in the timing and extent of the reforms.

The authors also explore demographic trends such as declining fertility rates, rising mortality, outward migration patterns, and an aging population alongside socioeconomic trends such as increasing poverty, widening inequality, decreasing labor force participation, and growing unemployment. These trends and the economic restructuring of the 1990s had significant consequences for pension systems—retirement ages were increased, the funding bases for pension systems were reformed, and benefit replacement rates were removed because of the declining tax base.

The chapter concludes with the following main policy implications: reducing coverage of agricultural and informal workers in a move from the universality of the Soviet system risks excluding older people and increasing their reliance on minimum pensions and targeted social assistance; and the level at which the pension is set poses a critical question on adequacy for current and future pensioners since the average level of benefits is just above the subsistence minimum for a contributory pension.

Chapter 11: Social Transfers for Older Persons: Implications for Policy, Practice, and Research

Chapter 11 highlights the findings of the preceding chapters and discusses the implications for development policy, practice, and research. It notes that national ownership of social pension schemes is crucial in ensuring the financial and institutional sustainability of social pension programs.

The author presents the need to do the following: strengthen the empirical knowledge of social pension impacts; explore existing socioeconomic and political factors that affect resource sharing in household decisions; determine circumstances that challenge institutional barriers generating social exclusion; consider challenges and opportunities associated with different targeting approaches; improve the take-up rate through active information campaigns; enhance local capacity by reaching out to prospective beneficiaries; improve accountability in beneficiary selection; achieve effective targeting by creating strong government capacity and encouraging transparency; determine the appropriate institutional arrangement for benefit payments; and adopt the right balance between expanding pension schemes and maintaining fiscal space.

The chapter acknowledges that social pensions reduce poverty and vulnerability, and support poor households, particularly children and socially excluded individuals. Social pensions also provide a policy alternative when contributory schemes cannot reach the majority of informal sector workers, and present an important tool in addressing the needs of older persons. The effectiveness of social pensions largely depends on coverage and size, choice of eligibility criteria, and design and implementation arrangements. The chapter concludes that policy development requires a gradual, incremental approach. Fortunately, social pensions already provide the important institutional foundation needed in establishing social protection for the elderly.

Chapter 1
The Political Economy of Social Pension Reform in Asia

Katja Hujo and Sarah Cook[2]

Abstract

This chapter explores the reasons why countries in Asia have adopted social pension programs and which factors have influenced their specific design. The objective is to obtain a better understanding of the politics of social pension reform in Asia, including the origins and drivers of policy choices, the stages and strategies of implementation, and the impact and consolidation of the reforms. The chapter reviews experiences with introduction or reform of social pension programs in selected countries in Asia, and compares them with social pension systems in Latin America and Africa, to illuminate the political processes leading to their introduction and implementation, their institutional characteristics and design, as well as their impact on poverty and social development. The chapter argues that pension schemes must be understood in relation to the broader development and welfare regime of each country, with several external and internal factors and actors influencing the feasibility and results of reform processes. The analysis of political institutions and processes that transform ideas and concepts into budgets, programs, and eventually social outcomes is crucial for understanding the potential and constraints associated with social pensions in developing countries.

Introduction: The Case for Social Pensions and Their Relevance for Asia

Asia is a highly diverse region, economically and politically, with some of the most advanced and dynamic countries and emerging markets in the world, while at the same time hosting two-thirds of the global poor living on less than $1.25 per day. According to the United Nations (UN 2008), many of the poor

[2] United Nations Research Institute for Social Development (UNRISD), Geneva. Research assistance by Imogen Howells, Dominik Bohnen, and Mariana Rulli is gratefully acknowledged. We also appreciate helpful comments from our colleague Ilcheong Yi and from ADB staff.

are older persons living in rural areas where, due to low and insufficient lifetime earnings (and by extension, savings) and in the absence of adequate social protection programs, they continue to work or rely on family or community support. This is increasingly a problem in a context of persistent poverty and demographic change such as rapid aging, increasing longevity, and changing family patterns. Globally, close to 80% of the elderly on average have no access to pension benefits (ILO 2010a; Holzmann, Robalino, and Takayama 2009). Social protection of the elderly is thus increasingly an urgent necessity in many developing countries, and particularly in Asia, where coverage rates of contributory pension insurance schemes are low, and where informal family or community support is weakening for reasons such as longevity, migration, pandemics, and poverty.

One instrument for tackling old-age poverty is social pensions. In contrast to contributory pension schemes or tax-financed schemes for relatively privileged groups such as civil servants, both of which are earnings-related, social pensions are flat rate benefits financed out of general revenues, which aim to reduce poverty and secure a minimum income for the elderly. Social pensions are thus one of many instruments of social protection designed both to protect individuals against adverse shocks and to contribute to economic and social development more broadly (UNRISD 2006, 2010). Because social pensions benefit persons that have not, or not sufficiently, participated in formal labor markets and hence not acquired entitlements from occupational or market insurance, their impact on the poor is potentially high. Noncontributory social assistance schemes (including social pensions) can therefore be a core element of national strategies to achieve the Millennium Development Goals (UNRISD 2010; UN 2010). Furthermore, social pensions are a recommended part of the UN "Social Protection Floor"—a joint initiative by several UN organizations with the International Labour Organization (ILO) and World Health Organization (WHO) as the lead agencies—which aims to promote basic social protection for all, including the elderly (van Ginneken 2009; Pal et al. 2005; Chapter 5, this volume).

Social pensions are successful instruments for reducing poverty among older people by sustaining consumption and providing resources to be invested in small-scale economic activities. Evidence demonstrates that pensions are frequently shared with other family members and often invested in the next generation, an intra-household redistribution that becomes crucially important in contexts where phenomena such as migration (in all developing regions) or the AIDS pandemic (particularly in sub-Saharan Africa) is transforming the nature of the family/household into elderly-headed units of grandparents and grandchildren (Samson and Kaniki 2008).

Design and principles shaping social pensions differ among developing countries, as do financing mechanisms, institutional characteristics, and the relationship between social pensions and other social protection programs.

One important difference is whether social pensions are provided universally—covering the entire elderly population—or whether they are targeted at the poor.

Targeting is usually justified on the grounds of equity and fiscal costs: the provision of tax-financed cash transfers only to those deemed eligible on the basis of their low income is assumed to maximize the poverty-reducing effect of such transfers through concentrating resources on the truly needy, without leakage to income groups above the poverty line. Theoretically, this enables the provision of higher benefits for given resources or a reduction in the total costs of the program as compared to a universal entitlement to the elderly above a certain age threshold. However, the benefits and shortcomings of targeting remain controversial.

For example, targeting on the basis of income is administratively complex and costly, entails significant errors of inclusion and exclusion, and potentially stigmatizes beneficiaries. It tends to foster the segmentation of social protection programs and the separation of the poor from other social classes, possibly leading to lower levels of political and budgetary support, and weaker accountability mechanisms. Where informality and poverty are widespread, and where governance structures as well as technical and administrative competencies are weak, targeting based on means testing can be especially challenging (Mkandawire 2005; UN 2010). Furthermore, by delinking access to social protection from rights of citizenship, targeted schemes enhance the discretionary power of authorities, especially at the local level, to assign benefits and may thus create incentives for undesirable behavior such as corruption (UNRISD 2010).

For these and other reasons, several countries (including Bolivia, Botswana, Brazil, Mauritius, Namibia, and Nepal) have introduced universal noncontributory pensions. Targeted social pensions exist in many other countries, for example in all the more advanced Latin American welfare regimes, in several transition countries in Central and Eastern Europe and Central Asia, in South Africa, Bangladesh, India, Thailand, and Viet Nam, but also in Egypt and the Russian Federation (Palacios and Sluchynsky 2006; Holzmann, Robalino, and Takayama 2009).

Research on social policy and social protection systems in developing countries tends to focus on the design and effectiveness of programs, financial sustainability, economic effects (such as labor market and saving behavior), and social outcomes (such as income security, poverty reduction, and equality). Analytical approaches within development economics are frequently driven by the objective of understanding how efficiently resources are allocated to specific programs or projects and what results they produce.

Far less attention has been paid to why certain initiatives get onto political agendas, who or what are the drivers for reform, and which factors determine whether proposed reforms are implemented and consolidated. These political dimensions of policy reform are an important determinant of how successful countries are in their efforts to reduce poverty and to embark on an inclusive development path. As a recent report from the United Nations Research Institute for Social Development (UNRISD) notes: "Power relations lie at the centre of development. What interests prevail in the political arena and how such interests are translated into effective policies underpin all successful attempts at significant poverty reduction" (UNRISD 2010, 20).

The purpose of this chapter is to explore the reasons why countries in Asia have adopted social pension programs and the factors that have influenced their specific design. It aims to provide a better understanding of the politics of social pension reform in Asia and to identify policy lessons for informing the design and implementation of social protection schemes for older people in the region.

In order to understand the political processes leading to the implementation of social pension programs, their institutional characteristics and design, as well as their impact on poverty and social development, we argue that it is necessary to study pension schemes and antipoverty programs as part of the broader development and welfare regime of each country. A political economy analysis should provide insights into the origins and drivers of reforms, the reform choices, strategies, and final results, as well as implementation and consolidation of reforms. It should also help explain policies taken, for example, in response to external shocks or fiscal austerity.

Several external and internal factors influence feasibility and results of reform processes. It is necessary therefore to examine the range of actors and their interests, including, for example, current workers and the elderly, civil society, corporations and governments, international organizations and nongovernment organizations (NGOs), as well as context variables such as the level and pattern of economic development, the political system, economic or political crises or transitions, and demographic changes such as aging and migration.

A starting point for our analysis is the hypothesis (which will need to be further tested in empirical research) that social pensions tend to emerge from two distinct processes: either through the reform of established pension schemes, often as part of a process of retrenchment, economic restructuring, or a demand for increased coverage; or through the expansion of antipoverty or social protection provisions, particularly in lower-income economies or those hit by crisis.

This chapter aims to provide a framework for analyzing such dimensions and processes, given the lack of substantive studies and empirical data on the political dimensions or policy processes of pension reform or social protection for most Asian countries that have recently reformed or are in the process of expanding such schemes. Our proposed framework is grounded in an extensive review of the literature on the political economy of welfare and policy reform in industrial and developing countries. It draws extensively on the better researched social pension programs in Latin America and sub-Saharan Africa for comparison, and is illustrated where possible with country examples from Asia.

The Regional Context: Aging, Poverty, and Social Protection in Asia

The population across large parts of Asia is aging rapidly (UN 2009). Despite rapid economic growth in some countries, poverty remains high, with the elderly particularly vulnerable to falling into poverty (HelpAge International 2007a). Across much of Asia, older people are supported primarily by their children, with the state or other institutions playing only a limited role. Thus systems of support such as pensions or social services remain for the most part undeveloped (HelpAge International 2007a). However, alongside population aging in much of the region, other changes are taking place that are likely to increase the proportion of older people at risk of poverty. These include changing household composition and family structures resulting from lower fertility and processes of migration, so that reliance on children in old age will become increasingly difficult (Devasahayam 2009). Furthermore, these changes also weaken informal safety nets, while the elderly frequently take on additional responsibilities as carers of grandchildren when parents migrate. Governments in the region are seeking to address these emerging issues with growing support for expanding various social protection programs.

A major challenge for old-age protection across most of Asia is the low level of coverage of the population by formal pension schemes or other forms of social protection (ILO 2010a). Except for the more advanced East Asian developmental welfare states (such as Japan and the Republic of Korea), contributory pension schemes have limited coverage, often restricted to civil servants, the military, and the police (Devasahayam 2009). High levels of informal employment and large agriculture sectors mean that the majority of the workforce generally falls outside formal schemes, while in all cases women generally have lower coverage than men (OECD and World Bank 2009; MacKellar 2009). In South Asia, contributory pension schemes cover only a small fraction of the labor force: for example, around 3.5% in Bangladesh or 10% in India (Barrientos 2007, 7; OECD and World Bank 2009, 7). A few countries in East Asia (Republic of Korea, Malaysia, and Singapore) have coverage rates of over 50%. In the People's Republic of China (PRC), the Philippines, and Sri Lanka, around 25% of the labor force is covered, and in Indonesia and Viet Nam less than 10% (Barrientos 2007, 7). In countries in the Organisation for Economic Co-operation and Development (OECD), over 80% of the labor force is covered by mandatory pension schemes (OECD and World Bank 2009).

Women generally have lower coverage, and extensive evidence shows them to be more vulnerable to poverty during old age than men (for example, Heslop and Gorman 2002); they also live longer and often as widows. In a paper examining the vulnerabilities of older men and women among the poor in Southeast Asia, Devasahayam (2009) points out that older men have more income from a greater variety of sources in old age than older women, including income from pension schemes and investments. Similarly, older men are more likely to be engaged in the labor force in old age while older women are less likely to find paid work. As a result, older women tend to be more dependent on social sources for their income, whether from spouses and relatives or through public provision. Consequently, women who are widowed, divorced, separated, or never married, or who do not have children, are particularly vulnerable to poverty in old age.

Across Asia, the financial crisis of 1997–1998 served as a catalyst for more comprehensive social policy reforms after a long period of reliance on residual or safety-net approaches, with the state playing only a minor role while families and markets were primarily responsible for providing social protection and services (UNRISD 2010; Cook and Kwon 2008). The crisis exposed the limits of such safety-net responses, and a new discourse around social protection emerged giving more room for ex ante institutional arrangements that protect people against income loss due to market and lifecycle events such as unemployment, sickness, or old age (Cook and Kabeer 2010). In this process, it also became clear that, particularly in low-income countries, social protection policies not only substitute for temporary income losses, but can also address the underlying causes of persistently low incomes (Barrientos 2010).

As a result, over the past decade, in response to crisis or other changes associated with economic liberalization or social and political changes, many governments across the region have adopted a range of social assistance or protection programs. These take varied shapes according to institutional legacies, levels of economic development, and country context. As described further in *Social Pensions and the Politics of Welfare Policy in Asia* below, some of the more advanced economies such as the Republic of Korea or Taipei,China moved from selective to more inclusive social systems (Kwon 2005), with an expansion of coverage (including pensions) in the former; other economies, such as Hong Kong, China; Malaysia; and Singapore, continue to rely principally on provident funds, market-based instruments, or family support. Thailand moved toward a more universal approach, first in health care, and more recently in pensions, with plans for expanded contributory and noncontributory programs.

Many former socialist countries were faced first with the need to reduce or restructure generous benefit systems of parts of the population before pursuing different mechanisms for expanding coverage. In some countries, a strong rights-based approach underpins the expansion of social protection (as in India), whereas in others, policies are determined in a top–down manner under authoritarian regimes. Some countries have systems that remain highly fragmented among various programs for different groups, while others are attempting to develop comprehensive strategies.

Protection for the elderly is expanding in a variety of ways. Examples exist of ambitious initiatives to combat poverty and extend social rights despite limited financial resources, such as Nepal's universal pension scheme. Some include age as a criterion in general social assistance programs (for example, Thailand), while others (such as Bangladesh, India, and Viet Nam) have means-tested social pensions for particular groups (Palacios and Sluchynsky 2006; Mujahid, Pannirselvam, and Doge 2008). It is thus apparent from the range of initiatives—from local subsidies to national schemes—that protecting the vulnerable and identifying the elderly (and specific subgroups such as widows) as particularly at risk of poverty has become a concern for governments across the region.

The positive outcomes associated with increasing social protection for older people are large. Evidence (particularly from other regions) exists for significant spillover effects, including, for example, greater independence and a productive contribution of the elderly to household incomes and to caring for other household members, particularly children. When schemes are universal, benefits for social cohesion are also seen (Chapter 9). Nonetheless, policy makers raise concerns over possible adverse incentives for economic activity, participation in contributory schemes, and an undermining of family responsibilities or traditional support mechanisms, as well as affordability—particularly of universal schemes—in contexts of rapid aging.[3] Clearly, prioritizing the elderly is also a political choice under conditions of limited government revenues in which the claims of the elderly may compete with those of other population groups (MacKellar 2009). Finally, institutional capacity also remains an issue for many countries in upgrading old-age protection.

An Analytical Framework: Understanding Policy Reform

The literature offers a broad range of models for analyzing welfare state development and social sector reform processes. Although not all of them are directly tailored to our specific needs, they nevertheless provide useful

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3 As discussed elsewhere in this volume (Chapter 5), ILO studies show that less than 2% of global gross domestic product (GDP) would be needed to provide a basic set of social security benefits to all of the world's poor and just 6% would be needed to provide a basic set of benefits to all who have no access to social security (ILO 2008). Case studies in this volume provide further details for specific countries.

insights on the political economy of, or political approaches to, social policy reform. In this section, we provide an overview of those approaches we deem relevant for our analysis. These include, in particular, theories explaining the origins and evolution of welfare regimes in industrial and developing countries, and research on the political economy of policy reform. We then discuss the potential contribution of these approaches for understanding the processes of expanding or reforming social protection and pension reform in Asia. Finally, we present a simple framework for analyzing the determinants of social pension reform in developing countries.

Explaining the Origins and Evolution of Welfare Regimes

Authors such as Gough and Abu Sharkh (2011), Wood and Gough (2006), Skocpol and Amenta (1986), Ramesh and Asher (2000), and Haggard and Kaufman (2008) have analyzed welfare state development in different country or regional contexts.[4] In the more advanced economies, the development of welfare states has been explained by a combination of economic development, class struggle, and state control. Gough and Abu Sharkh (2011) identify five key determinants of welfare state development and emergence of social policy in developing and advanced economies:

- Industrialization: industrialization, social structures, demography, and development
- Interests: collective actors, parties, and power resources
- Institutions: states, constitutions, democracy, and political systems
- Ideas: culture, ideologies, and epistemic communities
- International influences: war, economic links and dependencies, and international organizations and networks

Although developing countries have promulgated their social policies in different national and global contexts than their industrial counterparts, these determinants are important analytical categories, even when dealing with countries where some of these variables are weak or absent. The question is then which functional equivalents can be identified as drivers for the introduction of social programs or social policy reform in contexts where industrialization and related institutions are weak.

Gough (2005) identifies the following features of European welfare state development that may hold relevant lessons for developing countries:

(a) Coverage of social protection programs moved from strong, influential groups to weaker groups, not the other way round.

[4] See also Williamson and Pampel (1993), Esping-Andersen (1990; 1996), and the literature cited in Skocpol and Amenta (1986).

(b) Social policies developed in contexts of rapid industrialization and mass de-ruralization; labor accepted the capitalist economic model in exchange for collective representation and bargaining, social services, and social protection. However, this system seemed less suited for the subsequent period of deindustrialization and postindustrial capitalism.

(c) Proletarian and other struggles, trade unions, and socialist/social-democratic parties formed the backdrop to the emergence of the welfare state in Europe, and self-help institutions like friendly societies also played an important role.

(d) Democracy was not a precondition for welfare state development, but has been helpful subsequently in extending coverage and entitlements.

(e) The contribution of social policy to production (later demonstrated in East Asia) was first debated as early as the 1930s in Sweden.

(f) Open economies require social protection.

(g) The expansion of the state's role in the European welfare states led to some crowding out of prior forms of social provision and protection, but also to crowding-in (for example, the state functions as financier of the private sector).

(h) Families and households continue to play a critical role in welfare provisioning.

(i) Labor markets are important: during the golden age of postwar Europe, there was a complementarity between labor markets and welfare systems (through taxes and income, employment, and transfers); by contrast, now there are increasing contradictions between the two (labor market flexibility and insecurity, adverse employment effects of high taxes, and regulations necessary to finance social security).

Many of these lessons clearly hold for the more industrialized developmental welfare states in East Asia, in particular (a) to (f) and (i), but lessons (a) and (c) to (i) are of equal relevance to developing Asia.

Skocpol and Amenta (1986) summarize the literature on the determinants of social policy with reference to different schools of thought, broadly resonating with the determinants identified by Gough. They distinguish between

- *the logic of industrialization approach* (or structural-functionalist school) which argues that social policies converge and welfare states expand due to the underlying logic of industrialism;
- *the capitalist development approach* (neo-Marxist school) which interprets social policies as state responses to the social reproduction requirements of advanced capitalism; and
- *the democratization approaches*, where social policies in democratic contexts are seen as being driven and shaped by representative structures

> and electoral processes, effects of popular protest, social democracy (working class organization, trade unions, social democratic parties), party systems and party organization, insertion in the world economy, geopolitics, and the international diffusion of common ideas/models.

They emphasize the importance of states as actors and the fact that social policies, once institutionalized, in turn shape political institutions and processes.

Haggard and Kaufman (2008) adopt a comparative regional approach (examining Latin America, East Asia, and Eastern Europe) to explain the origins and evolution of welfare systems in developing and transition countries through a combination of political realignments and the adoption of distinctive development models. They posit that the politics of social policy have been determined by processes of growth and structural change (in particular, the functional requirements of industrialization and the political demands unleashed by it), but that countries end up with very different market institutions and social policy complexes. Their analysis focuses on discontinuities in patterns of political domination: they argue that the emergence of new ruling coalitions and the political incorporation or exclusion of working-class and peasant organizations influence social policy and determine the constituencies to which politicians respond. Their arguments for Latin America and East Asia are summarized below.

During the first three postwar decades, the two regions were characterized by high growth (Latin America first followed by East Asia), though they followed different development policies: Latin America first implemented an import substitution industrialization strategy, whereas East Asia shifted from such a strategy initially to export-led development. This strategy in Latin America was accelerated by economic shocks (having started with the Great Depression) and led to the expansion of welfare entitlements for the organized urban working class. On the negative side, it resulted in labor market dualism (segmentation into formal and informal sectors), a bias against the rural sector, dominance of social insurance, little investment in education, and high inequality.

In East Asia, outward-oriented strategies strongly influenced social policy. With an economic model based on cheap labor, governments were more resistant to expanding social insurance that would increase labor costs, and labor was thus less protected than in Latin America (or Eastern Europe). Instead, East Asian governments focused more on investment in education and training, and to a lesser degree health, and demonstrated in general a better reach into the countryside than governments in Latin America. The emergence of welfare systems in the early 1980s was therefore not an outcome of democratic politics, but rather imposed from above; subsequently, however, interests, institutions, and expectations formed around these policies.

Revisions of social contracts in both Latin America and East Asia occurred in the 1980s–2000s and were shaped by economic transformation, welfare legacies, and democratization. In Latin America, transitions to democracy created a strong incentive to expand public welfare commitments to vulnerable sectors of the population while protecting existing entitlements in an effort to stabilize a broad political base. Changes in economic development models and ideological shifts took place simultaneously: the debt crisis of the early 1980s affecting the entire region (triggered by the Mexican moratorium in 1982) and the subsequent increase in growth volatility strengthened the influence of technocrats and international financial institutions that advocated austerity and retrenchment. These changes generally weakened the social responsibilities of the state and led to cuts in social spending.

East Asia had a generally more favorable economic environment during this period, with robust growth patterns until the Asian crisis of 1997–1998, which although imposing some constraints (more severe in countries such as Indonesia) was not comparable to the fiscal austerity experienced by Latin America. Most new East Asian democracies had the fiscal space to expand the state's role in social provision.

Latin America, in contrast, experienced deep recessions and debt crises up to the 2000s, with two distinct effects: grievances that provided the basis for electoral and interest-group mobilization conducive to welfare state expansion, and an increase in the influence of technocrats often driving in the opposite direction. At the same time, existing welfare legacies shaped distributive demands placed on the state.

In short, Latin America ended up with a model characterized by substantial public expenditure, high inequalities, and limited coverage rates. East Asia had minimalist welfare states, but favorable economic conditions allowed for the expansion of social programs with little resistance from stakeholders.

Haggard and Kaufman (2008) conclude that in East Asia, democratization was associated with the expansion of social entitlements, with new actors such as NGOs, labor unions, and civil society organizations pressing for a greater public role in social policy, while politicians could attract support through the implementation of social policies (this dynamic was less visible in semi-authoritarian regimes such as Malaysia and Singapore, where we find more continuity in social policy). Latin America, with its costly but unequal systems, was confronted with the challenge of economic collapse leading to a combination of liberalization/privatization policies plus antipoverty programs.

The comparative–historical analyses of the development of social policies in two regional contexts as exemplified in this selective literature demonstrate that these processes cannot be separated from broader developments in the economic and political sphere, either globally or nationally. Institutional legacies and existing power constellations are confronted with challenges posed by a shifting political and economic context—leading to changing demands on policy makers and varied responses ranging from gradual reforms to more radical changes in social policies. We review explanations of policy change in the following section before discussing the applicability of the literature to social pensions.

Explaining Policy Reform

Another strand of literature addresses processes of policy reform, without necessarily distinguishing between economic or social policy spheres. Although this literature has not taken social pension reform as its main subject, there are many useful insights we can extract on how contextual factors, actor constellations, and reform strategies drive or hinder successful reforms. Approaches within public choice theory or pluralist approaches have usually ruled out radical policy reforms due to the entrenched nature of legacies and existing power constellations that favor the status quo (Pierson 1996; Buchanan 1983; Weaver 1983; González-Rossetti 2005).

However, major shifts in economic and social thinking with the rise of "Washington consensus" policies followed by the breakup of the socialist bloc at the end of the 1980s have attracted the attention of researchers from different disciplines, giving rise to explanations that can be subsumed under the heading of the political economy of policy reform.[5] As Müller (2003) notes, even though the unspecific term reform is used, most analyses in fact have concentrated on market-oriented reforms and structural adjustment programs. The apparent puzzle was that in some cases—specifically developing countries—policy actors managed to impose reforms that went against the interests of powerful organized groups and rent-maximizing bureaucrats.

The reasons for successful market reforms have been explained as follows:

- The *benefit of crisis* hypothesis (Drazen and Grilli 1993). This holds that a preceding crisis is instrumental for reform as the emergency situation helps to convince opposition groups to agree to unpopular measures.
- The role of leadership in reform initiatives (Harberger 1993; Sachs 1994; Rodrik 1996). This is deemed crucial as strong, committed, visionary individuals or technocratic policy makers push market reforms successfully. However, usually powerful change teams and leaders are not enough—a *reform strategy* is needed to mitigate constraints (Williamson and Haggard 1994; Tommasi and Velasco 1996). Timing, speed, bundling, technical sequencing, compensation measures, and the like are regarded as important determinants of reform success.

5 This summary draws heavily on Müller (2003).

- The need to provide an interpretation of reform costs, for example, by blaming previous regimes (the ***honeymoon effect*** for new governments). This is mentioned by several authors (such as Haggard and Webb 1993; Rodrik 1996).

Successful reforms have been further explained through a country's internal characteristics such as its political system, including political institutions, electoral and party system, or institutional veto points; through external factors such as the international or regional transmission of reform ideas (for pension reform, the Chilean model, and the World Bank multi-pillar approach see Müller 2003; Mesa-Lago and Müller 2004), the role of international financial institutions as catalysts for reform (Toye 1994) because of their role as creditors and ability to impose policy conditions; and the positive effect of market reforms on government credibility with investors (Drazen and Masson 1994; Hujo 2004).

While helping to explain the feasibility of market-led reform in developing countries, the literature on the political economy of policy reform has been criticized for neglecting implementation issues.

By contrast, the World Bank has approached this aspect from an implementation perspective as a response to growing concerns among development practitioners with the political economy risks associated with reforms and development projects (World Bank 2008). This approach is part of a general effort to increase country ownership of reform processes in order to make them more sustainable. The World Bank distinguishes between a diagnostic framework and an action framework: the former analyzes reform context (economic, social, political, institutional, scope of proposed reform), reform arena (stakeholders and institutions), and reform process (dialogue/decision making, champions/opponents, development partner influence) whereas the action framework links to operational implications and gives concrete recommendations to practitioners (timing, sequencing, analysis, accountability, partnership strategy, communication strategy). Rather than opting for a rational choice perspective, this approach examines how actors use their position to protect or strengthen their political or economic interests and how institutions function to provide incentives or constraints (World Bank 2008, 6–7).[6]

Toward a Political Economy of Social Pension Reform

The above literature provides valuable insights and analytical tools, but the question for this chapter concerns their relevance to an analysis of reforms in countries with largely undeveloped welfare states, and the specific issue of social pensions.

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6 Cook and White (2001) review political economy and political approaches to welfare policy. They suggest an analytical matrix that studies power, interests, institutions, and ideology at different levels (micro-agency, meso-institutional/sectoral, and macrostructural).

Theories about welfare state development have often been criticized for their limited applicability to the developing world (Gough 2005). However, depending on the level of development, the type of economic integration into the global system and political characteristics, some lessons can be drawn from the experiences of today's developed countries as well as from regional pioneers, such as the East Asian economies. Although the literature on the political economy of policy reform has largely focused on unpopular reforms, welfare state retrenchment, and policy shifts from state to market, we can make use of insights on the role of crisis episodes, leadership, external actors, reform strategy, reform models, and ideas for the implementation of social policy reforms.

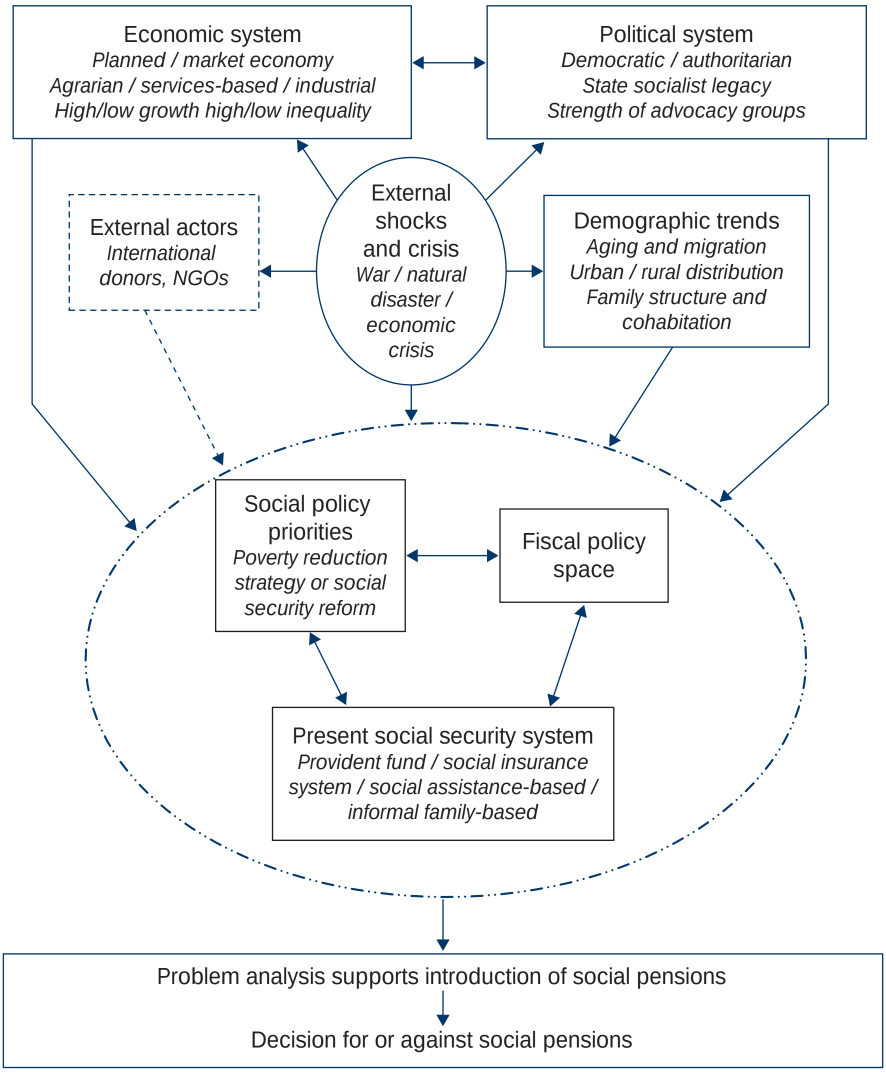
What makes social pensions different from market-oriented social sector reforms which dominated the period of neoliberal development? Social pensions are, by their very nature, redistributive: the whole population tends to benefit (the current elderly, household/family members of a retired person, future pensioners), especially if the program is universal (that is, where age is the sole criterion for eligibility). They are financed out of general revenues, making it difficult to measure potential trade-offs and to identify reform losers. Social pensions are thus usually highly popular measures for political decision makers, as illustrated in a variety of case studies. International actors such as the World Bank and UN organizations as well as HelpAge International and several bilateral donors now support social pensions (though not necessarily on a universal basis) as an effective means for poverty reduction.

On the other hand, concerns on social pensions include competing demands on funding from general revenues and the potential negative impacts of public transfers on work ethics and family support. Organizations such as the International Monetary Fund might be cautious on social pensions (or social protection more generally) where fiscal deficits are high. Even if one talks of an emerging consensus on the desirability of social protection schemes (Cook and White 2001; UNRISD 2010), controversies exist around the specific choice and design of programs (such as financing method, selection of beneficiaries, public versus private administration, and a single program or part of a social assistance scheme). Concerns also surround issues such as the fiscal costs, the availability of revenue sources, minimization of potential adverse incentives for labor market participation or participation in contributory schemes, and the administrative capacity to manage such schemes (Valverde, Mendoza de Souza, and Chacón 2009).

An explanation for the introduction, expansion, or continued absence of social pensions, and their specific design features in different Asian countries would require attention to the range of issues outlined above. For each country or group of countries we would seek first a basic understanding of the determinants of social policies (economic and political context, external shocks, and crises) and the basic structure of the existing welfare regime. Second, we would suggest the need for an in-depth analysis of the specific reform context in a particular country case. This involves identification of actors and main drivers of reform, as well as a detailed analysis of the reform process and outcomes.

Figure 1.1 illustrates our proposed framework. It combines a focus on contextual factors (such as economic and political structures, external shocks, external actors, and demographic trends) that affect the area of social policy, with

Figure 1.1 Analytical Framework of the Determinants of Social Pension Reform



NGO = nongovernment organization.
Source: Authors.

social policy priorities that are also shaped by institutional legacies and fiscal space. A decision for or against social pensions depends further on a problem analysis that supports the introduction of social pensions as an appropriate tool to expand coverage of pensions or to reduce poverty. (See also Table 1.1)

Table 1.1 presents an analytical tool for delving more deeply into the process of policy reform, distinguishing between internal and external reform drivers, and unpacking the reform process itself.

Table 1.1 Analyzing Social Policy Reform Processes

Internal Reform Drivers	External Reform Drivers	Reform Process
Political system • Institutions (formal/informal) • Actors • Electoral/party system • Veto points/contestation • Legitimacy	External actors • United Nations • Nongovernment organizations • Donors/international financial institutions	Reform stages • Problem definition • Policy formulation • Policy approbation • Legislation • Regulation • Implementation • Consolidation
Economic system • Structure of economy • Inequality • Poverty • Fiscal space	Global policy agenda • Millennium Development Goals • Social protection floor	Reform strategy • Problem analysis • Change team • Timing • Sequencing • Bundling/packaging • Marketing of reform/consensus building
Conjuncture • Crisis period • Growth period • Pre-/postelection period Leadership State–society relations Social movements/reform coalitions	Transmission of reform ideas • Reform models • Ideology • Epistemic communities Market credibility	

Source: Authors.

As said above, we hypothesize that social pension reform is part of either one or both of the following processes, which may result from a mix of the internal and external factors noted above:

- A larger package of reforms of the existing pension system in a country with more extensive formal provision (such as privatization of the public contributory scheme, downsizing of benefits/entitlements, or the creation of a multi-pillar pension program).
- Broader antipoverty policies involving, for example, the expansion of social assistance programs or noncontributory benefits categorically targeted at groups considered most vulnerable such as the elderly or children, the creation of a basic income scheme, or the expansion of poverty reduction measures for the rural sector.

We explore the relevance of the framework and hypothesis drawing first on the literature on social pensions in Latin America and Sub-Saharan Africa, regions that have more evidence than Asia. We then turn to a discussion of Asian case studies, recognizing the limitations of existing evidence and the need for further empirical research.

Experiences from Other Regions: The Political Economy of Social Pensions in Latin America and Sub-Saharan Africa

Latin America: Origins and Reforms

Pension systems in Latin America date back to the beginning of the last century and have followed the Bismarckian system of earnings-related contributory schemes for formal sector workers, starting with strategic groups such as the military, civil servants, and industrial workers (Mesa-Lago 1978). Coverage and benefits have expanded gradually in the postwar period in a context of favorable economic and demographic conditions, before the debt crisis of the 1980s and subsequent stabilization and structural adjustment programs ended this expansionary phase.

According to Haggard and Kaufmann (2008), the democratic transition in several countries in Latin America in combination with economic transformation and crisis led to a contradictory context: on the one hand, democratization provided incentives to expand public welfare commitments to vulnerable sectors of the population; on the other hand, governments had to protect existing entitlements of a costly and unequal welfare system that had developed over the past and created powerful constituencies. In addition, important ideological shifts occurred leading to a weakening of the social responsibilities of the state and rising influence of technocrats.

Radical reforms were seen as one potential way out of the perceived reform impasse following a strengthened neoliberal reform agenda in the 1990s. This led to major shifts in the paradigm of old-age security in the region, with the new paradigm modeled on the Chilean pension reform of 1981 and strongly supported by the World Bank (World Bank 1994). Systemic pension reform was implemented in nine countries, and the former public pay-as-you-go (PAYG) systems were either substituted or complemented by fully funded individual savings accounts managed by private financial institutions. Whereas reform efforts were concentrated on contributory pensions for formal sector workers, pension privatization also entailed changes in the first pillar of old-age protection—those benefits that were aimed at preventing poverty and providing some basic income security for the elderly.

However, it soon became clear that important coverage gaps would persist and even increase in the future, because of the inherent risks and limitations of the private pillars and the restrictive entitlement conditions of the first pillars, especially in terms of contribution years required to access the benefits. This situation and its potentially adverse fiscal implications as well as an increased awareness on the risks of private pensions after two financial and economic crises that hit the region in 2001 and 2008 has given way to debates about how to approach coverage extension and what role public social pensions (zero pillar) can play in preventing old-age poverty.[7]

Social pensions that do not depend on former contributions or formal labor market participation exist in the pioneer welfare states of Argentina, Brazil, Chile, Costa Rica, and Uruguay, where their evolution was closely linked to the implementation of contributory pension schemes (Bertranou, Solorio, and van Ginneken 2002; Clark 2009). Recipients of social pensions in Argentina, Brazil, and Uruguay account for about 10% of total pensioners, and in Chile and Costa Rica 23% and 31%, respectively. Whereas most schemes are targeted at the poor elderly (the objective is to supplement formal social insurance), universal pensions are seen in Bolivia (Renta Dignidad covers all elderly above age 60 regardless of income) and in Brazil for the rural sector, where some 7.3 million beneficiaries receive a noncontributory pension at the minimum wage without recourse to earnings or inactivity tests (UNRISD 2010).[8] Also, Chile and Peru have recently introduced important reforms of their social pension programs (Box 1.1), with interesting lessons in terms of political reform processes.

A comparative assessment of social pension reform and outcomes in Latin America suggests the importance of the following key political economy factors:[9]

- In the pioneer welfare states in the region, social pensions were introduced alongside contributory programs (in the case of Uruguay this dates back to 1919): protection of the poor elderly was one objective among others, including protection of war veterans, victims of dictatorships, women with extensive care responsibilities, etc.
- In the 1990s, privatization of public contributory pension schemes created the need to strengthen first (contributory public) or zero (noncontributory public) pillars.

[7] A more radical response to this problem analysis has been taken in Argentina, where the mixed pension scheme initiated in 1994 was renationalized in 2008. See Mesa-Lago (2009) and Lo Vuolo (2008).

[8] In addition to the universal rural pension scheme, Brazil runs a means-tested social pension scheme for the urban sector (Beneficio de prestação continuada), covering 3.5 million beneficiaries in 2011.

[9] Extensive political economy analyses have been conducted on pension privatization in Latin America during the 1990s. See, for example, Müller (2003), Hujo (2004), Brooks (1998), and Madrid (2002). This has not been done for the area of social pensions so far.

Box 1.1 Recent Reforms of Social Pensions in Latin America

In Bolivia, after renationalizing the oil and gas industry leading to increased state revenues in a period of booming oil prices, President Morales implemented a renamed and extended social pension, Renta Dignidad, in 2008 paying an annual benefit of $257–$340 to elderly above age 60 (the amount depending on access to other pensions), financed mainly by a direct tax on hydrocarbons. His reform, supported by Article 67 of the 2009 Constitution, was supported by existing beneficiaries, the pensioners' federation and peasants' groups, but contested by the political opposition and groups competing for funding shares from the new hydrocarbon tax (Müller 2009). The latest reform was a renationalization of the private pension funds in 2010, which are now administered by the government. In addition to the contributory system and the Renta Dignidad, a new solidarity fund has been launched, which aims to guarantee a basic pension of one minimum wage after 15 contribution years (Pension Solidaria de Jubilación) (Ticona Gonzales 2011).[a]

Chile reformed the social pension program in 2008 after extensive public debate and consultation. The noncontributory Sistema de Pensiones Solidarias replaces the former minimum pension guarantee (which required 20 contribution years) and the means-tested social pension, which also had a cap on the maximum number of transfers. The new solidarity pension is granted to the elderly who are ineligible for other pensions, aged 65 and older, and having resided in the country for the last 20 years. Benefit coverage will be extended gradually to 60% of the poorest elderly by 2012, with an estimated 1.3 million beneficiaries and a monthly benefit of $145 (Kritzer 2008). A broad agreement among specialists about the main problems and challenges of the private pension system, and the strong fiscal position of the country, are identified as the main factors leading to a successful reform, which also included several parametric changes with regard to fund investment, gender equality, and improved coverage of the contributory scheme (Iglesias-Palau 2009).

With the contributory system based on individual savings accounts only covering 15% of the labor force, Peru has embarked on a public debate on the need to expand social protection for the elderly. Drivers of change are the Peruvian unions, the Ministry of Women and Social Development, Caritas Peru, a civil society roundtable on poverty reduction, the National Association of Older People in Peru and international actors such as HelpAge International, the International Labour Organization, and the United Nations Population Fund (UNFPA). To date, a pilot program has been implemented in three departments covering the poorest elderly above age 75. With the June 2011 presidential election victory of Ollanta Humala, new pension reform proposals made in his Plan of Government and during his election campaign are possible. These would involve a public system with a contributory component mandatory for all workers, a complementary private system, and a noncontributory component for everyone over 65 (Humala 2010). According to HelpAge International, 73% of Peruvians were in favor of Humala's proposal to introduce a social pension, a key factor in explaining his electoral victory (Alarcón 2011).

[a] Whereas in Bolivia the financing method is still based on capitalization, Argentina switched to a PAYG system.

- At the time of multi-pillar pension reform leading to the introduction of individual accounts, one key objective was to avoid disincentives for participation in formal labor markets and associated contributory social insurance, leading to the design of first pillars with strict requirements for prior contributions, low benefits, and caps on the number of social pensions.[10]
- Privatization has not increased coverage; on the contrary, fewer people have access to sufficient income in old age. However, strengthening of social pensions is considered an "easier" option to address this problem than the radical approach taken by the Argentine and Bolivian governments to renationalize pensions. This compromise of private pensions plus extended social pensions has potential adverse fiscal implications for the state, unless contributory pillars or revenue sources are also strengthened.
- Democratization processes and political parties with redistributive and poverty reducing agendas coming to power (Argentina, Bolivia, Brazil, and Chile) have facilitated implementation of cash transfer programs, including social pensions.
- Fiscal space has facilitated social pension reform in Bolivia and Chile; in both countries, revenues from mineral sources (copper in Chile, hydrocarbons in Bolivia) have increased in a period that was characterized by a boom in commodity prices (pre-2008). Nevertheless, distributive struggles about these revenues can be intense as the Bolivian case shows (UNRISD 2010).
- Reforms of social pension schemes usually do not take place in isolation—rather, they are tied to broader reforms in the contributory pillars of pension systems as well as of costly schemes such as civil servant pensions (for example, in Brazil, cuts in the civil servants scheme enabled the financing of redistributive social assistance schemes).

Social pension programs in the region are widely viewed as useful instruments to reduce old-age poverty and to include those traditionally excluded from contributory pension insurance (Bertranou, Solorio, and van Ginneken 2002). They have thus been associated both with a reform of existing pension schemes and with the expansion of antipoverty programs (as hypothesized).

Still, several future challenges and issues of public debate remain (Bertrano, Solorio, and van Ginneken 2002; Clark 2009). These include the level of benefits (adequacy, replacement rate with regard to average wage level, poverty line, etc.); the scale of coverage (number of beneficiaries); fiscal costs and financing instruments; targeting versus universalism; administration (fragmented schemes, administration at different government

[10] In many Latin American countries, social pensions were only paid to a limited number of beneficiaries (in Chile around 400,000 pensioners receive the Pensión Básica Solidaria de Vejez; in Argentina around 65,900 receive a noncontributory social assistance pension [HelpAge International 2011; ILO 2010b]).

levels); relationship with contributory systems (incentives, complementarity); integration of social pension programs into a comprehensive social protection approach (for example, basic income, or part of targeted social assistance); and adjustment mechanisms (indexation).

Sub-Saharan Africa: Origins and Reforms

Few people in Africa rely on pensions to maintain their livelihoods in old age. As in Asia, informal protection arrangements through families and communities prevail and most of the elderly continue to work well beyond the official retirement age. High poverty rates, insufficient supply of social services (such as health and care services and social infrastructure), migration, and the HIV/AIDS pandemic expose the elderly to significant vulnerabilities and poverty risks in old age. On the other hand, the elderly are recognized as important contributors to social development and family well-being, especially in households where parents cannot look after their children due to sickness, disability, or migration.

Whereas contributory pension insurance covers only a very small share of the labor force, several countries have implemented comprehensive social pension programs with positive impacts on poverty reduction. These schemes are most developed in southern Africa: Botswana, Lesotho, Namibia, South Africa, and Swaziland provide regular social assistance pensions to a large part of the elderly population. Smaller pilot schemes have been run in Zambia, and public debates based on feasibility and costing studies are starting to evolve in Kenya, Tanzania, and Uganda, among others. Mauritius is one of the most prominent examples worldwide for long-term sustainability of universal social pensions, with a scheme introduced in 1950 (originally means-tested and intended as a temporary measure), becoming universal in 1958, and strengthened after the introduction of contributory pensions in 1978 (Willmore 2003).

In the countries of southern Africa, historical welfare legacies and democratic transitions can be identified as the main drivers for social pension programs (Box 1.2). Elsewhere in sub-Saharan Africa, poverty reduction strategies and social protection initiatives are often promoted by donors, UN agencies, and international NGOs. Although important, these external actors appear to be less powerful as drivers of change. In countries lacking social pensions or where debates have only recently started, multiple demands on budgets, fiscal constraints, low prominence of social protection and pension issues on national development agendas, as well as a lack of political representation and power of the poor seem to work against implementation of social pensions as part of a more redistributive agenda.

Pelham (2007) provides a comparative political analysis of the politics associated with social pension schemes in Lesotho, Namibia, and South Africa. Only Lesotho implemented a pension as a democratic country, although

Box 1.2 Social Pensions in Sub-Saharan Africa

Means-tested social pensions were institutionalized in South Africa in 1928 and extended to black South Africans in 1944, albeit at a lower transfer value. In 1994, the old-age grant was equalized for all citizens at the democratic transformation and a new government, the African National Congress, coming to power. The tax-financed benefit covers more than 2.5 million beneficiaries, costs around 1.3% of gross domestic product (GDP), and covers 60% of South Africans over 60 years old (HelpAge International 2011).

In Namibia, the pension started in 1949 under the South West African administration, with extension (at lower benefit) to black Namibians in 1973 and universalization after independence in the early 1990s. Several attempts to introduce a means test have failed which, according to Pelham (2007), shows that the pension is politically binding and seen as a permanent welfare entitlement. The pension covers 93% of those over 60 years old (132,000 people) and costs 1.4% of GDP (HelpAge International 2011).

In Lesotho, the social pension is relatively new and has been implemented through a presidential initiative in 2004 with little parliamentary debate. Lesotho is one of two least developed countries (the other is Nepal) to run a social pension scheme. It pays benefits to 80,000 elderly (53% of the population aged 60 or more) at a cost of 2.0% of GDP.

Botswana has provided a universal social pension since 1996 covering all citizens aged 65 or older (at the same time, a cash transfer for orphans was introduced). Around 90,000 beneficiaries are registered (88% of the population aged 60 or more), receiving a monthly benefit of P166 ($25) (ISSA 2009), costing 1.3% of GDP (HelpAge International 2011).

through a top–down approach (the president implemented reform in an ad hoc way, without prior consultation and in the absence of opposition). By contrast, in Namibia and South Africa, the pension was introduced for elderly whites living in poverty during colonial and apartheid/protectorate regimes. Political factors influencing pension policy before democratization were labor movements, international geopolitics, impoverishment among the whites, and social control of the black population. After democratization, reforms were more demand-driven: in Lesotho, there seemed to be a response to the impact of HIV/AIDS on household vulnerability, and as a mechanism to gain political support and legitimacy. Pelham concludes that social pensions in sub-Saharan Africa have contributed to a stronger social contract between state and citizens and fostered a sense of citizenship in general; the pension programs are the main redistributive instrument of the state, they have given greater value to the elderly in the communities, fostered some sort of state commitment to welfare, and increased accountability.

In sum, the recent expansion of social pensions in sub-Saharan Africa is largely associated with processes of democratization and the expansion of antipoverty programs in a context of weak welfare systems. Key drivers of their expansion include democratic transitions and an emphasis on poverty reduction in the international community, whereas major challenges include fiscal constraints, the integration of contributory and noncontributory programs, indexation of benefits, scaling-up of pilots, and institutionalizing programs where old-age protection is virtually absent.

Factors Facilitating or Constraining the Introduction of Social Pensions in Latin America and Sub-Saharan Africa

We highlight the following as key factors (both external and internal) in facilitating or constraining reform or implementation.

Factors facilitating the introduction of social pensions include

- economic and political crises, conflict, or democratic transitions;
- historical legacies of social assistance/social pension schemes;
- a need to address declining coverage rates in private schemes;
- external financing/involvement of external actors;
- fiscal space;
- civil society activism;
- political parties voted in on a redistributive platform; and
- clear problem analysis (expert consensus on need to protect elderly because of poverty, coverage gaps, etc.) and understanding of advantages of social pensions vis-à-vis other cash transfers (to avoid adverse incentives associated with many social transfers on savings and labor market participation; clear target group allowing calculation of future liabilities, etc.).

Factors acting as constraints on social pension implementation include

- lack of the above factors;
- low-income country setting with relatively young demographic age structure and intergenerational households (elderly not identified as priority group);
- fiscal constraints/limited tax revenues; and
- competing demands from other groups.

Building on these insights and the analytical framework discussed in the previous sections, the following section turns to the evidence on the expansion of social pensions and the wider political economy of welfare policy in Asia, in an effort to provide insights into current reform efforts and processes in this region.

Social Pensions and the Politics of Welfare Policy in Asia

Given the huge diversity in terms of levels of economic development, political regime, social and cultural systems, and welfare legacies across Asia, we would expect to see greater heterogeneity in the political processes and possibilities for social pensions, and in the design of such programs, than have been explicit in Latin America and sub-Saharan Africa. In this respect, it is useful to draw on the loose typology provided by work on the "welfare geography" of East Asia (Kwon 2005; Cook and Kwon 2008). In his work on East and Southeast Asia, Kwon (2005) uses several variables to classify countries, including the economic model and political factors such as regime type, civil society, parties, and coalitions. While not going as far as identifying welfare "regimes" across the region, we can usefully cluster countries around such features of welfare development and consider what this might mean for social pensions.

First, Asia consists of a number of distinct geographical subregions with distinct characteristics: much of Northeast and part of Southeast Asia, for example, share some features of a Confucian heritage, a developmental growth path, traditionally low welfare expenditures, and heavy reliance on the family, although with movements toward higher spending and more inclusive welfare regimes in recent years. These include:

- The developmental welfare states, where social policies played an instrumental role in economic development, and which have moved from selective to more inclusive welfare (Republic of Korea; and Taipei,China).
- Economies with a strong reliance on provident funds and more selective and market-based welfare provision (Hong Kong, China; Malaysia; and Singapore).
- Transition countries which moved from a planned economy, forced to dismantle generous provisions to select groups while expanding protection to others (the PRC, Mongolia, and Viet Nam). Other countries of the former Soviet Union have faced similar challenges but with mixed records of growth and welfare responses.
- Countries expanding toward universalism; for example, Thailand, where populist politics have moved the welfare system toward universalism.
- Countries taking steps toward expanding safety nets; for example, Indonesia expanded safety nets in response to crisis, while the Philippines is making efforts to expand safety nets building on a fragmented system of provision.
- Low-income countries in the region (with legacies of conflict and transition) have few and fragmented social programs, limited fiscal space, and

greater influence of international donors (Cambodia and the Lao People's Democratic Republic [Lao PDR]).

South Asia has its own welfare geography: it is generally characterized by higher levels of chronic poverty; structural forms of exclusion related to caste, religion, and gender; and limited and fragmented state provisions. Nonetheless, differences within the subregion exist:

- Countries (or states of India) with a socialist legacy have often achieved better welfare outcomes (Sri Lanka, Kerala, and West Bengal).
- Some low-income countries have improved welfare beyond the expectations of their income—Bangladesh aided by a strong NGO sector, and Nepal with its move toward universalism illustrated by its social pension.
- There is a strong rights-based approach emerging in democracies in the region (notably India), although provisions remain fragmented and limited.
- Central Asia and the small island states of the Pacific are additional groupings with distinct characteristics.

Building on our framework on the political dimensions of welfare reform as illustrated in Figure 1.1 and Table 1.1, we identify several elements that inform welfare reform processes (in varied ways) across these diverse subregions.

The Political and Economic Context: Global and Domestic Factors

Impact of Global Processes

This impact on Asian economies varies and has clearly interacted with domestic reform strategies to influence poverty reduction and welfare policies. Variation can be seen according to the timing of liberalization: late industrializers such as the Republic of Korea and Taipei,China still maintained until the late 1980s some degree of insulation from the global economy and the capacity to pursue a wider range of industrial policies or capital controls than "late liberalizers," in turn giving them a greater range of domestic policy options. Explicit social policies in these contexts were limited, with low levels of public spending on welfare or social security, a limited role for the state, and families and markets providing the majority of social protection and services (UNRISD 2010; Cook and Kwon 2008). However, despite low expenditures, governments invested significantly in human capital and pursued policies that maintained low initial levels of inequality.

As mentioned in *The Regional Context: Aging, Poverty, and Social Protection in Asia* above, in some of the economies of South and Southeast Asia, the Asian financial crisis of 1997–1998 led to more comprehensive social policy reforms, in particular with regard to social protection (an atypical "benefit of crisis" outcome that can be related to greater fiscal and political space in East Asia).

This had relevance beyond crisis-hit economies, with increasing evidence particularly from low-income countries in South Asia demonstrating that social protection interventions do not only substitute for temporary income losses, but can also tackle the structural causes of persistent low incomes (Barrientos 2010). Changing international discourses (external reform drivers in Table 1.1) are thus playing some role in reshaping social protection systems in the region, although in distinct ways relating to domestic conditions.

Domestic Variation in Economic Systems

This provides another key institutional factor shaping policy choices (a contextual factor in Figure 1.1). Across Asia, a number of countries have experienced transitions from socialism over the past 3 decades. Such countries were faced with the dual challenge of dismantling the institutions of a planned economy, often involving generous state welfare provisions (including pensions) to significant population groups—particularly government officials and urban workers. This was true in the PRC and Viet Nam, where the dismantling of state provision left many urban workers unprotected (the rural population had always been excluded from such benefits), as well as in countries of the former Soviet Union where the collapse in the economy and provisions was often more dramatic, leading to declining coverage and rising pension deficits.

The PRC, having faced a major transformation of its state enterprise sector, is characterized by high growth and inequality. However, extensive policy initiatives are now under way in an effort to move toward a more inclusive development model, with a strong emphasis on social insurance programs (Cook and Lam 2011).

In other former socialist countries, a larger part of the population is covered by social services and cash transfers than might be expected from their income level (Mongolia and Viet Nam), but informal provisioning and intrafamily transfers such as remittances still play a primary role in social protection.

In the more developed economies in the region such as Japan; the Republic of Korea; and Taipei,China, welfare state expansion has been possible against a backdrop of employment-intensive industrialization that has been conducive to both expanded coverage of contributory social security systems and tax-financed benefits for vulnerable and excluded groups (following the model of welfare state expansion in Western industrialized countries, as illustrated in *An Analytical Framework: Understanding Policy Reform* above).

The more market-oriented economies of Hong Kong, China; Malaysia; and Singapore center their social protection strategies on national provident funds complemented by residual safety nets for the poor, keeping public social expenditure low and emphasizing individual responsibility for social protection.

Hong Kong, China stands out in this group as having the most generous noncontributory pension scheme based on a requirement of age and residence (the normal old-age allowance) as well as a means- and asset-tested social pension (Annex).

Among the low-income countries in the region, or those with high levels of poverty, some (such as Bangladesh and Nepal) are now starting to pursue ambitious plans to combat poverty and extend social rights, albeit constrained by financial resources. India's welfare programs are also grounded in a strong rights-based approach. The economies of these countries are dominated by largely low-productivity agricultural and services sectors as well as high degrees of informality, making extension of contributory social insurance a difficult task. In some cases (such as Bangladesh), NGOs play a significant role in poverty reduction programs. By contrast, other countries in the region with higher growth and greater fiscal space still invest relatively little in social protection programs or display high levels of fragmentation in welfare provisions (such as India, Indonesia, Pakistan, and the Philippines) though all are experimenting with various reforms. For many low-income countries, such as Cambodia and the Lao PDR, the financial, administrative, and governance challenges to providing even basic social protection to the population are huge.

Political Regime and Governance Capacities

As seen, the analysis of political institutions and processes that transform ideas and concepts into budgets, programs, and eventually social outcomes is another critical factor for understanding the potential and constraints associated with social welfare programs, social protection, and social pensions in developing countries.

Variables noted in the analytical framework (Figure 1.1 and Table 1.1) include the political regime (broadly speaking) as well as formal political institutions, processes, and capacities. Clearly, these vary significantly among countries across the region. A number of countries have moved from authoritarian to democratic regimes during a period when welfare states were expanded. As in Europe (Gough 2005; *An Analytical Framework: Understanding Policy Reform* above), democracy has not been a precondition for more inclusive policies, which were often initiated under authoritarian rule. However, where transitions occurred (such as the Republic of Korea and Taipei,China), political and civil society alliances emerged that supported and consolidated the directions of welfare reform (Kwon 2005; UNRISD 2010; Gough 2005). Other countries show signs of welfare developmentalism in terms of their expanding social policies under authoritarian regimes (including the PRC and Viet Nam), while other post-socialist countries have been less developmental, in some cases moving to private pension systems in an effort to reduce fiscal costs and stimulate financial markets (Chapter 5). In some countries, we see signs of populism

(Thailand) or a close relationship between electoral politics and welfare programs (Nepal).

Another feature that differentiates countries across the region is governance and technical capacities. Redistributive welfare policies, complex mechanisms of targeting, or the administration of funded schemes all require a high level of institutional capacity. This exists in the more developed economies of the region or those with relatively strong developmental governments, but is very weak in others. In the latter, limited capacity to administer complex programs is often accompanied by high levels of corruption or weak mechanisms for monitoring and accountability, or for recourse from society (Chapters 3 and 8). The acceptable role of civil society or political coalitions in support of policies for poverty reduction or inclusion, and in monitoring, transparency, and accountability of interventions, also varies by political regime.

Problem Analysis and Reform Strategy: When Are Social Pensions Prioritized?

Problem analysis of welfare needs and demands of the elderly population is a precondition for placing social pensions on political agendas and eventually prioritizing social pensions as part of social protection or poverty reduction strategies (Figure 1.1).

As discussed in *The Regional Context: Aging, Poverty, and Social Protection in Asia* above, the region faces significant variation in welfare or social protection needs, and different countries are at markedly different stages in their demographic transitions. Thus, not all countries place priority on addressing aging issues through pensions. While elderly support (both financial and other) for a large share of the population has become a pressing issue for the rapidly aging East Asian economies, in many low-income economies, populations are still young. In the former, pension systems may be the target of reform to address issues of their long-term financial sustainability.

By contrast, in the countries with a young age structure, the more prominent issue is the extreme vulnerability of the elderly poor. This is more usually addressed by social assistance programs, either means-tested to all the population (thus in theory including the elderly), or categorically targeted toward the elderly. Including the elderly in general social assistance programs raises the likelihood of their exclusion, given age-specific constraints, or the possibility that resources go directly to households and do not benefit elderly members. Furthermore, the nature of conditions in the increasingly popular conditional cash transfer programs generally excludes the elderly. Categorical targeting through social pensions has numerous advantages. As illustrated by the case of Nepal, social pensions can also serve wider political objectives of nation building or creating social cohesion and pacts around welfare programs. Although this goal may also be possible with other broad-based social programs (such as child benefits), the fact that aging is an issue that affects everyone appears to give wide political acceptability to social pension schemes.

A number of factors have fertilized reform debates on pension systems in Asia, including, for example, studies on current pension programs, demographic trends, future fiscal costs, coverage gaps, and poverty rates among the elderly. Apart from the preparation of a well-founded problem analysis and recommendations from experts, other important elements of successful reform strategies are evident in different countries, including the introduction of pilot programs leading to their subsequent expansion (examples are Bangladesh, the PRC, Nepal, Thailand, and Viet Nam); strong leadership and commitment to social pensions at the highest political level (Bangladesh, the PRC, Nepal, and Thailand); anchoring of social pensions into national development plans or in the constitution (Bangladesh and Nepal); reform bundling, for example by linking social pension reform to poverty reduction strategies or reforms of the contributory pension scheme (see below); and reform timing, for example, during election campaigns (Nepal and Thailand). Alliances with civil society organizations and advocacy groups were constructed in the more developed economies (such as the Republic of Korea and Taipei,China) but also in Bangladesh.

Social Pension Reform: Relevant Actors

Actor analysis has proven to be an important ingredient of the literature on the political economy of welfare state development and the political economy of policy reform, as summarized in *An Analytical Framework: Understanding Policy Reform* above. Relevant actors can be divided into internal actors such as the executive, parliament, implementing agencies, civil society organizations and interest groups, experts and committees, and media; and external actors such as donors, international financial institutions, international organizations, and international NGOs (Figure 1.1, Table 1.1, and Annex). In our case studies, government officials (prime ministers and presidents) have often pushed for implementation of social pensions (Bangladesh, Nepal, and Thailand), sometimes supported by associations or national committees for the elderly (Bangladesh and Thailand). Domestic civil society organizations were important in the context of welfare state expansion during the democratic transition in the Republic of Korea and Taipei,China. External actors are of some importance in the poorer countries of the region (such as Cambodia and the Lao PDR) and in the transition countries where major reforms of contributory pension systems had political priority due to fiscal pressures and declining coverage rates. In Kazakhstan, for example, pension privatization was supported by the World Bank, the ADB, and the United States Agency for International Development (USAID). International civil society or development agencies may also play a role in providing technical assistance or in advocacy in countries considering reform (UNFPA, for example, conducted studies in Viet Nam).

Variety of Approaches and Outcomes

The diversity of conditions and actors found across the region not surprisingly translates into significant variation in approaches to social protection and the nature of provision. Across these countries, as noted above, there have been markedly different patterns of growth and liberalization, different degrees of exposure to economic or financial shocks, and different degrees or types of influence of domestic civil society or of the international/donor community and ideas. The presence and role of the international development community across the region is also highly variable, with a stronger presence and influence in the lower income countries and in some transition countries (such as Cambodia and the Lao PDR, and in Central Asia). A common agenda or set of instruments around social protection or pensions, whether from regional or international experience, has inevitably been slow to emerge.

We may be able, however, to identify some emerging convergence toward a combination of older formal social security schemes covering a minority of the population, an expansion of social insurance, and a rationalization of multiple targeted social assistance schemes into large, cash transfer programs. Led by the more developed East Asian economies, some economies at varying levels of income and economic development are expanding their social protection arrangements toward more universal, integrated systems. Social pensions are rarely an early priority in this process, but when introduced are usually linked to pension reforms or poverty reduction strategies (as hypothesized earlier).

There is a gap in studies on analysis of the actors and processes of social pension reform in Asia. While this volume moves some way to fill it, further research is needed to deepen our understanding of these variables and their impact on reform outcomes.

The experiences of some of the more developed East Asian economies are potentially informative as examples of alternative development paths. Their different paths to expanding welfare provisions (Box 1.3) suggest a variety of options and possibly lessons, but also demonstrate that policy choices are historically and institutionally contingent. The examples of the Republic of Korea and Taipei,China show that, in a context of sufficiently formalized labor markets, extension of formal social insurance is possible. While these achievements were initiated under authoritarian regimes, it is worth noting that the expansion of social protection was closely linked to labor mobilization and, ultimately, democratic transition. Indeed, new political and civil society actors have facilitated the expansion of noncontributory programs for old age, poverty, and unemployment, moving these two Asian emerging markets toward a more socially inclusive welfare model.

Box 1.3 The East Asian Experience in Pension Reform

Republic of Korea

This country introduced earnings-related social insurance programs in the 1960s under authoritarian rule. By the late 1990s, during the period of democratic transition, reforms in health, pension, and unemployment insurance programs, as well as the introduction of a Minimum Living Standard Guarantee, increased the coverage and equity of the social protection system.

Driven by demands from labor unions and civil society organizations, multiple health insurance funds were merged into a single integrated public scheme at the end of the 1990s by the reformist government led by President Kim Dae-Jung. The Minimum Living Standard Guarantee scheme and labor insurance reforms were introduced in the aftermath of the Asian financial crisis of 1997–1998. The former established a basic living standard as a civil right and adjusted benefits to a new poverty line, reaching 1.6 million people (3% of the population) in 2009 (Government of the Republic of Korea 2011). The latter provided cash benefits, job training, and small loans to unemployed temporary workers. Finally, universal coverage for old-age security (including farmers and the self-employed, but exempting the special regimes for civil servants, the military, and private school teachers) was achieved after incorporating the large group of urban self-employed in 1999 (UNRISD 2010).

Taipei,China

In line with the sequenced development of social insurance typical of corporatist welfare models, Taipei,China started in the 1950s by providing social insurance to strategic groups, such as workers in state-owned enterprises, key private industries, the civil service, the military, and teachers. Coverage of social protection schemes remained incomplete until the 1990s. As in the Republic of Korea, the push for social sector reform occurred in a context of industrial restructuring, rising unemployment rates, and democratic transition. The first universal program, National Health Insurance, was introduced in 1995 with the government contributing part of the funding. The pension system by contrast remains fragmented. Problems include a lack of annuity payments (payments are generally lump-sum except for civil servants, who receive lifelong pensions) and noncompliance of private employers with regard to occupational pensions. This has resulted in low coverage levels, with 38% of men and 69% of women over age 65 relying on their children for support. However, different types of tax-financed social pensions have been established for poor senior citizens, farmers, and war veterans (UNRISD 2010).

Hong Kong, China and Singapore

A contrasting example is those economies in the region that have relied on a market model of welfare provision, particularly through provident funds, reflecting policy choices under different political and historical conditions (Cook and Kwon 2008). Although Hong Kong, China and Singapore share features of welfare developmentalism and Confucian familialism with the Republic of Korea and Taipei,China, they stand in direct contrast to these countries in terms of their social policies. Housing policy was a major pillar of welfare, with defined-contribution provident funds as the main instrument.

Box 1.3 Continued

The response of Hong Kong, China and Singapore to the Asian crisis differed from the Republic of Korea and Taipei,China: they left the structure of their welfare states intact and, rather than reforming social policy institutions, attempted to reduce social expenditures by squeezing expenditures on existing programs. Kwon (2005) has argued that this response reflected the absence of pressure to readjust economies which, unlike those of the Republic of Korea and Taipei,China, were already open and highly flexible. In the absence of structural reform, there was little need to do more than fine-tune the social welfare system.

Despite their relative economic stability, both economies may, however, face severe challenges posed by aging populations to their social welfare systems. In Hong Kong, China, most elderly will retire without pensions or savings given the recent introduction of a Mandatory Provident Fund in 2000. In Singapore, most provident fund contributions are used for housing with limited funds for retirement. Aging may thus require these two economies to rethink their approaches toward social protection.

Malaysia

This country has adopted a policy regime that privileges economic development and emphasizes a strong role for the family in social protection. An Employees Provident Fund (EPF), introduced in 1951, forms the main program of the welfare state. There is a separate pension scheme for civil service and military personnel. Social services are regarded as a family responsibility and state provision remains underdeveloped.

EPF = Employees Provident Fund; UNRISD = United Nations Research Institute for Social Development.

Based on the review of existing evidence for the region, the Annex provides an overview of social pension reforms in selected Asian countries for which some data can be found. Following the analytical framework, information is compiled on the main drivers of reform (pension agenda and poverty agenda), key actors, and elements of the political and economic context which have a bearing on social pension reform and reform strategy. The (limited) empirical evidence supports our hypotheses on the main drivers of social pension reform in developing countries: those countries with less developed social security systems place a greater emphasis on issues of poverty reduction than the more advanced economies, where social pensions are more closely associated with reforms of contributory pension insurance.

Conclusions

Social protection has only recently entered public policy debates in many lower-income countries of Asia. Still, it is clear that development strategies and welfare policies will need to be adjusted to better support rapidly aging populations.

Poverty, aging, and changing household structures combined with precarious and informal labor markets even in many of the more advanced countries call for stronger and better integrated social protection systems. It can therefore be anticipated that pressure for pension reform and demand for social pensions will increase.

While many common variables can be identified as being associated with the introduction of social pensions, the countries reviewed here would suggest that the convergence of factors or particular drivers which lead to such policy choices are often highly context-specific. This is particularly the case in low-income contexts where aging is not yet a pressing policy issue and poverty is high. In these contexts, social assistance programs aimed at other social groups may take priority. Nonetheless, even in such contexts, social pensions do rise on policy agendas. Barrientos (2009) suggests a number of advantages of social pensions in such contexts where poverty is high, inequality among the poor low, and political resistance toward general social assistance or cash transfer programs strong. According to his analysis, social pensions can be attractive for policy makers because there is a clearly defined target group for interventions, it is easier to manage future liabilities, they allow for generational and sectoral (in particular urban–rural) redistribution, they avoid negative effects with regard to labor supply and savings decisions usually attributed to cash transfers schemes, and they deal effectively with poverty in the contexts of increased migration or pandemics such as HIV/AIDS.

Our analysis of selected Asian cases along with lessons from other regions suggests that a clear problem analysis reflecting a consensus of experts and key policy actors within a country can be helpful in moving social pension reform onto the policy agenda. This analysis would include estimates of present and future old-age poverty and demographic trends, fiscal space, state capacity, and coverage and efficiency of existing pension and social protection programs and the wider social protection strategy. External influences and actors, and regional and global commitments such as the Millennium Development Goals, may also contribute to successful promotion of social pension reform, though they appear to have had less impact to date than domestic drivers. This is in contrast to market-oriented pension reforms implemented in the context of structural adjustment programs, although economic crises (such as the Asian crisis and the more recent global economic and financial crisis) and their impact on the well-being of the elderly have played a role in expanding social protections to this group.

We can therefore summarize factors conducive to social pension reform as the following:

- *Clear problem analysis and affordability/feasibility studies*—robust problem analysis through research on existing social protection systems and outcomes for the elderly, including the costs and benefits of different pension pillars and reform options, clear arguments for nonmeasurable benefits for the elderly (participation, status in community etc.), emphasis on beneficial impact on household well-being, and calculation of implicit debt/liabilities of current systems (opportunity costs of nonreform)

- *Reform bundling*—comprehensive reform packages linking contributory and noncontributory pillars, the creation of a long-term strategy (for example, toward a basic citizenship income)
- *Poverty reduction agenda*—clear links with the national poverty agenda (as part of poverty reduction strategy papers, national development plans, etc.)
- *Political support*—a clear political strategy and broad-based coalitions pushing for reforms, leadership at the highest level, and change teams that involve key actors in government

Challenges to further extending social pensions regionally, within a broader expansion of social protection systems, include the following:

- Expanding basic protections to low paid or informal urban workers, migrants, and the rural labor force: absent efforts to design contributory programs, the burden on tax-financed social pensions for this unprotected workforce will be significant.
- Building popular support for the extension of programs and ensuring the representation of the elderly in political decision-making processes will be necessary.
- Designing comprehensive and integrated systems: many social pension systems have demonstrated the strength of universal programs. Social protection requires integrated systems to ensure that all members of society are covered for eventualities including old age. At the same time, an integrated pension system with expanded contributory programs supplemented by a zero pillar will be essential to ensure a growing elderly population is adequately protected. The links with employment and taxation systems thus also need to be considered to ensure sustainable financing mechanisms.

Our conclusions, drawn from comparative and theoretical studies as well as the limited experience currently existing in Asia, need to be tested, both conceptually and empirically, through future research. Further analyses of the challenges facing old-age protection systems in the region, of reform options as well as the political processes and institutions shaping reform outcomes, can make an important contribution in advancing knowledge and improving policies for the elderly and their families in Asia.

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Annex

Overview of Social Pension Reform in Asia

Country/Basic characteristics of social pension scheme	Hypothesis I Social pension reform is part of reform of contributory pension system	Hypothesis II Social pension reform is part of poverty reduction policies
Bangladesh (1998) Old-Age Allowance – targeted social pension – $2.30 per month – age: 62/65 (w/m) – means-tested and cap: 20 social pensions per ward (community selection) – cost: 0.12% of GDP (HelpAge International database/country study) – coverage +65: 32% (country study)	No	Yes (special focus on rights of elderly) – focus on rural poverty
Central Asia/South Caucasus – **Armenia** social pension part of new pension system introduced in 2011: zero pillar for those without 10 years of contribution, 80% of basic pension	Yes **Kyrgyz Republic and Kazakhstan:** Pension reform in 1996/97 (Notional Defined Contribution, Individually Fully Funded [IFF] System), Armenia IFF system in 2011 – parametric reforms: increase retirement age, contribution rates	
Nepal (1994) – old-age allowance scheme – universal – age 75+ (70+ since 2008), Dalits and Karnali residents 60+ – amount: 500 rupees ($7) – 628,000 beneficiaries (2010) – cost: less than 0.4% of GDP (2010)	No	Yes – social protection by government seen as central instrument for tackling poverty

Actors: – internal – external	Political and economic context: – global context – political regime/social policy system/social indicators – fiscal space – crisis – demographic trends	Reform strategy: – problem analysis – change teams – alliances – timing – bundling
– rapid aging – government initiative (Prime Minister) – association of retired public workers (Elderly Welfare Association); National Committee on Ageing – 2006 National Policy on Older People (Government)	– low-income country – 40% of population under national poverty line – HDI: low – welfare regime: residual, low coverage, NGO as service providers	– February 1998, official proposal by Prime Minister to Cabinet, immediate approval, implemented in same year by Ministry of Social Welfare – commitment in preceding 5-year plan before implementation in 1998 (established policy process) – initially targeted to rural population, then expanded – initial coverage 0.4 million; in 2011, 2.25 million
Drivers for privatization in **Kazakhstan**: – pension crisis (deficit 53% of GDP) – emergency law on pension reform – support by the World Bank, ADB, USAID	– transition from socialist system to market economy: privatization, growing unemployment – HDI: Armenia, Kazakhstan, high; Kyrgyz Republic, Mongolia medium – increase in poverty rates after transition to market economy – several authoritarian regimes – pre-transition welfare system universal, post-transition declining coverage, benefit levels, contributions, decreasing public pension expenditure – demographics: aging, declining fertility, rising mortality, migration	No info
– first social pension implemented by Prime Minister in 1994 – expansion in 1999; International Year of the Elderly, in 2008 (election of Constituent Assembly, new constitution) – 2008 World Bank Emergency Peace Support Project – 2009 Social Protection Steering Committee to build integrated system	– low-income country, aid-dependent – HDI: low – 31% population below national poverty line – residual welfare system – post-conflict situation (10-year civil war of Maoists against monarchy, republic since 2006) – demographic aging – different social insurance programs and multiple social assistance	– 8th and 9th government plans – fundamental rights for older people enshrined in 1990 constitution – universalism: avoid costs of targeting – program started as pilot in 1995, administered by Ministry of Education (5 districts), then Home Ministry, currently Ministry of Women, Children and Social Welfare and implementation by Ministry of Local Development – progressive expansion of entitlements (retirement age, benefit level, partly to compensate for inflation) – government assigned priority for financing

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Country/Basic characteristics of social pension scheme	Hypothesis I Social pension reform is part of reform of contributory pension system	Hypothesis II Social pension reform is part of poverty reduction policies
Thailand (1993) – old-age allowance/500 Baht Universal Pension Scheme (April 2009) – started means-tested based on community selection (after reform in 2009, pensions-tested), – 500 baht ($15), beginning 200 baht – retirement age: 60 – fiscal cost: 0.37% of GDP in 2010 (tax-financed, since 2009 with possible participation from local governments) – coverage: 5.65 million (82.2% of target population of aged 60+ without pension income)	Yes – coverage of existing contributory schemes for private and public sector employees deemed too low – existence of community based schemes – after debate on several proposals in December 2009, approval of National Pension Fund Act, creation of contributory pension scheme for informal sector, contribution rate is 100 baht with government contributions. – discussion in Ministry of Finance of contributory system, with subsidies for workers in informal sector – contributory system based on provident funds introduced in 1997 for public employees; pension funds for private sector employees	Yes – aging and poverty rates among elderly deemed problematic
Viet Nam (2000) – retirement age: 90 – pensions-tested – reform 2002: age 85 – benefit: $4.2 – reform in 2010: age 80, benefit $9.5 – funding: central and local government – fiscal cost: 0.05% of GDP	Yes – pension reform in 1995: introduction of PAYG defined benefit scheme (before 1995, noncontributory system for public employees) – new social insurance law in 2007 with expansion of mandatory coverage (but only 20% of elderly covered)	Yes – elderly living alone are beneficiaries of national poverty-targeting programs
Republic of Korea 3 noncontributory schemes for the elderly: 1) Old-age Allowance (1989): elderly 70+ (1993 65+) – top-up income for recipients of Minimum Living Standard Guarantee (MLSG) scheme and those not eligible to MLSG – amount: around $50 – for persons born before 1933 – coverage: in 2007, 611,000, of which 404,000 received simultaneously MLSG 2) Minimum Living Standard Guarantee (2000) – social assistance program – means-tested (household income of recipient and of households with children) – coverage in 2007: 386,160 – benefit level: average $2,439 annually per household	Yes – pension reform in 1999 – extension of coverage to farmers, urban self-employed, special regimes exempted	

Actors: – internal – external	Political and economic context: – global context – political regime/social policy system/social indicators – fiscal space – crisis – demographic trends	Reform strategy: – problem analysis – change teams – alliances – timing – bundling
– reform in 2009: National Elderly Committee, Prime Minister Chair, Cabinet approves proposal/order of Committee on OAA – leadership of Prime Minister, political ideology of social justice – social movements/elderly associations important for new Constitution with inclusion of social rights – ILO recommendations for universal pension	– lower middle income, positive growth performance – HDI: medium – poverty rates of elderly twice as high as rest of population (20.7% as compared to 9.6%, 2006), 42% of elderly women widows – social insurance schemes (in 1999 for private sector) – 2001: universal health scheme, formerly 30 baht scheme (tax-financed since 2006)	– expansion of benefit since 1993 – inclusion of social rights of elderly in Constitution 1997 as result of advocacy of social movements and elderly associations after Asian crisis – targeting mechanism of initial social pension (1993) deemed problematic – more fiscal space – initial funding partly from economic stimulus package in 2009, then switch to general taxation – National Pension Fund (contributory scheme) for informal workers in addition to 500 baht universal pension – move toward more comprehensive welfare-state approach
– Ministry of Labour – UNFPA (studies) – introduction of OAA through decree, reforms by decree	– transition country – low-income, but growing – HDI: medium – 80% of elderly do not receive pension – stratified social protection scheme (privileged war veterans and public servants) – informal protection and remittances important	– extensive studies commissioned by government between late 1990s, early 2000s (lessons from other countries)
– unions, civil society organizations, government	– high-income country – HDI: very high – rapid aging (low fertility, high life expectancy) – late-industrializer with productivist social policy model, trend toward higher inclusion after democratization (universal coverage in health and education, expansion of social protection: 1988 National Pension Scheme) – political regime: presidential republic, transition from authoritarian developmental state to democracy in late 1980s – MLSG scheme – Asian crisis as driver	– alliances with civil society organizations and social movements – timing: expansion of noncontributory benefits after Asian crisis

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Country/Basic characteristics of social pension scheme	Hypothesis I Social pension reform is part of reform of contributory pension system	Hypothesis II Social pension reform is part of poverty reduction policies
Republic of Korea *(continued)* 3) Basic Old-age Pension: – coverage in 2009: 3.5 million (68% of pensioners) – means-tested (income threshold higher than income of lowest 70% elderly household) – benefit: $97 per month per person – fiscal cost: $3.7 billion, 0.4% of GDP		
Taipei,China – several schemes for social pensions (in addition, social assistance and contribution subsidies for National Pension Insurance [targeted at difficult to cover groups] implemented in 2008) 1) Veterans' Living Assistance: $416 per person per year, $514 million expenditure, 86,755 beneficiaries 2) Indigenous Senior Citizens' Welfare Allowance 3) Old Farmers' Allowance 1995: $1.265 billion expenditure, 41% of total social pension spending, $184 per person per month 4) Old-Age Citizens' Welfare Living Allowance: 795,000 beneficiaries, $867 million expenditure, $92 per person per month 5) Senior Citizens Welfare Act (formerly middle-low-income elderly allowance 1993): 123,000 beneficiaries in 2009, 65+, means-tested, $92 per month	Yes – pension system fragmented (social pensions, public employees, mandatory occupational pensions private sector), coverage of contributory schemes not universal (1/3 of men and 2/3 of women rely on family support in old age)	
Malaysia, Singapore, and Hong Kong, China – provident fund models Singapore: Central Provident Fund (CPF), small social assistance programs not specifically targeted on elderly Malaysia: tax-financed noncontributory scheme for civil servants, provident fund for private sector employees – Assistance for the Elderly Programme (Bantuang Oran Tua)	– no recent pension reform	

Actors: – internal – external	Political and economic context: – global context – political regime/social policy system/social indicators – fiscal space – crisis – demographic trends	Reform strategy: – problem analysis – change teams – alliances – timing – bundling
– state as driver – sectoral interests as drivers (farmers, veterans, etc.)	– high-income, high HDI – corporatist welfare policies until 1990s (coverage of strategic groups) – 1990: universal health insurance, 1999 unemployment insurance – economic transition: post-Asian crisis—unemployment, relocation of industry – political regime: – Asian crisis as driver – economic and political transition	– complex reform strategy over long time period – clear problem analysis
	– upper-middle income and high-income countries – HDI: very high to high – less affected by Asian crisis than the Republic of Korea and Taipei,China – less reform pressure (Kwon 2005) – social pensions as residual safety nets – most important schemes in Hong Kong, China	– no recent reform

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Country/Basic characteristics of social pension scheme	Hypothesis I Social pension reform is part of reform of contributory pension system	Hypothesis II Social pension reform is part of poverty reduction policies
Hong Kong, China 1995 introduction of Mandatory Provident Fund Scheme (MPF) – Social Security Allowance (SSA): Normal OAA, ages 65–69, 7-year residence (HK$625), higher allowance age 70+ – Comprehensive SSA: means- and asset-tested, age 60+, benefits HK$2,305–HK$3,930 per month – 1997 reform makes comprehensive SSA portable, pensioners can settle in bordering provinces	– no recent pension reform	
China, People's Republic of (2009) Rural pension program: – voluntary, contributory – basic pension plus personal account – noncontributory only for current elderly 60+ with all family members enrolled in program; – 15 contribution years, age 55 (female) and 60 (male), contribution rates 4%–10% Benefit: $8 per month for basic pension – estimated costs: 2% of public expenditure, 0.18% of GDP (basic pension financed by central and provincial governments) – coverage: planned to cover 100 million rural elderly 60+ by 2020 Previous programs: – five guarantees (5.3 million beneficiaries in 2007) – rural pension insurance scheme (3.9 million pensioners) – coverage of the two programs: 10% of elderly	New pension scheme only noncontributory for the current cohort of rural pensioners, not a social pension	Yes – clear focus on reduction of rural poverty and reduction of urban–rural divide
India (1995) – Indira Gandhi National Old-Age Pension scheme – $1.6, raised to $4 in 2006 and $8.7 in 2007 – financing: central and state governments – means-tested – age: 65+	– debates on reforms of contributory and noncontributory pension schemes; no recent reforms	Yes

ADB = Asian Development Bank, GDP = gross domestic product, HDI = Human Development Index, ILO = International Labour Organization, OAA = old-age allowance, PAYG = pay-as-you-go, UNFPA = United Nations Population Fund, USAID = United States Agency for International Development.

Note: Years in parentheses in the first column refer to introduction of initial scheme.

Sources: Authors' elaboration based on country case studies, Barrientos (2009), HelpAge International (2007b, 2008, 2011), Howells (2011); on People Republic of China: Shen and Williamson (2010); on Malaysia, Singapore, and Hong Kong, China: Pai (2005); on Thailand: Sakunphanit and Suwanrada (2011), chapters 17 and 18 in ILO and UNDP (2011).

Actors: – internal – external	Political and economic context: – global context – political regime/social policy system/social indicators – fiscal space – crisis – demographic trends	Reform strategy: – problem analysis – change teams – alliances – timing – bundling
	– upper-middle income and high-income countries – HDI: very high to high – less affected by Asian crisis than the Republic of Korea and Taipei,China – less reform pressure (Kwon 2005) – social pensions as residual safety nets – most important schemes in Hong Kong, China	– no recent reform
– internal actors: universities involved in feasibility/ impact studies – external actors: HelpAge International	– lower middle-income – HDI: medium – rapid poverty reduction through employment intensive growth (industrialization) – high growth, high inequality (in particular rural–urban) – authoritarian regime – transition country – rapid aging, changing household structures (migration, etc.), higher share of elderly living in rural areas (54% of total population vs. 70% of elderly) – demographic aging, rural poverty, migration patterns and inequalities recognized	– problem analysis: yes – scheme was tested as pilot (e.g., Beijing 2008, with over 1 million elderly living in suburbs), with subsequent impact studies and scaling up
	– lower middle income – HDI: medium – more than 40% living below the World Bank poverty line of $1.25, 90% in informal sector – democratic, highly decentralized – fragmented and underfunded welfare system – high growth, high informality – fiscal space positive	No info

Chapter 2
Social Pensions for the Elderly in Asia: Fiscal Costs and Financing Methods

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Abstract

There is a strong consensus that social pensions can potentially play a significant role in reducing old-age poverty in Asian countries. This chapter examines the determinants of the short- and long-term fiscal costs of social pensions in Asia, and avenues for enhancing fiscal space for financing these pensions. The analysis suggests that in the short and medium term (3–5 years), additional fiscal space equivalent to 1%–1.5% of gross domestic product (GDP) will be needed, and 2%–2.5% in the longer run.

The long-run fiscal costs of social pensions will be influenced by factors such as demographic trends, behavioral responses, political economy, and public aspirations and expectations. The extent of the needed fiscal space can, however, be moderated by better design, implementation, and governance of social pensions, and their coordination with the rest of the pension system.

To enhance fiscal space, generating the requisite reallocation of budgetary expenditure and improving its outcome orientation, as well as obtaining additional revenue from conventional and nonconventional sources, are needed.

The chapter suggests that those Asian countries that find an appropriate balance between development and the fiduciary perspective of fiscal space are more likely to be successful in using social pensions as an important instrument for reducing old-age poverty.

[11] The author thanks Sri Wening Handayani and Babken Babajanian for many constructive comments on an earlier version. The usual caveats apply.

Introduction

The proposition that social policies in general and social protection policies in particular should be integrated into mainstream development policies has been persuasively made by many researchers and organizations that usually approach development from quite different perspectives (UNRISD 2010; ILO 2011a; ILO 2011b; Willmore 2006; Robalino and Holzmann 2009).

This proposition has been further strengthened by the recent global economic crisis, which heightened awareness of income, wealth, gender, and other inequalities. The economic crisis has, however, led to diminished growth prospects, and substantially raised the economic and social costs of pursuing unsustainable budgetary and fiscal policies. The result is greater urgency in addressing fairness and sustainability issues in designing economic and social policies.

Social protection systems are an important component of social policies. Pensions and health care have usually been regarded as the main elements of the social protection system. The primary functions of the pension system are to facilitate consumption smoothing over an individual's lifetime, and to provide insurance, particularly against inflation, longevity, and survivor risks.[12]

Traditionally, a key objective of a pension system as a whole has been to sustain preretirement standards of living throughout retirement.[13] However, a minimum objective of a publicly intermediated pension system—contributory or noncontributory, and based on insurance principles or not—should be to reduce poverty in old age. It is this minimum objective that has increasingly been the focus of public policies relating to pensions.

It is in the above context that this chapter examines the justification, affordability, and sustainability of social pensions in Asia. Social pensions are a component of noncontributory schemes that provide transfer payments financed from the government budget for older people with the aim of reducing poverty. Thus they are not pensions in a technical sense. Following the ILO (2011a, 2011b),

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12 Inflation risk concerns the extent to which nominal pension benefits adjust to inflation rates during the retirement period. If nominal pensions increase at a rate lower than the inflation rate, the real value of pensions will decline, reducing the consumption power of the elderly. Addressing the inflation risk is, however, expensive, particularly if adjustment is based on growth of nominal wages. The longevity risk concerns the probability that an elderly person may live longer than the resources available for retirement. In a social insurance scheme, this is addressed by the promise of pension benefits for life. Survivor risk concerns the contingency that the main pension beneficiary may leave dependents when he or she dies.

13 Ideally what is needed in old age is not money income, but a bundle of goods and services. This bundle can be obtained from both market and nonmarket sources. Public policies have, however, traditionally focused on provision of monetary income.

the chapter focuses not just on fiscal costs and their affordability under existing fiscal systems, but on how to generate the fiscal space required for financing social pensions. This may require generating revenue from both conventional and nonconventional sources (Asher 2005).

As noncontributory budget transfers, social pensions increase the income of recipients, and therefore their purchasing power. This leaves relative prices of goods and services that recipients face unchanged. They therefore have only an income effect. Such a subsidy is justified when the objective of public policy is to simply raise incomes of the covered population. As social pensions are targeted at the elderly, recipients' incentives to work may not be a major issue, though under some circumstances, there may be disincentive effects on work effort by other family members with whom an elderly person is residing (Barrientos 2009; Palacios and Sluchynsky 2006).

Nevertheless, a broad consensus exists in the literature that there is a strong justification for inclusion of social pensions as one of the components of a broader social protection system. This is reflected by agreement among United Nations (UN) agencies such as the ILO (2011b) and UNRISD (2010), nongovernment organizations such as HelpAge International, and Bretton Woods institutions such as the World Bank. Social pensions constitute the "zero tier" of the five-tier pension system framework of the World Bank (Holzmann and Hinz 2005).

The primary reason for such inclusion is the prevalence of a large informal sector, with intermittent and non-enduring employer–employee relationships in the labor market in many low- and middle-income countries. This has made it difficult to extend contributory pension schemes, or civil service and military pension schemes, to a significant proportion of the labor force.

Thus, globally it has been estimated that about 25% of the labor force is accruing pension rights, and this share is positively correlated with income (Forteza, Lucchetti, and Pallares-Miralles 2009). Also globally, close to 80% of the elderly on average have no access to pension benefits (ILO 2011a). There is also a gender gap in pension coverage with women not only having lower coverage but also lower pension benefits (ILO 2011b).

A similar situation is prevalent in many Asian countries (Asher 2009). The traditional family or community support on which Asian countries have relied is weakening for a variety of factors, including industrialization, urbanization, and domestic and international migration.

Extending coverage of pension systems to those without access to formal pension benefits has therefore become a major priority for governments, including those in Asia (van Ginneken 2008; Asher 2009). While efforts to expand coverage through reform of formal pension systems and of labor markets should continue, social pensions can play an important role in extending pension coverage, and reduce poverty among the elderly.[14] In some countries such as the People's Republic of China (PRC) and Malaysia, social pensions could assist in increasing the share of domestic consumption in GDP, helping to rebalance the economy. Since there is a broad consensus on the need for social pensions, justification for social pensions is not further emphasized in this chapter.

Social pensions are usually fully financed from the government budgetary sources. These may be termed direct fiscal costs. However, indirect fiscal costs in the form of contingent liabilities could also arise if requisite budgetary resources are not set aside to meet future liabilities of current social pension benefit promises.[15]

Selected Asian Countries' Financing Experience

This section provides an overview of design features, fiscal costs, financing methods, and other aspects of social pension schemes in seven Asian countries. The selection criteria for the countries include the existence of social pensions, availability of quality data, and range of per capita income levels (low-income countries such as Bangladesh and Nepal; middle-income countries such as India, the Philippines, Thailand, and Viet Nam; and a high-income country such as the Republic of Korea). As social pensions are only one of the components (or tiers) of a complete pension system, the analysis is by necessity only partial.

On the basis of data on selected characteristics of social pension schemes in seven Asian countries provided in Table 2.1, the following observations may be made.

First, Asian countries at all income levels—low, medium, and high—have instituted social pension schemes, though their design features and coverage

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[14] In some cases, minimum pension guarantees and co-contributions by the governments toward pensions for informal sector workers may play a supplementary role. They are discussed in this paper wherever relevant.

[15] Contingent liabilities have become increasingly important as they have the potential to impair fiscal sustainability and create surprises for management of fiscal policy. They may be defined as obligations whose timing and magnitude depend on the occurrence of some uncertain future event outside the control of the government (Cebotari 2008). This definition focuses on the events outside government control. It therefore differs from the definition of the IMF's 2001 Government Finance Statistics, which regards net present value of the accrued obligations of social security scheme also as contingent liabilities. Cebotari (2008) regards these as implicit (not contingent) government liabilities.

Table 2.1 Selected Characteristics of Social Pension Schemes in Asia, Selected Countries

Country	Name of Social Pension Scheme	Social Pension as % of Average per Capita Income	Targeting Method	Age Eligibility (years)	% of People Aged 60 and Above Receiving Social Pension	Cost of Social Pension Scheme (% of GDP)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Bangladesh	Old-Age Allowance	8.3	Means-tested	65	31	0.12
India	Indira Gandhi National Old-Age Pension Scheme	6.8	Means-tested	60	12	0.05
Korea, Republic of	Basic Old-Age Pension Scheme	4.7	Means-tested	65	68	N.A.
Nepal	Old-Age Allowance	17.3	Universal but pensions-tested	70 (60 in some areas)	80	0.35
Philippines	Expanded Senior Citizens Act of 2010	N.A.	Means-tested	60	N.A.	0.10
Thailand	Old-Age Allowance	4.5	Universal but pensions-tested	60	73	0.33
Viet Nam	Social Pension	6.5	Pensions-tested	80 (60 for some categories)	10	0.05

GDP = gross domestic product, N.A. = data not available.

Note: Cost of social pension as share of GDP is for latest year for which data are available (2007–2010).

Sources: Various countries' official websites; Kim (2011); Reyes (2011); http://www.Pension-watch.net/country-fact-file by HelpAge International, accessed 4 January 2012.

rates vary. This suggests that social pensions have relevance for Asian countries at all incomes. (The social pension benefits in the sample countries are defined in absolute terms rather than in relation to median income of individuals or households. The latter is the international norm, particularly in upper-middle-income and high-income countries.)

Second, the social pension benefits as a proportion of per capita income—from 4.5% in Thailand to 17.3% in Nepal—are insufficient to provide poverty-level income. These low benefits suggest that the Asian countries have taken a gradualist approach to social pensions. As incomes rise, there will be a strong case to increase the benefit levels if social pensions are to play a significant role.

Third, the targeting method is primarily means-tested, though Nepal and Thailand have, in principle, universal coverage, albeit with some restrictions on eligibility. In some countries such as Thailand and Viet Nam, there is a pension test, that is, those receiving a pension from any other source are ineligible for a social pension. The rationale is to provide social pensions to only those without other income support. But this is an imperfect proxy measure as some with above-poverty levels income may not belong to a formal pension system. Moreover, a typical Asian country is likely to have several schemes such as those involving food, housing, energy, and education designed to benefit low-income individuals and households.[16] It is the cumulative impact on household income and consumption basket of all government schemes combined and their total fiscal costs that are relevant for public policies, and not just social pensions. Such an analysis is, however, beyond the scope of this chapter.

Fourth, the age of eligibility of social pensions varies from 60 in India, the Philippines, and Thailand to 80 in Viet Nam (60 in some cases). Prospects for improving longevity, particularly at age 60 (Standard and Poor's 2010), suggest that eligibility for social pensions at age 60 may be on the low side. This is particularly the case if there is no pension test. The eligible age of 80 is, though, high. Perhaps age 70 may be more appropriate as by that age, many of the elderly may have spent much of their retirement savings, and after that age, work disincentives for recipients are likely to be minimal, provided the benefit levels are modest.

Fifth, the coverage of social pensions for those above 60 also varies. It is particularly low in Viet Nam and India, and is relatively high in the Republic of Korea, Nepal, and Thailand. This suggests that low- and middle-income countries can also attain high coverage if they make appropriate policy choices.

Sixth, the fiscal cost of social pension schemes ranges from 0.5% of GDP in India and Viet Nam to 0.35% in Nepal. This is quite low, though, as noted, costs of other schemes to benefit low-income households need to be taken into account. The financing is from the general budget, but particular tax instruments cannot be identified.[17] Avenues for creating fiscal space, either through tax reforms or through nonconventional revenue sources, do not appear to have been explored. This is probably because the current fiscal

[16] Some Asian countries, such as India, have introduced on a voluntary basis co-contributory schemes, targeted at economically active low-income individuals. The aim is to help them generate financial savings through co-contributions by the government. The accumulated savings are then permitted to be used in old age. The government's co-contribution is capped to reduce fiscal cost, and to better target low-income workers.

[17] In analyzing any government expenditure program, economic efficiency and equity impacts of financing instruments should be included. In practice, such comprehensive analysis is rarely undertaken.

costs of social pensions are relatively small. As they increase, exploration of such sources will be necessary.

The fiscal costs in Table 2.1 involve only the benefits paid. They do not include administrative and compliance costs.[18] Usually, administrative costs are assumed to be about 5% of total benefits (HelpAge International 2009). The compliance costs of the recipients have also not been taken into account in the cost estimates. Such estimates have also not been attempted in the literature. Even if administrative and compliance costs were taken into account, the existing social pensions appear fiscally affordable.

In the PRC, social pensions financed from the budget are provided to persons with severely strained circumstances, which results in less than minimum livelihood (Leckie 2011). Benefits vary by locality, as local governments are responsible for them. About 30 million people are covered but this may decline nationally as pension benefits from other tiers improve, though individual cities, such as Beijing and Shanghai, may find more liberal pensions a useful instrument of social protection (Leckie 2011).

The above overview suggests that given low level of benefits and coverage, existing social pensions taken as stand-alone programs are fiscally affordable for Asia. The fiscal cost in all countries (for which data are available) is less than 0.5% of GDP (Table 2.3). The share of tax revenue in GDP in five of the seven countries varies from 9% to 24%. Thus, spending on social pensions, as a stand-alone, constitutes a small share of government expenditure. But, as discussed in the following section, this may not remain the case if the objective of using social pensions for reducing poverty is pursued more energetically in Asia.

Determinants of Fiscal Costs

This section discusses the main factors affecting the fiscal costs of social pensions, and hence the financing options that may help enhance Asian countries' fiscal space. It also reviews some of the estimates of fiscal costs of social pensions in Asia.

Rights-Based versus Discretionary Approaches

Although there is wide consensus on the need for social pensions, the literature shows two broad approaches for instituting them.

[18] Administration and compliance cost estimates represent a fruitful area for research as any savings in them can be beneficial to the recipients, help enhance fiscal capacity, and benefit the economy as a whole.

The first—the rights-based approach, with citizenship as the criterion for eligibility—is advocated by such organizations as the International Labour Organization (ILO), HelpAge International, and the United Nations Research Institute for Social Development (UNRISD).

The second—discretionary—approach stresses flexibility and reversibility. It gives great weight to the possibility that social pensions and other budget allocations based on rights could worsen structural fiscal deficits, as such allocations are invariant to the business cycle.

The World Bank and the International Monetary Fund (IMF) recognize the importance of the social perspective in budgetary allocations, but suggest that establishing social pensions within the overall context of fiscal, financial, and macroeconomic stability would be desirable (Heller 2005; Holzmann and Hinz 2005; Dethier, Pestieau, and Ali 2010). The discretionary approach also emphasizes the need to calibrate the scope of social pensions with the capacity of the governments to deliver public services, including social pensions, reasonably effectively; and notes the potential for fiscal risks from moral hazard and other sources in the design and delivery of social pensions.[19]

The political economy of a country could also affect social pension costs over time. A rights-based approach is particularly susceptible to populist policies for electoral gain, which could greatly raise fiscal costs, potentially creating sustainability challenges.[20] Such an outcome is not conducive to poverty reduction nor the growth-inducing impacts of social pensions.

Advocates of both approaches agree, however, on the need for good design, governance, and effective delivery. A statement in a recent ILO report (2011b, 42) is likely to command broad consensus: "The key challenges for national social security schemes […] – coverage, economic and social adequacy and financing – are all critically influenced by governance. With good governance, schemes can be set up, resources can be allocated (even if modest in size at first), and a minimum level of adequacy can be ascertained."

The above suggests that implications for fiscal costs and fiscal policies over time and the financing requirements are thus different, depending on the approach adopted. While there can be no generalized recommendation

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19 Fiscal risks may be defined as "… the possibility of deviations of fiscal outcomes from what was expected at the time of the budget or other forecast." The main sources of fiscal risks identified by the source of this quotation, Cebotari et al. (2009), are deviations of economic growth from the projected growth, terms-of-trade shocks, natural and humanmade disasters, implicit and explicit guarantees turning into calls on the budget, and unexpected legal claims on the state.

20 Such challenges could also arise when other than rights-based approaches to social sector expenditure are used. The recent global crisis underscored the necessity to fund on a long-term basis pensions and other promises in countries at all income levels.

concerning which approach would be appropriate for a particular country, given the heightened importance of managing perceptions of fiscal sustainability of a country in the current global economic environment, a more cautious approach is warranted. Even if a rights-based approach is adopted, its implementation could be undertaken gradually, in view of broader macroeconomic and other concerns.

Targeted (Selective) or Universal (Categorical) Social Pensions

Under both rights-based and discretionary approaches, social pensions can be targeted (provided selectively), or can be given unconditionally—often referred to as universal or categorical social pensions. Under the targeted approach, state-provided benefits vary according to individual circumstances, that is, they are means-tested.

There are several instruments for targeting, even if nominally the social pensions are universal. Thus, requiring social pension benefits to be declared as a taxable income would differentiate between the majority who are not subjected to income tax in low- and middle-income countries, and those who are income tax payers. This would also ameliorate the fiscal cost of the social pension scheme, albeit to a small extent.

To illustrate the key fiscal analytical issue on targeted social pensions and universal social pensions, let us consider the following hypothetical example. Three individuals, L, M, and H, earn $10, $50, and $100, respectively. Suppose further that the objective of the social pension is to assure minimum income support of $15 for all three. Under a targeted program, income tax at 3.3% will be levied only on M and H to generate the required revenue of $5 from a tax base of $150. Thus, M will pay $1.67 and H will pay $3.33, for a total of $5, which will then be distributed to L as a social pension.

Under a universal program, all three receive the social pension and pay the same rate of income tax. In order to leave L with an income of $15, enough social pension needs to be provided for L to be left with $15 after paying the income tax. The logic of the universal program would imply that M and H should also receive the same amount of social pension as L. If these assumptions are to be satisfied, on an income tax base of $160 (the combined income of the three individuals), revenue of $18.46 or an income tax rate of 11.54% would be required. Therefore, L would pay $1.15 and, after receiving the social pension of $6.15, would be left with $15 as the program requires. M would pay $5.77, while receiving $6.15, a net gain of $0.38. H would pay $11.54, and, after receiving $6.15, suffers a net loss of $5.38. Thus, a net benefit from social pensions also accrues to M (whose income is well above the minimum $15 mandated by the program). Under a universal program, the income tax rate will be 11.54%, compared with 3.33% under a targeted social pensions program.

The number of beneficiaries of social pensions also increases from one to two in the universal program.

Although the example is based on ideal conditions where the income of beneficiaries is known, the tax levied can be fully collected, and there are no administrative costs, it does bring out important analytical issues regarding universal and targeted social pensions. The example suggests that under these assumptions, economic distortions that are positively related to the tax rate, and revenue that needs to be generated to finance social pensions, are larger under a universal than a targeted social pension program.

The above example assumes that social pension delivery- and record-keeping systems are efficient, and that targeted social pensions are delivered without errors of exclusion (those eligible for social pensions not participating or denied access) and without errors of inclusion (those ineligible receiving social pensions). If these assumptions vary significantly from prevailing conditions in a country, the choice between universal and targeting approaches becomes harder, since it depends on empirical estimates of the factors applicable to a given scheme, such as social pensions, including the probability that delivery systems can be made more efficient, and that errors of exclusion and inclusion can be greatly reduced.

Some researchers have argued that the cost of administering targeted social assistance or social pension schemes could be higher than those for universal pensions because of challenges in identifying the intended beneficiaries and in ensuring efficiency in delivering the specified benefits (Jhabvala and Standing 2010).[21] They also draw attention to moral hazard, which can create disincentives to be classified as nonpoor as this would risk losing benefit entitlements in targeted programs.

The exclusion error from low take-up rates of social pensions could stem from several reasons. First, the targeted beneficiaries may be unaware of the program. Second, there may be a social cost associated with accessing its benefits—generally a stigma from declaring oneself eligible for it (Grosh et al. 2008). Third, high transaction costs may discourage intended beneficiaries from taking part (transaction costs are the time and money costs of an individual when accessing program benefits; the utilization rate is therefore an important indicator of how much the program provides incentives to intended beneficiaries to take part).

[21] Jhabvala and Standing (2010) are particularly critical of the current arrangements in India where households below the poverty line are identified, and then given food, health care, and other related benefits. They correctly argue that the process of identifying the beneficiaries results in large errors of inclusion and exclusion.

The inclusion error in a targeted social pension (and in social assistance programs that cover not just the elderly but all age groups that are intended beneficiaries),[22] is likely to contribute to the regressive nature of a targeted program (Jha and Ramaswami 2010). Another study of 122 targeted social assistance programs in 48 countries found that while the median performance was good, targeting was regressive in a quarter of cases. This implies that a random (rather than targeted) allocation of resources would have provided a greater share of benefits to the poor (Grosh et al. 2008).

It is generally agreed that inclusion errors should be minimized. The debate is usually around how this should be done because minimizing inclusion error can be costly (administratively) and often leads to greater exclusion error. Hence, due to such a trade-off, optimal targeting depends on how much weight the government puts on inclusion relative to exclusion error (Jha and Ramaswami 2010).

Robalino and Holzmann (2009) argue that the most effective type of targeting system is proxy means testing. This is a method to ascertain the economic status of a household based on observable characteristics such as location and quality of dwelling, ownership of durable goods, household demographic structure, education, and, possibly, occupation of adult members.

The fiscal cost and government budget constraints play a role in the debate between those who advocate universal or categorical pensions and those who prefer selectivity or targeting. As Grosh et al. (2008) argue, the largest source in exclusion error is the insufficient budget for social pension programs, which acts as an effective constraint in making them universal. Further, insufficient policy attention paid to outreach and small administrative budgets tend to restrict outreach. To cope with insufficient funding, program administrators may also classify eligible applicants as ineligible (Grosh et al. 2008).

This last point is important because it is likely to be common in many Asian countries (Robalino and Holzmann 2009). As an example, Giang and Pfau (2009) argue that it was fiscal stringency that led to restricting social pension benefits initially to those above 80 years of age in Viet Nam. Similarly in Nepal, the initial age for social pensions was 70 but this has been lowered.

The main policy implication is that fiscal constraints need to be managed through design and service delivery choices, even as initiatives to enhance fiscal space are undertaken.

[22] As social assistance programs cover individuals of all ages and not just the elderly, political support for social assistance programs is likely to be greater than for social pensions.

Design and Fiscal Costs

Design features that affect the fiscal costs of social pensions are benefit level, number of eligible beneficiaries, and administration and compliance costs, as well as their interactions. As discussed below, the short-run impact of design features of social pensions will differ considerably from the long-run impact. This suggests that the relationship between design features and fiscal costs should be viewed in a dynamic context (over time) rather than a static context (at a given point in time).

In countries where the elderly poor also derive retirement income from contributory, social insurance, social assistance, and other programs, fiscal costs are also affected by the interactions with these other sources of retirement income. Thus, increasing coverage and benefit levels in other components of the pension system will reduce the need for social pensions, and vice versa.

As most low- and middle-income Asian countries are expected to age at relatively low incomes (Standard and Poor's 2010; Lee and Mason 2011), the fiscal costs of social pensions will climb in the longer term. With rising incomes, economic and social aspirations may also increase. In social pension design, this is most likely to be reflected in a shift from reducing absolute poverty to reducing relative poverty as a major objective.

Benefit Level

The benefit should be determined keeping the institutional context, domestic socioeconomic priorities, and degree of support from other pillars of the social security system. Too low a benefit level—as evident in Table 2.1 countries—reduces poverty insufficiently, but keeps the fiscal costs relatively low.

Willmore and Kidd (2008) argue that assuming that the universal pension is large enough to provide an indigent beneficiary with enough income to survive with minimum dignity, the national poverty line may be taken to be the target benefit for deciding the size of pension at the initial stages. They made their argument for Sri Lanka, but it has much wider applicability for other low- and middle-income countries.

Over time, however, it is essential that the benefit is at least periodically adjusted for inflation. Otherwise, its real value will decline, while per capita incomes rise. Even with an inflation adjustment, though, the relative value of the social pension benefit will decline with increases in per capita income, which reflect advances in economy-wide productivity. As inflation adjustments are introduced, and more ambitiously, as the value of social pensions is adjusted with rising per capita income, fiscal costs could shoot up. Such a shift could occur as the population's aspirations and expectations about its standard of living rise. An important indication of such a rise is the shift in policy objectives from reducing absolute income or consumption poverty to relative income or consumption poverty.

Number of Eligible Beneficiaries

This number affects fiscal costs in several ways. First, the eligibility age determines the period that benefits would be paid. An earlier age would imply greater resource costs.

Second, the fiscal costs will increase as the number of elderly (those above 60) in the population increases as a result of declining fertility rates and improving longevity. The number of elderly is projected to rise steeply in Asia (Table 2.2). The numbers for the PRC and India will be so large that there is no precedent globally of managing social pensions for them. Even for other Asian countries, the absolute number of elderly will pose service delivery and fiscal challenges.

Table 2.2 Demographic Trends in Asia, Selected Countries

Area/Country	Total population (million)		Total population aged 60 and above (%)		Population aged 60 and above (million)		Old-age dependency ratio (%)	
	2007	2050	2005	2050	2005	2050	2005	2050
World	6,671.2	9,191.3	10.3	21.8	672.8	2,005.7	11	25
High Income								
Japan	127.9	102.5	26.5	44.2	33.8	44.9	30	74
Korea, Rep. of	48.2	42.3	13.7	42.2	6.6	17.8	13	65
Singapore	4.4	5	12.3	39.8	0.5	2	12	59
Brunei	0.4	0.7	4.7	20.8	0	0.1	5	23
Large Population								
China, People's Republic of	1,328.6	1,408.8	11	31.1	144	437.9	11	39
India	1,103.4	1,592.7	8	21	89.9	329.6	8	21
Middle Income								
Indonesia	231.6	296.9	8.3	24.8	18.9	73.6	8	29
Malaysia	26.6	39.6	6.7	22.2	1.7	8.8	7	25
Philippines	87.9	140.5	6	18.2	5.1	25.5	6	19
Thailand	63.9	67.4	11.3	29.8	7.1	20.1	11	38
Viet Nam	87.4	120	7.6	26.1	6.5	31.3	9	30
Low Income								
Cambodia	13.9	23.8	5.2	16.2	0.7	3.9	5	15
Lao PDR	5.9	10.7	5.4	14.4	0.3	1.5	6	14

Lao PDR = Lao People's Democratic Republic.

Source: Calculated from UNDESA (2009).

As the proportion of the aged increases in the population, the old-age dependency ratio—the ratio of persons aged 60 and older to those aged 15–59 (the economically active population)—will also rise rapidly, and by 2050 will be much higher than the global average in most of the Asian countries. This suggests that the pace of aging in Asia will be quick, giving relatively less time for countries to adjust to a more mature demographic profile. Design and implementation of social pensions in Asia will therefore need to take into account not only the number of elderly, but also the pace of aging.

Third, the number of beneficiaries is also affected by whether the program is universal or targeted. Most countries in Asia have targeted or means-tested social pension schemes and the number of beneficiaries is a function of the parameters of the means test. Eligibility age, longevity trends, and the design of the program thus influence the total number of eligible beneficiaries.

Fourth, as potential beneficiaries become more aware of the social pension scheme, the take-up rate (the ratio of actual to potential beneficiaries) is also likely to increase, thereby increasing fiscal costs. The behavior of this ratio should also therefore be projected for estimating fiscal costs of social pensions.

Administration and Compliance Costs

These are important determinants of the fiscal cost that have not received the requisite attention in the literature. There are two aspects of administration costs. First are the initial capital and other costs of establishing social pension programs. These costs will vary depending on whether the existing government staff and facilities are reorganized for implementing social pensions, or whether a new agency is set up. The former will cost less. Country-specific context and program objectives will govern the choice of an agency for administering social pensions. Second are the administration costs of a social pension program that has already become operational. For such a program, these costs are usually assumed to be 5% of total benefits paid, rather than empirically estimated (HelpAge International 2009).

Compliance costs (which include the costs of errors of inclusion and exclusion) are rarely calculated but they affect total economic resource costs of providing social pensions, and the effectiveness of social pensions. A targeted social pension scheme may have lower budgetary outlays but if it is based on inadequate data, or if delivery systems are inefficient, it may have high compliance costs.

Projections of Fiscal Costs

This subsection summarizes some projections of fiscal costs of social pensions, helping to set a range of fiscal costs and the consequent need for fiscal space.

Table 2.3 Selected Fiscal Indicators and Projections for Social Pensions Programs in Asia, Selected Countries (%)

Country	Cost as Share of GDP[a]	Estimated Cost with Universal Coverage (Share of GDP)	Estimated cost with Universal Coverage and Benefit Level of 25% (Share of GDP)	Estimated Cost as Share of 2008–2010 Average Tax Revenue	Fiscal Deficit as Share of GDP (2008–2010)
Bangladesh	0.12	0.38	1.14	12.9	4.3
India	0.05	0.42	2.04	12.5	7.6
Nepal	0.23	0.23	0.33	2.7	2.5
Thailand	0.30	0.41	2.20	14.2	2.4
Viet Nam	0.05	0.50	1.92	8.1	2.3

GDP = gross domestic product.

[a] Latest year available between 2007 and 2010.

Sources: ADB (2011); author's estimates.

Table 2.3 provides mechanical and static projections of fiscal costs of social pensions, which abstract from behavioral, demographic, and political-economy factors. These should therefore be regarded as being on the low side.[23]

The projections suggest that if there were universal coverage, and benefit levels were 25% of the per capita income in the sample countries in Asia, the cost of social pensions would range from 0.33% of GDP in Nepal to over or around 2% in India, Thailand, and Viet Nam.[24] The cost would range from 2.7% of tax revenue collected in 2008–2010 in Nepal to 14.2% in Thailand.

Such large expenditure for a stand-alone social pension program would help reduce poverty among the elderly, but would require substantial reallocation of government expenditure—fiscal flexibility—and creation of significant additional fiscal space. These measures are needed when existing fiscal deficits in sample countries are moderate to large (Table 2.3 above). The trade-off between reducing poverty and managing fiscal costs is thus evident from such simple projections.

In all projections of the fiscal costs of social pensions, assumptions of economic growth, inflation, and other macroeconomic indicators play a critical role.

[23] An example of how behavioral factors influenced the fiscal cost of a minimum pension guarantee, which has similar impact to social pensions, in the United Kingdom is provided by Disney and Emmerson (2005). In early 2000, the country introduced a minimum income guarantee for low-income households to complement the private pension income of older citizens. One of the unintended results was a large retirement saving disincentive, ultimately leading to much higher entitlement probabilities, thus raising fiscal costs.

[24] The cost projection for Viet Nam is similar to estimates by Giang and Pfau (2009).

The estimations of fiscal costs should therefore be stress-tested when policy decisions on social pensions are made.

Palacios and Sluchynsky (2006) provide estimates of the budgets required to finance universal pension of 15% of per capita GDP to people aged 65 and above for different regions, incorporating standard demographic assumptions. They find that for Asia, the required budget for social pensions would double in 2010–2040 to 1.4% of GDP in South Asia and to 2.6% in East Asia (and to 3.8% in OECD countries).

A macro-simulation exercise by the Social Security Department of the ILO for various low-income countries in Africa and Asia suggests that the introduction of a universal old-age pension in these countries would absorb around 1% of GDP (Barrientos 2009). This might imply that universal social pension schemes should be "affordable," but in countries where tax revenues are below 15% of GDP, even 1% of GDP for social pensions would involve significant fiscal reform (Barrientos 2009).

The ILO has undertaken cost estimates of a basic social protection package, of which social pensions are one of the components for 12 low- and lower middle–income countries in Africa and Asia (Chapter 5). The estimates for the whole package introduced at once range from 3.7% to 10.6% of GDP, and for social pensions (and disability pensions) from 0.6% to 1.5% of GDP.

The cost of social pensions in high-income countries could be substantial, particularly if they constitute the primary instrument of old-age income security. The 2009/10 fiscal statement of the New Zealand government, for example, puts the country's universal social pension system at 4.3% of GDP. Due to faster population aging, by 2050 this cost is expected to be around 8% of GDP (Bateman and Piggott 2011). The cost of Australia's means-tested social pension was 2.7% of GDP in 2009, but is projected to increase to 3.9% by 2050 (Bateman and Piggott 2011). These projections suggest the likely fiscal cost of social pensions as Asian countries move toward high-income status and address relative income or consumption poverty rather than absolute poverty.

Enhancing Fiscal Space

This section discusses ways to create fiscal space and the concomitant financing options for social pensions to play a significant role in reducing poverty. It appears from the above discussion that the approximate additional fiscal space needed in the short to medium term (3–5 years) is likely to be 1%–1.5% of GDP, and that this will increase to 2%–2.5% of GDP in the longer run.

In generating fiscal space, these are large numbers, particularly as such space will be needed also on the downbeat of the economic cycle. The space will of course vary by country, and even for the same country over time as factors affecting fiscal costs may not conform with assumptions underlying projections. An essential requirement for generating fiscal space is sustaining longer-term high growth, with all that implies for economic and social policies, and management of the political economy.

In analyzing affordability of government expenditure, including that on social pensions, it is essential to understand the concept of "fiscal space" (and how to enhance it). But the literature presents no settled definition of the term.

Roy, Heuty, and Letouze (2007), for example, define it as: "… the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective for a specified set of development objectives."

The definition explicitly suggests that if additional budgetary expenditure is not spent productively, then the desired impact on fiscal space will not occur. Thus, it is not the intentions of the government, or stated objectives of government programs, including social pensions, which matter, but their outcomes or effectiveness. Merely pointing to inefficiencies of other government programs is not a sound basis for effective social pension scheme.

Roy, Heuty, and Letouze (2007) distinguish between developmental and fiduciary perspectives of fiscal space. The former involves incorporating impact of fiscal expansion on economic growth and human development. The main argument in this perspective is that "If the development payback is sufficiently high, then deficit financed public investments are compatible with fiscal sustainability and an expanded G/GDP (Government Expenditure over Gross Domestic Product) ratio."

The argument by ILO (2011a, 2011b), UNRISD (2010), HelpAge International,[25] and others that social expenditure should be regarded as investment and not as consumption run along this perspective.

The fiduciary perspective primarily focuses on the short-term impact on fiscal deficit and debt levels. The definition of fiscal space in this perspective is "… room in a government's budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy" (Heller 2005).

[25] http://www.Pension-watch.net/country-fact-file/

The development and fiduciary perspectives should not, however, be viewed as opposites. Both agree that without productive use of government expenditure (or revenue enhancement that does not unduly distract from growth and equity), desired impact on fiscal space would be difficult to attain. Roy, Heuty, and Letouze (2007) emphasize managing rather than avoiding the short-term negative impact of higher public expenditure on macroeconomic indicators.

Roy, Heuty, and Letouze (2007) also recognize that in the long term, fiscal sustainability requires maintaining long-term fiduciary sustainability and prudent macroeconomic policies,[26] and urge the IMF and other Bretton Woods institutions to coordinate with UN agencies to structure a more development-oriented framework for assessing fiscal space and thus fiscal affordability.

What are the possible avenues to generate fiscal space? The discussion here assumes that resources for social pensions should be generated from domestic sources. Recourse to external grants, aid, and debt forgiveness as sources for financing social pensions should therefore be avoided, and even when this becomes unavoidable, it should only be for short-term purposes.[27] The discussion also rules out seigniorage (profits derived from government monopoly power to print money) and reliance on borrowing to finance current consumption of the economically inactive population through social pensions.

Remittances (although important in some countries for financing consumption and investment expenditure of households at most income levels) are also excluded as they constitute private intra-household transfers. Their significance for social pensions lies in the possible impact on eligibility criteria for social pensions. If remittances are used productively, and government fiscal policies can create a facilitative environment, by positively influencing economic growth they could indirectly help create fiscal space.

Two broad avenues for enhancing fiscal space therefore are reallocating budgetary expenditure and improving its outcome orientation, and generating additional revenue from conventional and nonconventional sources of revenue. The first avenue will also require improving public financial management capabilities,[28] involving such areas as accounting and budgetary systems;[29] developing government procurement systems for acquiring goods and services, as well as capital equipment and assets; and assessing government

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26 This is consistent with UNRISD (2010).

27 This is also the recommendation of UNRISD (2010) and Jousten (2009).

28 The World Bank (http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/index.htm) outlines different aspects of public financial management, and ways to improve government capacity in these areas.

29 Government accounts in most low- and middle-income countries in Asia are prepared on a cash basis, which makes it difficult to estimate the full economic resource costs of an activity or to construct balance sheets.

expenditure not just in terms of monetary values, but in terms of outputs and ultimate goals or outcomes achieved from budgetary expenditure.

Social pensions are not, however, the only possible claimants of enhanced fiscal space—other groups and needs will also have legitimate claims. Thus the argument that there is room to generate additional resources of around 1%–1.5% of GDP is insufficient by itself to demonstrate affordability, or fiscal sustainability. Political support and societal consensus will therefore be essential to tap a part of the enhanced fiscal space.

Reallocating government expenditure to the social sector would require identifying expenditure that can be reprioritized. This requires separating nondiscretionary expenditure (such as statutory expenditure on civil servant wages and pensions, repayment of public debt, nonpersonnel expenditure, certain politically sensitive subsidies, defense spending, and committed capital expenditure) from discretionary expenditure. In most low- and middle-income countries in Asia, such classification is likely to reveal relatively narrow scope for reallocation to newer areas. The gradual approach to social pension adoption and subsequent expansion, while building political and societal support, is therefore realistic.

Increasingly, governments are unable alone to take the responsibility for provision of social and physical amenities, and complementarities between government or the public sector on the one hand, and the private sector, both for-profit and not-for-profit on the other, have become more evident. In social pensions, such public–private partnerships may be particularly feasible in their delivery and monitoring.[30] As in other areas, competency in managing such partnerships will be essential.[31]

Much of the discussion on generating additional revenue has focused on conventional tax sources such as income taxes and sales taxes (UNRISD 2010; Jousten 2009). The tax-to-GDP ratios in many low- and middle-income countries are low (Table 2.3), but the total burden (if tax is defined as the compulsory transfer of resources from the private sector to government and its agents) is not. There is room for tax reforms but, as even major tax reforms are only likely to yield a sustained 1%–2% of GDP, there is a case to generate government revenues from nonconventional sources.

[30] Chung and Meissner (2011) discuss such partnerships in social protection in Southeast Asia. Although they do not provide examples for social pensions, such partnerships should be feasible.

[31] For requirements for effective partnerships in the social sector, see Government of India, Planning Commission (2004). Anecdotal evidence from that country suggests that better contract management on granting of concessions for state lotteries could raise substantial additional resources for some of the severely fiscally constrained states. This is also likely to be applicable more widely in other areas, and in other low- and middle-income countries.

Such sources include using existing state assets, particularly land and real estate, more productively; creating new and more secure property rights to generate budgetary revenue and promote economic activity; using regulatory agencies to generate revenue (such as insurance and pensions sector regulators who can, through charges on industry participants, generate continuing revenue in excess of their needs that can be channeled through the consolidated fund of the government); and generating more revenue from oil and mining concessions (Asher 2005).

In the PRC; Hong Kong, China; Singapore; Taipei,China; and Viet Nam, revenue from leasing state land has traditionally formed a significant proportion of budgetary revenue. Other countries can also use state property more strategically to increase budgetary resources.

Few low- and middle-income Asian countries generate significant revenue from oil and gas.[32] But several Asian countries have substantial mineral wealth that can be better utilized to generate fiscal space. Renegotiations of mining concessions and more favorable fiscal arrangements with higher levels of fiscal authorities could provide additional fiscal space to regions and states. As an example, several of the relatively less developed parts of India, such as Bihar, Jharkhand, and Orissa, have large mineral resources that can be tapped for fiscal space.

These measures depend on the willingness and ability of policy makers to access nonconventional sources of revenue. They will also require appropriate fiscal laws and institutions, better contract formulation and enforcement for transparency as well as policy and legal predictability, and better management capabilities, including use of modern information and communication technology. Making progress will be a major challenge for Asia. But the revenue potential from nonconventional sources is significant—and if social pensions are to play a major role in reducing old-age poverty, acquiring competency in tapping these sources will be essential.

Conclusions

The following conclusions may be tentatively drawn. First, there is a strong justification for establishing social pensions in Asian countries. However, their ability to address poverty among the elderly population, and their affordability and sustainability, depend on many factors. Second, the fiscal cost of social pensions at any one point in time, i.e., static fiscal costs, are likely to rise as demographic, behavioral, and political-economy aspirations of the people are taken into account. Such projections of fiscal costs, appropriately tested to

[32] Indonesia, Malaysia, Viet Nam, and potentially Bangladesh and Cambodia may be exceptions.

generate a range of potential fiscal costs, would be essential for evolution of the scope and design of social pensions over time.

Third, design, delivery systems, and other choices about social pensions should be made in the context of other components of the pension system, reforms in public financial management, and overall growth strategy. Fourth, as country and context-specific factors significantly affect fiscal costs, excessive generalizations or preconceptions about feasibility and design features concerning social pensions need to be avoided. Fifth, competency in creating fiscal space, and reconciling developmental and fiduciary aspects of fiscal space, will be essential if social pensions are to play a significant role in reducing poverty among the elderly, and therefore in the affordability and sustainability of such pensions.

Finally, this chapter cautions against assuming that creation of additional fiscal space will automatically be directed toward social pensions as there are other claimants for this space, such as education and infrastructure. Political support and social consensus for social pensions will be essential if they are to play an important role in addressing poverty of the elderly in Asia.

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Chapter 3
The Design and Implementation of Social Pensions for Older Persons in Asia

Michael Samson[33]

Abstract

This chapter reviews social pension programs in 11 low- and lower-middle-income Asian countries, and identifies lessons of regional experience in designing and implementing them. It contributes to the literature on social pensions in developing countries by synthesizing lessons from Asian experience that support more effective programs. Although rigorous impact assessments of social pensions in Asia are scarce, the evidence suggests that their impacts on poverty reduction and development outcomes may be substantial, in line with results from quantitative evaluations in Africa and Latin America. Design issues are important, and reflect both the social and policy context of countries implementing social pensions. Universal programs tend to provide more generous benefits with higher coverage rates than countries that adopt poverty targeting. Universal programs also appear less susceptible to corruption. Yet, registration and payments systems for social pensions in Asia take little advantage of technological improvements available. As a result, attempts to scale up pensions in Asia may face capacity constraints, which further technological innovation might, though, help overcome.

Introduction

Social pensions are regular noncontributory cash payments to older people provided either universally (subject to age requirements) or with eligibility determined by a means test or other targeting criteria. National social pensions

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reaching a substantial number of older people constitute a relatively new intervention for most developing countries in Asia. National programs in Bangladesh, India, Nepal, and Thailand began in the 1990s; Viet Nam began delivering social pension benefits in 2002.

Social pensions, like all unconditional social transfers, pose important challenges to social analysts and policy makers. Information on the social and economic benefits is not always available, making the task of mobilizing political support a challenge. If targeted, poorly designed mechanisms can create distortions. Social pensions establish a new contract between citizens and the state, underscoring the importance of the government's commitment to sustaining these programs.

This chapter reviews social pension programs in 11 low- and lower middle–income Asian countries, and identifies lessons of regional experience from the design and implementation of these programs, providing a road map for well-designed and effective social pensions in Asia.

Overview and Impact of Social Pensions in Asia

Evidence on the impact of social pensions on older people's well-being and the quality of life in their households is limited. While some qualitative studies have assessed such impact in, for example, Bangladesh, India, and Nepal, very few rigorous quantitative impact assessments have evaluated these programs, compared with the wealth of studies for programs in Africa and Latin America. Begum and Wesumperuma (Chapter 8) report that "although the old-age allowance programme in Bangladesh has been in existence for about 12 years, no full scale evaluation of this programme has so far been done, leaving a knowledge gap about the impacts of this programme on the lives of older people and their families." The same is true for the social pensions in Nepal, Thailand, and Viet Nam. The author has been unable to identify a single rigorous quantitative impact evaluation of a noncontributory pension in Asia that credibly attributes impacts of the social protection intervention.

A range of qualitative and less rigorous quantitative assessments provides evidence on the effectiveness of social pensions in Bangladesh, India, Mongolia, Nepal, Thailand, and Viet Nam. They document substantial impacts in terms of poverty reduction, human development, livelihoods, economic growth, and the social status of older people within their households and communities (Willmore 2007; Samson et al. 2004; DFID 2011; OECD 2009). This section synthesizes the findings from case studies commissioned by the ADB and presented in this volume, as well as evidence from these other small-scale evaluations.

Poverty Reduction

The most direct impact of social pensions is that they reduce money-metric poverty for households with older people. This impact can be quantified using micro-simulation analysis. For instance in Nepal in 2004, the social pension reduced Nepal's poverty gap by an estimated 1% (Chapter 9). With the substantial increase in the real benefit level and coverage rates over the past few years, this impact has likely quadrupled. Similar micro-simulation analysis does not exist for other countries, but qualitative assessments document an important role for social pensions in reducing poverty and improving household well-being. For example in Viet Nam, research by the United Nations Population Fund (UNFPA) and Ministry of Social Welfare and Labour (MOSWL) (2007) and Mujahid, Pannirselvam, and Doge (2008) documents the important role of social pensions in supporting older people's consumption, particularly those living alone.

The overwhelming majority (95%) of those sampled (144 beneficiaries) in the Viet Nam case study indicate that social pensions help in financing their basic needs (Chapter 7). In Thailand, nearly all the older people surveyed report that even the low B500 benefit provides significant benefits, assisting in meeting their basic needs (Chapter 6). Begum and Wesumperuma (Chapter 8) report similar findings for Bangladesh, where expenditure analysis shows that nearly all beneficiaries use the social pension to meet their daily consumption requirements (citing Paul-Majumder and Begum 2008; Mannan 2010). India's National Old-Age Pension enables an overwhelming majority (96%) of beneficiaries to perceptibly improve their quality of life (Kumar and Anand 2006), of whom 72% report that the social pension enables them to meet their most basic needs (Government of India 2009, 49). A study of Mongolia's social pension documented many older people who value the benefit's role in helping them to meet their basic necessities and improve their overall well-being (UNFPA and MOSWL 2007, 57).

One of the constraints in more substantive evidence on poverty reduction is the limited coverage and small-benefit sizes of quantitative assessments. Here, micro-simulation analysis provides quantifications of the potential poverty reduction impact of extending existing programs. In Viet Nam for example, a universal pension (equal to 60% of the official poverty line) provided to all rural people 60 years or older would reduce the poverty gap for beneficiary households by 59.7% at the cost of 1% of gross domestic product (GDP) (Giang and Pfau 2009). In Nepal, extending the current social pension to all people 60 years and older would enable the program to reduce the destitution gap (severe poverty) by 39% in beneficiary households (Chapter 9).

Food Security and Nutrition

Global evidence on social protection indicates a substantial impact of social pensions in improving food security and promoting nutritional outcomes (OECD 2009; DFID 2011; Adato and Bassett 2008). Most social transfer programs directly improve poor households' access to food markets, with consequent improvements in nutritional indicators. While most studies in Asia have not rigorously evaluated the impact of social pensions on nutritional indicators, the evidence is consistent with global findings.

The evaluation by the Bangladesh Rural Advancement Committee (BRAC) of the country's social pension provides the most robust evidence, with expenditure patterns revealing that nearly all recipients of the social pension used the money for meeting their daily consumption needs. Begum and Wesumperuma (Chapter 8) summarize the findings from RED/BRAC (2007), reporting a higher proportion of improved body-weight indicators for older beneficiaries than non-beneficiaries. This impact results from the social pension's funding of food expenditure: 85%–95% of beneficiaries report some improvement in household food security (Mannan 2010). The impact results from both quantity and quality effects: beneficiary households consume significantly higher amounts of protein and significantly fewer carbohydrates than eligible non-beneficiary households (RED/BRAC 2007).

Qualitatively similar findings exist for other social pensions in Asia. Uprety (2010) finds that the overwhelming majority of households spend their grants on foodgrains. Beneficiaries in Thailand usually spend a significant share of their social pensions on food (Chapter 6). In a study of India's social pension, 44% of the respondents reported spending the benefit on food items (Government of India 2009, 38). In Viet Nam, the social pension supports expenditure to increase the quantity and diversity of food consumption (Chapter 7). But social pensions that do not adjust with food price shocks provide limited protection for food security.

Access to Health Care

One of the most consistent findings from studies of social pensions in Asia is how much they finance access to health care. Since most Asian developing countries subsidize the public health care system, this better access multiplies the benefits. In Bangladesh, about 90% of beneficiaries use the social pension to finance health care services (Mannan 2010). In Nepal, the Senior Citizens' Allowance enables older people to afford the costs of travel to district government hospitals, which provide higher-quality facilities than those in local clinics, as well as needed medicine not provided through the public health system (Chapter 9).

In Thailand, medicine represents one of the main items for which beneficiaries increase expenditure. While Thailand provides universal health coverage, the social pension funds access to emergency private treatment when public facilities are not available, as well as transport costs to access public health services (Chapter 6). In Viet Nam, where more than 97% of beneficiaries face chronic illnesses, the majority of the respondents report that a social pension supports access to out-of-pocket medical payments and required treatments (Chapter 7). In India, 91% of beneficiaries report spending social pension resources on health care, of which 46% indicate that these necessary services led to improvements in health conditions (Government of India 2009, 38, 49). The study of Mongolia's social pension also documented the role of the benefit in improving access to health care (UNFPA and MOSWL 2007, 57).

Human Capital Development

Global evidence on social pensions highlights the key role the programs play in supporting human capital development, particularly for children (Duflo 2003; Samson et al. 2004; Samson 2007; DFID 2011). For example, evidence from Brazil, Namibia, and South Africa documents how old-age pensions without education conditions significantly increase children's schooling, with a particularly strong benefit for girls (Samson, van Niekerk, and Mac Quene 2006). The relatively small size of social pension benefits in Asia limits the potential to generate large household impacts, but evidence demonstrates that the human capital development effects are significant—and suggests that improved benefits will strengthen these impacts. In Bangladesh, beneficiaries report spending part of their social pensions to support the education of their grandchildren (Paul-Majumder and Begum 2008), which helps to lift educational outcomes in about half the beneficiary households (Mannan 2010).

In interviews with pensioners in Viet Nam, Long and Wesumperuma (Chapter 7) find that they, too, often share their benefits with grandchildren. In Thailand, female pensioners report sharing their social pensions with vulnerable grandchildren, particularly when their parents migrate for work or cannot care for their children for other reasons (Chapter 6). In Nepal, beneficiaries in the poorest households report using their social pensions to finance education expenses for children (Chapter 9). Similarly in India, 5% of beneficiaries report contributing their pension to the household pool of resources, where a government evaluation (as well as international evidence) suggests that the cash will support education expenditures for children (Government of India 2009, vii). Mongolia's social pension also supports educational activities (UNFPA and MOSWL 2007, 57).

Livelihoods and Labor Market Engagement

An important global evidence base solidly demonstrates that social protection programs around the world enable households to manage livelihoods risks and thus promote investments in small-scale entrepreneurial activity, labor market participation, and employment outcomes (OECD 2009; Samson et al. 2004; Samson 2007; DFID 2011). The limited evidence base and the relatively small benefit size of social pensions in Asia make it difficult to identify consistent livelihood and labor market impacts, but these effects seem to be important. In Bangladesh, focus group discussions suggest that 15%–20% of beneficiaries use their social pensions to acquire productive assets that support income-generating activities or improve housing (Paul-Majumder and Begum 2008; RED/BRAC 2007). BRAC's evaluation of the social pension estimates an average investment by social pensioners of Tk149 ($2), mostly in small-scale activities like poultry raising. Pensioners in other Asian countries report similar stories. In India, the social pension helps to protect people's productive assets, preventing a decline into poverty.

The labor market evidence is mixed. Nguyen (2008) employs household survey data from 2004 and 2006 and finds that in Viet Nam social pensions enable older people to reduce their hours of work. Long and Wesumperuma (Chapter 7) find that Vietnamese social pensions enable older people to support more-sustaining livelihoods. A study of Mongolia's social pension reports that the benefits also support livelihood activities (UNFPA and MOSWL 2007, 57).

Extended Economic Impact

In countries around the world, social pensions promote economic activity, not just for beneficiary households but also through spillover effects supporting local economies. Begum and Wesumperuma (Chapter 8) suggest the increased household expenditure supported by 2.5 million pension beneficiaries in Bangladesh supports economic activity in local markets. Long and Wesumperuma (Chapter 7) acknowledge the lack of rigorous evaluations of local economic impacts in Viet Nam, but point out that the main documented expenditure item supported by social pensions is food, much of which is produced locally. Suwanrada and Wesumperuma (Chapter 6) make the same case for Thailand's social pension, citing the tendency for older people to spend the benefit locally and implying positive local economic impacts. This is consistent with similar findings for social pensions around the world.

Social Impacts

The benefits also generate social impacts, particularly in terms of building social capital for older people and strengthening their status in households and communities. Suwanrada and Wesumperuma (Chapter 6) find that older people use the pension to maintain connections and social networks within their communities by making donations and contributions as socially required for marriages, funerals, and religious and other activities. A study of Nepal's social pension (Uprety 2010) found that a shifting cultural norm is weakening the traditional practice of children supporting their parents in old age, and older people with social pensions benefit from improved self-confidence and self-reliance, and increased status in households and communities.

Long and Wesumperuma (Chapter 7) find a similar impact on older people's perception of independence in daily life activities from the social pension in Viet Nam, even when the beneficiaries live with children and grandchildren.

Beneficiaries in Bangladesh report feeling "happy and satisfied" because the benefit provides some economic security, freedom of expenditure, and some opportunities to meet their own needs as well as contribute to household resources (Chapter 8). Paul-Majumder and Begum (2008) find a similar effect, with the secure income—however small—providing peace of mind. BRAC's study documents feelings of happiness among social pension recipients for similar reasons (RED/BRAC 2007). These impacts go further, increasing the status of the older people within the larger households. Paul-Majumder and Begum (2008) report that social pension increases the likelihood that older people will live with their children, improves the status of beneficiaries within these households, and helps to counter the erosion of traditional family norms and values.

Design Issues with Social Pensions in Asia

Targeting versus Universalism

The question of poverty targeting poses one of the most controversial design issues for social pension programs. The main benefit of targeting social pensions to the poor is that it potentially saves money by reducing what some analysts term the "inclusion error" of universal programs—the distribution of pensions to people who are not poor. Effective targeting aims to ensure that scarce resources go to those who need them most. Universal pensions, on the other hand, provide benefits to all older people who qualify on the basis of their age. One approach to assess targeting performance compares the poverty reduction from a targeted program with the impact of a comparably funded universal program. Which option will reduce poverty more, social pensions targeted to the poor or transfers provided universally? The answer depends on the costs of targeting, which in turn is determined by a range of political, social, administrative, and economic factors.

Targeting involves direct and indirect costs, which vary from country to country and depend on the targeting method chosen. The direct cost is the administrative expense incurred in implementing and complying with the targeting mechanisms, by the government, the beneficiaries, and third parties. Indirect costs include political, economic, and social losses.

No targeting process is perfect; any attempt to direct social transfers to the poor will likely entail two types of error. Inclusion error, as mentioned above, is the mistake of providing the social transfer to someone in a household that is not poor. Exclusion error is the failure to provide a transfer to a targeted household that is poor. The reduction of inclusion error is the potential benefit of targeting—exclusion error is part of the cost. Inclusion and exclusion errors are not easily comparable. An unwarranted social transfer (inclusion error) is at best an inadvertent tax rebate (with the associated costs) and, at worst, a waste of money. On the other hand, depriving poor households of a social pension can undermine a household's attempts to escape poverty, with a social cost many times the unutilized fiscal expenditure. In 2003, only about 6 out of 100 of the poorest (bottom fifth) eligible households in Bangladesh received the government's social pension (Barrientos 2004, 18), although take-up has improved significantly since then.

Targeting systems require people, skill, time, and money. A means test, for example, will require the repeated verification of the income or assets of households in order to decide whether they should receive benefits. The dynamics of poverty in many countries significantly increase the cost of targeting. When people move in and out of poverty frequently, appropriate targeting requires regular assessment of the targeting criteria.

Potential beneficiaries incur direct costs in order to demonstrate their eligibility. Private costs include expenses for transportation to apply for benefits, time expended in transit and in queues (with the associated loss of income or other forgone opportunities), and the fees for obtaining necessary documentation (including informal fees in some cases).

Indirect costs may arise when beneficiaries change their behavior in order to become eligible for the grant. Assessments that exclude beneficiaries that receive investment income in excess of a specified threshold can create disincentives to save for one's retirement, particularly if the targeting test is blunt.

Social costs from targeting include stigma, the possible deterioration of community cohesiveness, and the potential erosion of informal support networks. While the provision of transfers can improve economic independence and reduce the impact of stigma, policy stances that reinforce negative stereotypes can exacerbate the psychological costs of the programs.

Targeting the poor also imposes political costs, primarily by eliminating middle class beneficiaries who could lend their support to social transfers. The greater the degree of marginalization of the poor, the more likely that effective poverty targeting will actually reduce the total transfer of resources to the poor (Gelbach and Pritchett 1996). As Sen has pointed out: "The beneficiaries of thoroughly targeted poverty-alleviation programmes are often quite weak politically and may lack the clout to sustain the programmes and maintain the quality of services offered. Benefits meant exclusively for the poor often end up being poor benefits" (Sen 1995, 14).

No comprehensive and systematic review of targeting performance of social pensions in Asia has been carried out, but a study of 15 African countries with high poverty rates found little difference between universal provision and perfect poverty targeting. Kakwani, Soares, and Son (2005) found that "the values of purchasing power parity (PPP) indices in conditions of perfect targeting show little difference from the values of indices resulted from universal transfers. This suggests that perfect targeting may not be necessary in cases such as these 15 African countries, where poverty is extremely high." The case for poverty targeting depends critically on the extent of poverty. Targeting makes less sense when poverty rates are very high.[34]

An understanding of coping mechanisms is important to evaluate the feasibility of targeting. If individuals in a household pool most of their resources, directing grants to specific classes of the vulnerable (young children, older people, those with disabilities) will not effectively target them. For example, a social pension paid to a poor older person caring for seven grandchildren will benefit the whole household but might not lift the pensioner out of poverty. The same pension paid to a single older person living alone might raise the recipient well above the poverty line.

Importantly, the political and economic decisions determining the amount of available resources may depend on the type of social protection system selected. A program that effectively targets the poor may lack the broad political appeal required to mobilize adequate resources. A universal old-age pension, for example, may be less progressive but generate sufficiently greater financial support since the poorest benefit more. In this sense, the resource cost of a targeted scheme is not simply comparable with that of a universal program—some of the direct transfer costs of a universal program almost pay for themselves.

34 Other country studies have found similar results. For example, a study of one of South Africa's social transfer programs found untargeted social transfers may be more appropriate than targeted interventions in areas with very high poverty rates (Haddad and Adato 2001, 21).

Targeting costs vary with the economic, social, and institutional contexts of the implementing countries. Nepal and Bangladesh provide examples of targeting approaches at different ends of the spectrum. Both are low-income countries with people 60 years and older accounting for about 6% of their population in 2010. Nepal's poverty rate stands at 55%, Bangladesh's at 50%.

Nepal's old-age allowance (called the Senior Citizens' Allowance) is targeted at all people 70 years of age and older, but with a younger age threshold (60 years) for older people in the country's most vulnerable area (the Karnali zone) and for the historically most disadvantaged group (Dalits). For people meeting the geographic and demographic criteria, the right to the social pension is absolute. Elsewhere, Bangladesh targets its Old-Age Allowance through a community-based targeting approach. Community committees select what are supposed to be the most vulnerable people in each ward, based on old age, poverty, and other criteria (a separate program uses a similar methodology to target the poorest women). Nepal's program achieves a very high coverage rate, reaching near 80% of people aged 70 years and older in 2009 and receiving a government allocation close to a quarter of 1% of GDP in 2009. Bangladesh's social pension, on the other hand, costs half as much as a share of national income.

A comparison of evaluations of targeting performance by BRAC in Bangladesh and the Economic Policy Research Institute (EPRI) in Nepal shows that 73% of targeted beneficiaries in Bangladesh are poor and 58% in Nepal. In Bangladesh, popular understanding of the eligibility criteria is weak, with only a third of the study's respondents believing age was a factor in the selection process, and less than half perceiving poverty status to be one of the selection criteria (RED/BRAC 2007). In Nepal, there is a much greater awareness that the social pension is an entitlement based on age.

Similarly, India's poverty-targeted social pension faces challenges due to relatively weak awareness of key program features. A study of the states of Karnataka and Rajasthan found that less than 50% of respondents were aware of the existence of social pension schemes in half the areas sampled. Among those aware of the programs, a small minority understood the application process. Corruption, delays, and complexity created barriers to successfully applying for the social pension (Dutta, Howes, and Murgai 2010). Thailand's previously targeted social pension program created social tensions, including jealousy and resentment. Older people who failed to qualify perceived that some beneficiaries were better off but had still been targeted for the benefit (Chapter 6).

Begum and Wesumperuma (Chapter 8) review the problems with targeting in Bangladesh's social pension—including targeting errors and the high cost of targeting processes at the scale required to reach all the poor—and conclude that eliminating the means test and providing the social pension universally is feasible and may prove logical. They quantify the cost of a universal program for all people 65 years or older at a monthly benefit of Tk300 ($4.05), to cost only 0.34% of GDP (Tk23.2 billion or $43.2 million). Doubling the benefit to Tk600 ($8.09) would cost only 0.7% of GDP, an affordable amount if there is sufficient political will. Long and Wesumperuma (Chaper 7) recommend either providing universal social pension benefits to older people who live in rural areas, or else to all older people, as an effective way to reduce poverty among older people, given limited administrative capacity and fiscal resources.

A study of 12 social pension programs around the world found they reached poor households on average significantly more than nonpoor households, with some schemes performing extremely well but others yielding regressive outcomes (Samson, van Niekerk, and Mac Quene 2006). Categorical targeting of older people can be combined with other mechanisms—Costa Rica's noncontributory pension, for example, allows social workers wide discretion to make eligibility determinations during office interviews and effectively targets the poor (Samson, van Niekerk, and Mac Quene 2006). However, these techniques undermine a rights-based approach and can erode transparency.

Universal pensions can appeal to taxpayers more than other approaches as most taxpayers will eventually receive the intergenerational transfer. When cash transfers benefit taxpayers as well as the poor, the cost calculations are not directly comparable with those programs that are effectively targeted to the poor. Some countries, such as Brazil and South Africa, combine individual assessment with categorical targeting in the form of a means-tested social pension. This model may pose significant challenges in low-income countries as the added complications and costs of means testing risk overwhelming the government's administrative capacity. In addition to the public costs, the compliance requirements of means tests may be expensive for the targeted individuals and therefore exclude many of the poor who cannot afford the private costs of qualifying for the pension.

Willmore (2006) argues that universal non-means-tested pensions "are easiest to administer, but they are fiscally expensive. The low administration cost of universality offsets only partially the expense of providing everyone with an age pension." However, universalism provides a number of advantages over means testing. As Willmore (2006) argues, "another reason for avoiding means tests is that they send the wrong signals to workers. They discourage low income workers from saving for their old age and from continuing to work, even on a part-time basis, beyond normal retirement age." Given rising dependency ratios in many developing countries, the potential impacts on national savings and labor force participation represent important advantages to universalism.

Willmore (2006, 25) summarizes four arguments against universal social pensions and discusses the evidence regarding each of these:

- Less-poor people live longer than the poor, so universal pensions are regressive.
- Children and other groups should receive higher priority for social spending.
- Universal pensions discourage ("crowd out") remittances and intrafamily transfers to older people.
- Universal pensions are too expensive for most countries.

While better health and nutrition enable less-poor people to live longer, they usually pay more taxes—and hence finance the social pension. A universal benefit financed from broad taxation will have a progressive impact on the income distribution. In addition, social pensions may help the poor to enjoy better health and live longer (Lloyd-Sherlock 2000; Case 2001). Jensen and Richter (2004) analyze the loss of pensions after the 1996 financial crisis in Russia and estimate a 5% greater probability of men dying in the following 2 years.

While social protection benefits for children should be a top priority in all developing countries, pitting critical sectors of social policy against each other is counterproductive. The International Labour Organization (ILO) has documented the affordability of core social protection packages that benefit children, older people, and other vulnerable groups (OECD 2009). In addition, in many low-income countries, the poorest households are those with both children and older people. A social pension protects both.

Social pensions tend to somewhat reduce private transfers to older people, but not dollar for dollar. Studies that have estimated the reduction (World Bank 1994; Jensen 2004; Cox, Galasso, and Jimenez 2006) suggest that a dollar of social pension crowds out about $0.40 of private transfers, implying that social pensions remain largely effective in increasing resources available to older people households, thus reducing the pressure on the working poor to compensate for government failure to provide adequate social protection benefits.

While social pensions are expensive, global experience as well as ILO costing studies document that they are affordable, even for low-income countries. Nepal—with all its fiscal, political, and economic challenges—not only provides a universal social pension to protect its older people but has successfully increased both coverage and benefit levels. Other low-income countries, from Bolivia to Lesotho, demonstrate the affordability and sustainability of universal social pensions. ILO studies have documented the affordability of universal social pensions for a wide range of countries (OECD 2009).

A policy report for South Africa (Samson 2007) documented several identifiable benefits for universal social pensions—they are simple to understand; are relatively inexpensive to operate; possibly reduce or even eliminate old-age poverty; promote equity; and make future costs to the state more predictable.

While the question of targeting remains one of the most contentious design issues for social pension programs, there has not yet been a comprehensive and systematic review of targeting performance in Asia. However, evidence from Nepal and Thailand indicates that targeted programs can be hindered by poor understanding of eligibility criteria or resulting social tensions (or both). The costs and benefits of targeting versus universal provision remains a crucial area for future social pension research and evaluation.

Benefit Size

The size of the benefit represents one of the defining design decisions for a social pension program. The task must balance often competing objectives in terms of adequacy, acceptability, and affordability. Too low a benefit yields a negligible impact on income security and poverty reduction. Too large a benefit threatens the affordability constraint and can create distortions in targeted programs.

Affordability constraints create a trade-off between benefit size and coverage. Higher benefit sizes can limit the number of potential beneficiaries. Both real resource availability as well as political will influence affordability. The link between social protection and economic growth influences both of these factors: an expanding economy increases the potential resources for social protection, and the perception of a positive link increases political will for the program.

Adequacy refers to how much should be paid for the social pension to be effective. The transfer amount must be sufficient to meet the program objectives. Providing a transfer that is too small will compromise the social protection outcome of the program, particularly since a relatively small benefit may be too little to outweigh the private costs to the beneficiaries in receiving the grant or to change outcomes that are less elastic to small changes in income.

Social pension programs need to be politically, economically, and socially acceptable. Transfer amounts that are too small can be rejected by policy makers because policy objectives are compromised. In targeted programs, large benefits can lead to social tensions if beneficiaries become better off than the less poor who are excluded from the programs. Large benefits can also create incentives for the included poor to remain poor, creating dependency traps.

There is no objective way to consolidate the analysis on affordability, acceptability, and adequacy. This is largely normative and necessarily a political decision. Affordability depends largely on political will, particularly in the face of significantly competing alternative uses for the funds. No affordable amount will be adequate for every household; the range of need is too great for one administratively feasible benefit level to adequately protect all vulnerable children. Yet, households have multiple sources of support, and the social pension is often meant to provide just one secure pillar.

Of the 11 national programs implemented by low- and lower-middle-income countries in Asia included in this study for which benefit information is available, nearly half (Bangladesh, India, Nepal, Tajikistan, and Viet Nam) provide benefits of $7 a month or less. The Kyrgyz Republic is the only low-income country to offer more, with a benefit of $21 per month. Qualitative analysis suggests these low benefit levels are insufficient but far from ineffective.

Uprety (2010) found that older people with higher incomes reported using the social pension to employ agricultural and domestic labor, support their own income-generating activities, or support the incomes of older people. About 99% of women and 96% of men indicate the social pension has had an immediate impact on their lives, and nearly 90% of men and women state that they cannot meet their basic needs without the social pension.

A study of the social pension in Mongolia finds similar results (UNFPA and MOSWL 2007). Social pensions are on average smaller than contributory pensions but still have a significant impact on the lives of the recipients. Although the amount of money they receive as social pension is small, it contributes to their living expenses and the elderly feel that the government cares about them. The social pension is instrumental in preventing older people and their families from falling into extreme poverty. In a survey of beneficiaries in Mongolia, 80% of respondents attributed a significant impact of the social pension on their attitudes and mindset for survival.

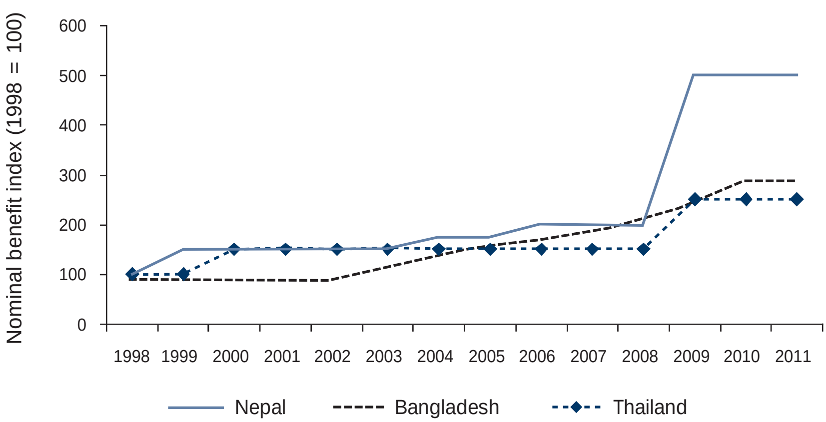
The relatively small benefit level has a similar impact in Bangladesh, but almost all beneficiaries report that the monthly benefit of Tk300 (less than $4.50) is inadequate for supporting their basic needs. Particularly for those with neither income nor assets, the contribution from the social pension provides just a fraction of the resources required to lift the beneficiary’s household out of poverty (Chapter 8).

In India, only 24% of the recipients of the National Old Age Pension report that the benefit is adequate for meeting their basic needs, with substantial variability across different regions. About 60% of the respondents in the Anantnag district considered the amount adequate, compared with only 10% in the Kupwara and Doda districts (Government of India 2009, 38). A common theme raised by respondents was the importance of the benefit—inadequate as it was—as a symbol of the government’s commitment to the needs of older people.

The Indian government's provision of basic goods through the public distribution system provides a particularly important reason for beneficiaries to value the social pension. Irudaya Rajan and Mathew (2008, 97) calculate that "on an average, the pension works out to be Rs150 ($3.21) per month, an amount which is less than a day's wage of a casual or unskilled labor in Kerala. The total cost of purchasing all the entitlements (8 kg wheat, 8 kg rice and 0.4 kg sugar) for a one-month period is just Rs100 ($2.14) if bought through the public distribution system by a BPL [below poverty line] cardholder. Assuming that for a person above 60 years of age, the food requirements are substantially low particularly when he/she is not engaged in any strenuous physical activity, the entitlement should take care of an [older] person's basic food needs. Thus the present rate of old-age pension not only enables a senior citizen to buy his/her basic food requirements, but also provides him/her a small allowance over and above the amount needed to buy food."

Perhaps the most important role for the small benefit levels is to demonstrate an impact so that the benefit is eventually raised to a more sustaining level. After 14 years of providing a minimal social pension, Nepal, in 2009, increased the nominal benefit level by 150%, from NRs200 ($2.7) to NRs500 ($6.75) (Figure 3.1). The purchasing power of the pension in 2011 is estimated to be 124% higher than in 1998, adjusted for inflation. Bangladesh tripled the nominal value of its social pension, from Tk100 ($1.35) in 1998 to Tk300 ($4.05) in 2011. This represents a 40% real increase in purchasing power, after inflation.

Figure 3.1 Benefit Levels for Social Pensions in Three Asian Countries



In ensuring the sizes of the social pensions maintain their potential for providing social protection, RED/BRAC (2007) recommends adjusting the level of the benefit each year based on the annual inflation rate. Alternatively, inflation adjustment can be based on a more appropriate price index, such as the consumer price index, calculated from the consumption basket of the poorest population quintile.

In the end, the decision on a benefit level will come down to the three competing objectives of affordability, acceptability, and adequacy. A review of Asian programs reveals consistently low benefit levels, but the potential for benefit increases as program impact is demonstrated and support for the programs is consolidated.

Implementation of Social Pensions in Asia

Administrative Systems

All social protection systems around the world face challenges in reaching eligible beneficiaries, particularly the poorest and most vulnerable. Social pensions face a unique set of hurdles, in terms of generating awareness, verifying eligibility, and ensuring systems and resources can deliver benefits regularly and reliably to beneficiaries. The implementation of a social pension requires building critical administrative systems that identify, target, and register older people. Nearly all social pensions in Asia rely on community-based mechanisms to administer the necessary responsibilities. In some cases—like Bangladesh and India—the programs employ conventional community-based targeting mechanisms. In other cases, the local institutions deliver based on nationally established targeting procedures.

One challenge for awareness arises when eligibility criteria for the social pension changes significantly. For example, Bangladesh's initial age threshold for eligibility was 57 years (aligned with the formal sector retirement age). This criterion was raised to 60 years and then again to 65 years in fiscal year (FY) 2004/05, and then differentiated for men (still 65 years) and women (reduced to 62 years) in FY2010/11 (Chapter 8).

A different kind of issue arises with changes in Nepal and Viet Nam. The changes to the eligibility age progressively extend the coverage of the program, and actually improve the propoor reach of the programs. In Nepal until FY2008/09, only those who had reached their 75th birthday were eligible for the social pension. In 2009, the government lowered the threshold to 70 years, and to 60 years for Nepal's most vulnerable groups. While these changes created some confusion among beneficiaries, the net effect was to substantially increase coverage. In Viet Nam, the age of eligibility has been progressively reduced from 90 years to 80 years.

The complexity of eligibility criteria varied from one program to another. The most complex set of criteria characterized Bangladesh's program, where in addition to meeting the age threshold the following factors influenced selection: an annual income of less than Tk3,000 (below $43); lack of assets, home, or less than half an acre of cultivable land; physical or mental disabilities; whether or not the person was a freedom fighter; lack of family support due to divorce, separation, desertion by family, childlessness, or loss of spouse (status as widow or widower); and expenditure patterns requiring allocation of all income to food, with nothing left to support other types of spending (such as health care).

Older people receiving another government pension or other regular financial assistance or grants from either the government or nongovernment organizations (NGOs), or working as day laborers or domestic workers or holding a Vulnerable Group Development card are ineligible for the social pension. The targeting process aims to identify "those who are very poor, have no assets, have no one to look after them, cannot work, and have no alternative income sources" (Chapter 8).

Until recently, India had a similarly restrictive targeting process, with varying criteria defined differently by individual states, aiming to ensure that only the very poor or destitute received benefits. New reforms relax these rules so that any older person or widow with a Below Poverty Line card is eligible for the social pension. Mongolia's means-tested social pension considers eligibility criteria related to the household's overall economic situation and specific family vulnerability, such as responsibility for an orphaned child or person with a disability. The age threshold is differentiated between men (60 years) and women (55 years), but the government plans to raise these to 65 and 60 years, respectively, by 2021 in the face of an aging population (Uprety 2010). In Bangladesh, there has been no history of dropping a person from the beneficiary list even if he or she is later found to be ineligible or not a priority candidate. Exclusion is done only when one is found to be receiving another benefit simultaneously (Chapter 8).

There is currently wide variability in the administration of social pensions across Asia. The best choice for an administrative system must ultimately fit the needs and challenges of a particular country context, but should efficiently address issues of changing eligibility requirements.

Beneficiary Selection

As illustrated in the examples of Bangladesh and Nepal, the parameters for beneficiary selection impact the choice of administrative systems as well as of a social pension program.

In Bangladesh, the beneficiary selection process depends on an annual media advertisement soliciting applications, and well as procedures to inform people at local level (Chapter 8). Likewise, in India, the guidelines for the National

Old Age Pension Scheme require that the implementing agency publicize the scheme widely, using both electronic and print media (Government of India 2009). In Nepal, the outreach relies primarily on communications by the village development committee.

In Bangladesh, applicants submit the prescribed form in rural areas to the *upazila* social service officer and in urban areas to the deputy director or district social service officer. A local ward committee identifies the initial selection of eligible applicants and submits this list to an independent *upazila*/municipal committee for finalization (Chapter 8).

India follows a similar process, with the applicant submitting the required form to the local social welfare offices, which in turn determine the eligible group and submit a list to a district level committee for approval. This committee usually meets only once or twice a year, depending on available funding, and forwards the recommendations to the Member of the Legislative Assembly for approval. This process is usually time-consuming, with delays sometimes extending more than 1 year. In the Anantnag district, 13% of the respondents reported their applications were only approved 3 years after submission, and another 13% reported a 2–3 year delay. Compounding the problem is the fact that neither the Tehsil Social Welfare offices nor the District Social Welfare offices implement an effective system providing application status information to applicants or making the potential beneficiaries aware of the fate of their applications (Government of India 2009).

In Mongolia, a local livelihood support council certifies eligibility, but approval depends on the final decision of the district governor. Thailand used to follow a similar process, but the transition from a poverty-targeted scheme to a universal social pension mechanism has simplified the process. Nepal's universal social pension likewise follows a streamlined application process, with the village development committees at the local level responsible for identifying the age-eligible group of beneficiaries. In Viet Nam, both universal (for those 80 years of age and older) and poverty-targeted (for poor older people younger than 80 years of age) mechanisms create a fairly complicated dual system of beneficiary selection.

Targeting Errors of Exclusion and Inclusion

A necessary consideration for the implementation of a social pension program is the resulting targeting errors of inclusion and exclusion. Exclusion error—the failure of a pension to reach the poor and vulnerable that it is intended to help—is an area of greater concern. Errors of inclusion and exclusion ultimately affect a pension's poverty reduction and development impact, and high levels of error may ultimately erode support for the program.

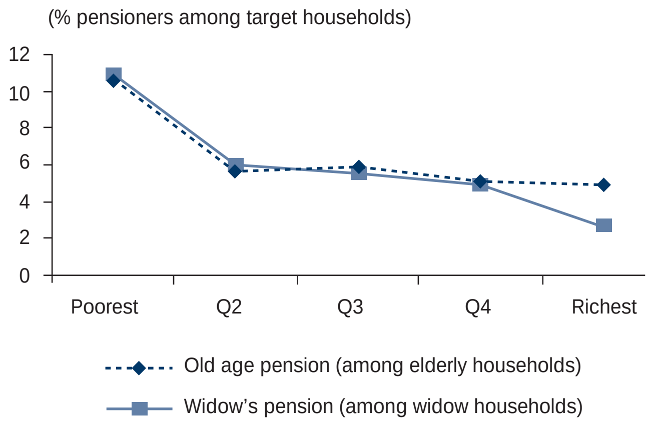
In the initial years of Bangladesh's social pension, selection was limited to 10 older people from each rural ward, including at least five women. This quota created targeting problems, because less-poor individuals were more likely to be targeted in less-poor wards than extremely poor candidates in the poorest areas. An early targeting study of the social pension found that only about 6% of the poorest quintile of eligible households received the benefit (Barrientos 2004, 18). Slater et al. (2009) found that 24% of recipient households did not include a person aged 60 years or older. More recently, the population of the ward has factored into the decision the number of allowances allocated (Chapter 8).

Bangladesh's Old Age Allowance program has expanded considerably in the past several years and is estimated to have reached 2.3 million people in FY2009/10 (projected to rise to 2.5 million people in FY2010/11). Targeting analysis indicates that about three-quarters of the beneficiaries are in the lowest two quintiles of the expenditure distribution.

In India, as Dutta, Howes, and Murgai (2010) conclude, evidence on targeting performance is limited. Farrington et al. (2003) find that the social pension effectively reaches the poor, while Deshingkar and Start (2006) analyze a small sample to suggest that targeting performance is relatively poor. Dutta, Howes, and Murgai (2010) analyze survey-based estimates of program coverage from Ajwad (2006) based on wealth quintiles of eligible households (including at least one older person for the pension, or one widow for the widow's allowance) (Figure 3.2).

Coverage of the poorest quintile, while very low, is nearly double that of the poorest quintile in the early study of Bangladesh's targeting performance, and

Figure 3.2 National Coverage Rates of Households with Elderly or Widows by Wealth Quintiles



Source: Ajwad (2006), based on 2004–2005 India Human Development Survey.

nearly twice that of the next higher quintile in India. About 5%–6% of households with older people in the higher quintiles receive the social pension, with only a slightly decreasing likelihood as household wealth increases. Assuming the bottom quintile as the targeted group, exclusion error is 89% and about two-thirds of the beneficiaries are erroneously included.

While a specific targeting analysis for Viet Nam's social pension is unavailable, analysis of the official "poor list" suggests that the targeting errors for the means-tested pension are likely to be high. A World Bank study (2008) found that in 2006 in the Northern Mountainous area, 22% of the population was included on the poor list, but the actual poverty rate was twice as high (49%). An earlier World Bank study (Coady, Grosh, and Hoddinott 2004, 52) that compared a range of different social protection programs across countries found Viet Nam's social pension among those with the least progressive incidence. Long and Wesumperuma (Chapter 7) conclude that these targeting errors likely result from varying evaluation capabilities of local authorities as well as their under-resourced workloads.

Thailand's means-tested system also documents challenges with poverty targeting. Some officials reported unfair results of targeting and favoritism by local officials (Chapter 6). The authors also report that the transition from poverty targeting to universal provision in April 2009 greatly simplified the systems for reaching beneficiaries, eliminating the difficulties with the targeting process and contributing to effective delivery.

An early evaluation of Nepal's social pension suggests that 23% of older people who qualified on the basis of age were excluded because of age-verification challenges, administrative processing delays, poor government capacity in the most remote areas, and self-exclusion by less poor individuals (Willmore 2006, 10). More recent studies suggest exclusion errors may have fallen. A recent study (Uprety 2010) suggests that exclusion rates may be as low as 2% in some regions. This is consistent with global experience. Willmore (2006) finds that most universal social pensions reach at least 90% of the target group, and close to 100% in Bolivia, Mauritius, and Samoa.

Thailand's challenges with poverty targeting reflect a consistent theme from experiences in both Asia and around the world. Exclusion errors in universal programs tend to be lower, as the simplified targeting process lowers the private costs for participation by the poorest households and enables the government to deliver better, even in the face of low administrative capacity and implementation challenges. Thus, social pension implementation in Asia should focus foremost on preventing errors of exclusion.

Challenges with Targeting and Registration Systems

Given the targeting errors, it is unsurprising to find concerns about targeting and registration systems for means-tested programs. Begum and Wesumperuma (Chapter 8, drawing on RED/BRAC 2007), report that substantial numbers of interviewees believe the candidate selection to be unfair and that inappropriate selection may be 20%–40%. Those interviewed also felt that nepotism, political loyalty, powerful local actors, and money dominate the selection process, giving rise to inappropriate selection. In addition, awareness among potential participants of the official targeting criteria is poor, and local officials rarely commit the required time and energy to follow the official guidelines. Elite capture also undermines effective targeting of the poorest (Chapter 8 this volume; Shirin 2008).

Similar challenges are found with India's National Old Age Pension Scheme. Awareness of the program is relatively high, with beneficiaries learning about it from friends and relatives, print and electronic media, and public officials; and the evaluation concludes that most respondents understand the criteria for selection (Government of India 2009). However, transforming awareness into successful participation often proves challenging. As in Bangladesh, popular perception of the fairness of the selection process in India varies, with 27% of non-beneficiaries complaining about the process for selecting beneficiaries, and 53% of non-beneficiaries in one district characterizing the system as biased, with discrimination against the poorest a major factor. Most beneficiaries believed there was discrimination in the selection process.

Payments Systems

Payments systems within Asia usually adopt manual approaches that do not take full advantage of the opportunities offered by technology. In Bangladesh, the government distributes the social pension through the banking system. Initially, only one bank delivered the payment, but this was expanded to multiple banks as the program developed. Payments are delivered every 3 months on a designated day, and except in the case of disability or other approved reason, a beneficiary must receive the payment in person. If a beneficiary cannot claim the payment personally, she or he can nominate a proxy, who must obtain an identity card from local officials as well as a document certifying the beneficiary is alive. In the event of death or for any reason the beneficiary fails to receive payment for 3 continuous months, the benefit is reassigned to an applicant on the waiting list. When the beneficiary dies, 3 months of benefits are available to support funeral expenses (Chapter 8).

However, problems arise with the payments mechanism. Shortages of bank personnel sometimes contribute to erroneous payments. Beneficiaries incur high private costs to access the payments, and must queue for hours with no guarantee of receiving their payments, due to congestion problems at the bank. Weak coordination among government departments and the paying bank as well as ineffective supervision and monitoring by the *upazila* (district) committee all contribute to delivery problems (Chapter 8).

Delivery systems in India follow a similar approach, using both the banking system and the government's postal offices. Awareness of payment arrangements is strong, with the Planning Commission's evaluation finding that all respondents were aware of the amount of benefit payable. The government normally pays benefits three or four times a year, depending on funding allocations. However, the payments system proved to be more irregular, with beneficiaries failing to consistently receive their full payments, mainly due to the failure of the program to release the required funds. A shift from money orders to bank payments also created problems for those with poor access to the banking system. While 28% of money order recipients report receiving at-home delivery of their benefits, and another 38% collect the money order on their first visit to the post office, more than a third require at least two visits, and half of these require four to eight visits—and a small proportion more than eight visits (Government of India 2009).

In Nepal and Thailand, beneficiaries receive benefits from local government officials, who personally deliver them to the house when necessary. In Nepal, the pensions reach their intended beneficiaries very effectively, with occasional reports of minor corruption. More significantly, problems with payment regularity imposed costs on beneficiaries who sometimes have to travel long distances to find the pension is not available. There is no provision for recipients to appoint deputies to collect the transfer on their behalf, but in some cases village development committee representatives deliver the cash directly to bedridden beneficiaries. Nepal's reduced frequency lowers the transaction costs for both beneficiaries and the government.

Corruption

Corruption poses risks for program success in some countries, with greater negative impacts in countries with a means-tested targeting mechanism. BRAC's evaluation of Bangladesh's old-age pension demonstrated some evidence of corruption. Of the study's respondents, 3% reported they were unable to "pay" for registration into the program, suggesting that in some cases bribes were required for eligibility. Anecdotal evidence supported this result. The extent of corruption, however, has not been credibly quantified. Perhaps more significantly, 10% of respondents reported using political connections and activities to increase their chances of selection into the program, while 10% of respondents indicated they failed to lobby for enrollment in the program because they lacked "good relationships" with the officials responsible for selection (RED/BRAC 2007). Begum and Wesumperuma (citing World Bank

2006; Mannan 2010; Chowdhury and Zulfiqar 2006) also highlight malpractices, abuses, corruption, and leakages of resources in Bangladesh's social pension, all of which undermine program benefits.

An evaluation of the social pension in two of India's states, Karnataka and Rajasthan, identifies widespread but petty corruption. "A large number of pensioners—one in five in Karnataka, and one in four in Rajasthan—report paying small bribes to the postman and government officials. A small number of pensioners in both states report receiving much less than they are entitled to, or no pension at all" (Dutta, Howes, and Murgai 2010).

In Nepal, evidence exists of only isolated cases of minor corruption. Studies of the universal programs in Thailand and Viet Nam identify no cases of corruption. Suwanrada and Wesumperuma (Chapter 6) point out that in Thailand the favoritism that previously characterized the poverty-targeting mechanism, where the beneficiaries were likely to be friends, relatives, or neighbors of the selecting committee or local governor, has disappeared with the transition to the universal approach. Long and Wesumperuma (Chapter 7) attribute such corruption-free delivery at the commune level in Viet Nam partly to the effective supervision provided by the communal elderly association, an affiliate of the Vietnam Association of the Elderly. More generally, the transparent rights-based mechanism of a universal social pension may improve the power of beneficiaries to claim their entitlements without bribes or other corrupting mechanisms.

Rights Protection

Most social protection programs around the world make some provision for protecting the rights of people to their benefits. Typically, an appeals process is built into the administrative system, although these types of mechanisms usually lack the teeth required to be effective.

Begum and Wesumperuma (Chapter 8) report similar outcomes for Bangladesh's Old Age Allowance, citing the ineffectiveness of complaints directed to the ward or *upazila* (district) committees. The common practice of complaining to the official who made the original decision prevents an independent and impartial consideration of the grievance. They also review evidence (Shirin 2008; Mannan 2010) about the role of civil society in protecting the rights of older people, and conclude that older people's associations and NGOs may substantially improve the fairness of the selection process as well as the effectiveness of delivery systems. They recommend enhancing the role of civil society to serve as a counterweight to the current dominance of local officials.

In India, however, representatives from NGOs serve on the state-level vigilance and monitoring committees, which aim to supervise, exercise vigilance, and monitor the implementation of the social pension and other schemes (Government of India 2009).

The implementation of a social pension in Asia must address a wide range of considerations in order to effectively reach its poverty reduction and development goals. These considerations include administrative systems, beneficiary selection and registration systems, targeting errors of inclusion and exclusion, payments systems, corruption, and rights protection. The way in which each of these subareas is addressed will ultimately depend on country context, but evidence from Asia indicates in particular the importance of minimizing exclusion error.

Capacity and Administrative Feasibility

Social pensions represent one of the simplest social protection instruments to implement. Countries with limited administrative capacity and low fiscal capacity frequently choose social pensions as the initial step in the process of building a more comprehensive system of social protection. Some countries such as Lesotho and Nepal have successfully implemented universal social pensions—and then continued to extend social cash transfer programs to other vulnerable groups.

The Importance of Management Information Systems

Robust management information systems (MISs) and credible monitoring and evaluation (M&E) frameworks provide important tools for protecting the success of programs and enabling them to scale up successfully. However, in practice, countries frequently lag in implementing the systems required to effectively manage the programs, address the critical risks that arise, and build successfully from an evidence-based approach.

The MISs for social pensions in Asia tend to be highly manual, usually lacking a centralized single registry of all beneficiaries. In Nepal, village development committees maintain decentralized rosters of beneficiaries, but the information is not consolidated at a national level. In other countries, existing studies have not focused on the role of MISs.

A social pension MIS ideally provides integrated tools and processes that manage the information required to successfully deliver benefits, to address the risks that may threaten the program's success, and to maximize the development impact of the intervention. The core function of an MIS structures the information requirements; captures, processes, and stores data; and provides secure yet accessible interfaces for reporting and disseminating information. In addition, a development MIS provides a framework for managing program risk while supporting linkages with complementary interventions.

The Importance of Monitoring and Evaluation Systems

A commitment to monitoring and evaluating social pensions can improve delivery processes, document results, inform policy makers of the effectiveness of different approaches, and mobilize political support for program sustainability and expansion. Monitoring is a continuous process of identifying and tracking important performance indicators and reviewing implementation over the life of the social pension program. Evaluation is an analytical process that links causes to outcomes, providing an assessment of attributable impact after a critical period of social pension delivery has been completed. The evaluation of a social pension program involves the objective and systematic assessment of the design, implementation, and results of the program.

Monitoring and Evaluation (M&E) usually serve three major types of objectives (Kusek and Rist 2004, 117):

- Is the social pension achieving its strategic objectives and goal?

Given the limited resources and competing priorities of governments and development partners, do the programs use resources in a justifiable and efficient manner that promotes development and supports the strategic objectives of the social pension program? This usually involves analytically comparing outcomes for beneficiaries with those for non-beneficiaries, with an explicit strategy for rigorously attributing impact.

- How can the social pension better achieve its objectives?

Operational (or sometimes "formative") evaluations and monitoring processes can track the progress of the social pension program and identify opportunities to improve delivery. Effective program monitoring identifies and measures performance indicators to provide periodic feedback on the success of implementation as well as indications of problems that arise.

- How does the social pension contribute to the global evidence base on delivering social pensions?

M&E provide a global public good, contributing lessons of international experience. Today, social-protection policy makers and practitioners benefit from a substantial evidence base in terms of social pension impacts and operational principles. Commitment to M&E ensures an evolving evidence base of global lessons, facilitating improvements in design and delivery.

In addition to these three roles for M&E, impact assessments also provide the kind of evidence that policy makers need to expand and sustain social pension programs. In the face of political shocks, the evidence of positive impact provides political champions with the tools required to secure resources and protect the program's success. Effective M&E can also generate the necessary evidence base that policy makers and voters need to justify their political support for integrated national programs. More transparent and evidence-based policy processes, which include expanded social dialogue, and more local participation can make the state more accountable to poor women and men (OECD 2009, 27).

Effective and credible M&E systems are essential for demonstrating program impact, developing a global evidence base, communicating operational lessons, and building the foundation of support that fosters long-term sustainability. As social protection interventions are relatively recent innovations, many governments and stakeholders in developing countries are just beginning to develop an understanding of what works in particular social and policy contexts. M&E can mobilize essential learning and evidence to link program performance to ongoing improvements that are best adapted to a country's specific situation. Independent and credible M&E systems help to fill the evidence gaps that otherwise undermine appropriate design and effective implementation.

Positive evaluations can help mobilize political support and expand the resources available for scaling up scope and coverage. M&E can identify problems and propose solutions, and inform the evidence for wider learning. The public good nature of effective M&E and its useful role in managing fiduciary risk provide fertile opportunities for donors to support these types of interventions.

The global evidence base on social protection has improved greatly over the past decade. Countries adopting new interventions can benefit from a rapidly expanding global learning curve and opportunities for South–South learning. Nevertheless, important gaps remain. While persuasive evidence exists regarding impacts in terms of reducing poverty and promoting social outcomes, more convincing evidence is required on the direct links between social protection and economic growth, particularly in low-income countries. Operationally, better evidence on appropriate targeting, payment mechanisms, institutional arrangements, and the role and design of conditions will improve program design and delivery (OECD 2009, 31).

Progressive Realization with Limited Capacity

Countries with weak administrative capacity (and similarly with limited financial resources) can implement social pension programs with basic information systems and basic M&E frameworks. The simplicity of the categorical targeting process is amenable to decentralized systems. Over time, more robust MISs can be built and consolidated. Monitoring systems can expand progressively to meet evolving requirements for evidence. Ideally, a "single registry" MIS coordinates all the key functions of the social pension—the administration (including targeting, registration, enrollment, and case management); payment functions; M&E; and rights protection. In practice, the implementation of a robust MIS usually lags the rollout of social pension programs.

Similarly, monitoring systems for social pensions in Asia are weak—but these social protection programs have been successful nonetheless, and are scaling up at a significant pace. No developing country in Asia has implemented a rigorous quantitative impact assessment of a social pension on the scale of the "gold standard" evaluations of social transfer programs in Latin America and Africa. However, a multiple of smaller-scale studies mobilize an evidence base that documents the effectiveness of these programs.

Strong MIS and M&E systems are important, but not essential in the initial phases. As social pensions scale up, countries can progressively implement more robust and comprehensive systems.

While social pensions are one of the easiest social protection instruments to implement, for an effective and cost-efficient program, attention must be paid to the design of management information, monitoring, and evaluation systems. Many Asian countries face limited financial resources—perhaps more constrained in the wake of the global economic crisis—as well as often limited administrative capacity. In the face of these challenges, progressive realization is a key pathway for the eventual implementation of large-scale, effective social pension programs.

Development Partner Support for Capacity Building and Scaling Up

Development partners (including donors, international organizations, and NGOs) can play a vital role in supporting national initiatives for identifying, designing, implementing, monitoring, and evaluating social pensions. The first step involves the policy roots for social pensions, which ideally are grounded in national social protection frameworks and strategies. Across Asia and around the world, development partners support national governments with technical assistance and other resources to formulate and agree on comprehensive national approaches to social protection. This often involves a shift in the way development partners finance these initiatives—away from donor-specific financing and delivery mechanisms and toward funding national programs through joint financing instruments (OECD 2009, 32).

Development partners can make a pivotal difference by leveraging the lessons of global experience through technical assistance and catalyst financing that support the implementation of national social pensions within more comprehensive and fiscally sustainable social protection strategies. Given the imperatives of the social contract strengthened by social pensions, these initiatives require predictable, long-term, and harmonized funding commitments from development partners. For example, the United Kingdom's Department for International Development (DFID) provided a 10-year commitment to the Government of Kenya for a number of critical social protection initiatives, including a social pension.

The best development partner support is aligned with broader harmonized cooperation with countries' larger national development plans and frameworks as well as the newly emerging national social protection strategies, in line with the Paris Declaration on Aid Effectiveness. The more coherent and harmonized the development partner initiatives, the more effectively governments can develop evidence-based policies and strengthen national capacity to tackle the most important design and implementation challenges.

Development partners often have specific expertise regarding global lessons on risk management. Around the world, donors and international organizations are supporting more efficient and more development payment systems. Development partners often concentrate on key issues with complementary programs and sustainable financing. They can support better policy choices by strengthening research on the design and implementation of appropriate social pension policies and programs. Sometimes, pilot projects support this objective, while in other cases it may be more appropriate and effective to move immediately to national programs. Ideally, this support is integrated within a larger process for strengthening national social protection strategies and frameworks (OECD 2009, 32).

In Nepal, for example, development partners committed to supporting a coordinated approach that promoted comprehensiveness, fostered improvements in effectiveness and efficiency, and tackled the existing fragmentation of social protection interventions. Development partners identified three main areas of support:

- promoting a Nepal-specific evidence base on key interventions including the social pension and other cash transfer programs, with a strong focus on improving delivery systems, capacity, and robust M&E for all social protection interventions;
- using this evidence base to focus interventions more effectively on reducing poverty and vulnerability and on achieving greater social inclusion; and
- supporting the government in developing a strategic, integrated, and coherent social protection framework.

One main area for development partner support involved ensuring that the national social protection strategy is built on an evidence base, including global lessons of experience and the evidence mobilized from Nepal's national programs and social protection pilots. This involved coordinating efforts around effective M&E systems, targeting, and delivery systems as well as support for rigorous impact assessments in order to maximize the evidence-building potential of pilots and other initial interventions.

Development partners identified social pensions as a key area of social protection where work on building an evidence base was both urgent and important. Nepal has announced significant increases in the scope and scale of social pensions, and has requested development partners to support a robust evaluation of the Old Age Allowance. The consensus among partners suggested that building from, and improving the evidence base of, this system would provide the most effective improvement and expansion of the government's delivery of social protection. M&E were viewed as guides to further extensions of this instrument that enhance the program's socially protective impact.

Development partners also committed to supporting capacity development in areas including technical systems, coordination, and communications capacity, as well as supporting the development of a social protection strategy. Development partners organized into a task team to provide harmonized support to the government, particularly in ensuring:

- linkages and collaboration with government partners on social protection, in particular initiatives for interministerial social protection coordination;
- harmonization of development assistance for social protection, aligned with government priorities;
- linkages to development partners and actionable agreements for mutual collaboration; and
- consensus on key principles.

Development partners often work through pilots to build evidence and mobilize political will for national programs. Social pensions, however, provide a well-established instrument for providing core social protection. In most countries, pilots are an unnecessary step along the way. However, in cases where governments lack the political will to commit, pilots may provide a vehicle for demonstrating success and leveraging the resources and capacity required for scaling up.

Conclusions, Policy Lessons, and a Road Map Forward

The policy lessons of Asian and global experience with social cash transfers—and social pensions specifically—provide a road map for designing and implementing efficient, effective, and protective programs in four areas: program identification, design, implementation, and M&E.

Identification of an Appropriate Social Protection Instrument

The starting point of a social pension answers most of the questions initially required for identifying an appropriate social protection instrument. Identification requires further definition of the program: What is the age threshold for eligibility? How much will the benefit level be?

International experience suggests that the answers to these questions may well evolve over time, as increased resources and strengthening political will enable a country to progressively realize a more socially protective social pension. The important issue is to identify a feasible starting point that can anchor the future development of the program. Viet Nam started with a social pension for people 90 years of age and older, and progressively lowered the threshold to 80 years, with provision for a more heavily targeted pension from the age of 60. Likewise, Nepal began its universal social pension with an age threshold of 75 years, and then lowered it to 70 years and to even as low as 60 years for the country's most vulnerable groups. Similarly, countries generally start with a relatively low pension benefit level, and then progressively adjust the amount to increase its real purchasing power as political support for the program consolidates and greater resources are allocated.

Design

The main design question is whether to provide the social pension universally to all age-eligible people, or to try to target the benefit to the poorest. This is a complex question, with significant implications for the cost, effectiveness, and political support for the program. Developing countries—like Bolivia, Botswana, Kiribati, Lesotho, the Maldives, Mauritius, Namibia, Nepal, Samoa, the Seychelles, Timor-Leste, and Viet Nam—often begin with universal pension systems. Others, like South Africa and Thailand, initially adopt poverty-targeted approaches and then move toward a more universal approach. Still others—such as Bangladesh and India—adopt poverty targeting and then cope with the substantial costs and complications. The targeting question is essentially political, rooted in resource allocation and ideology. Countries that choose universal approaches implement more transparent, rights-based systems that more easily consolidate political support. Poverty targeting will initially conserve fiscal resources, but shift costs to beneficiaries and to those excluded from the program.

Rarely does a country move from a universal approach to poverty targeting. Mauritius proved a temporary exception by implementing a means test for its universal pension in August 2004. In the face of political backlash, the government fell in July 2005, and the new government immediately abolished the targeted approach and reinstated the universal pension, ending "the humiliation previously imposed on pensioners" (Willmore 2007, 10).

Nepal provides another example of a short-lived transition to means testing. In 1997, the government decided to abandon universality, instructing village development committees to limit payments to persons below the poverty line. The committees complained that means testing was difficult to carry out fairly and effectively, so universality was quickly restored (Palacios and Irudaya Rajan 2004 cited in Willmore 2006). More commonly, countries tend to move from targeted approaches to universalism, recognizing the benefits in terms of lower social and economic costs, reduced corruption and inefficiency, greater political support, and better integration into the larger system for retirement savings.

Implementation

The implementation of a social pension requires choices about key delivery systems that support registration, enrollment, payments, case management, and mechanisms to protect the success of the program. The global evidence base provides a wealth of implementation lessons. The registration process provides the best opportunity to raise awareness about the program. An outreach strategy can determine the successful take-up of the social pension. The MIS coordinates the other systems and provides an important tool for protecting and maximizing the successful implementation of the program.

The need for proof of age complicates categorical targeting of older people. Given the poor registry systems in many developing countries (particularly decades ago), many older people do not possess formal documentation of their age. If the costs of obtaining the documentation are high, many of the poorest are likely to be excluded. Publicizing information about how to obtain appropriate information—and streamlining document access—can help improve targeting to the poor. South Africa's experience documents the importance of government offices that respond to the needs of the poor. Particularly when transportation costs are high, poor service causing multiple visits to administrative offices can exclude the poorest. The best practices balance flexibility with the need for fiduciary accountability. For example, Nepal allowed horoscopes and other widely held documents as substitutes for birth certificates.

The enrollment process formalizes the selection of the eligible beneficiaries, and the degree of formality this requires varies from program to program. Enrollment in a universal pension program can take place at the same time as registration—the eligibility criteria are completely transparent. With more vigorously targeted programs, enrollment may follow the registration process because of the need to process the data. These lags increase the costs of the program—administration costs, private costs to the participant (for example, time and transportation), and the delay in providing the household with resources.

The main aim of the implementation process is to efficiently and cost-effectively deliver the social benefits to all who are eligible, in a timely and reliable manner. While this is a challenging task, the global evidence base provides guidance at each step of the way. Increasingly, countries want to achieve larger development objectives by leveraging development spin-offs from the implementation systems. A physical cash paypoint may be effective in reliably paying social pensions to older people, but a smart card-based pension delivery system lowers the deadweight costs to participants while providing access to financial services. A cell phone–based payment system brings the power of information and communications services to the poorest households.

Monitoring and Evaluation

The design phase for a social pension provides the best window of opportunity for developing an M&E framework. After the government has paid the initial benefits, it is too late to design the most credible impact assessment possible. The design and implementation of M&E systems should follow step by step the rollout of the social pension program itself. Effective M&E demonstrates the success of the social pension, strengthening the political will required to expand the program. This also provides continuous feedback and lessons for improving delivery. Furthermore, M&E builds an international evidence base that constitutes a global public good.

This global evidence base provides the international lessons on which this chapter is based. Social pensions provide one of the core instruments for effective social protection systems in developing countries, reducing poverty, increasing well-being, and generating development outcomes in terms of nurturing human capital, promoting livelihoods development, and solidifying the foundation for propoor and inclusive growth. Low-income countries demonstrate that social pensions are affordable and sustainable. This evolving evidence base continues to inform policy makers and practitioners about how to more effectively design and implement social pension programs.

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Chapter 4
Gender and Old-Age Pension Protection in Asia

Athina Vlachantoni and Jane Falkingham[35]

Abstract

The gender implications of the design and implementation of old-age pension protection systems arise because few systems take women's increasingly diverse life courses into account. This chapter looks at demographic and socioeconomic patterns in Asia—and their changes—such as population aging, intergenerational support and living arrangements, and women's participation in the informal labor market. It discusses the strengths and weaknesses of contributory and noncontributory systems. It concludes that, although social pensions can contribute significantly to lifting many women in low-income countries out of poverty, protection systems need to consider much more the diversity in women's life courses and working lives.

Background and Objectives

Women in low-income countries are particularly vulnerable during old age, principally because existing social protection systems fail to provide them with adequate support. Formal social protection, whether in the form of social insurance or social assistance, covers a smaller proportion of the older population than social insurance, and in many low-income countries is still a privilege for former workers in public bodies or state-owned industries. The physical, financial, and emotional well-being of the overwhelming majority of older women largely depends on informal protection from their family and community during later life.

Against this background, this chapter seeks to review challenges associated with the provision of old-age social protection for women and to draw policy implications for the role of social pensions for older women in Asia.

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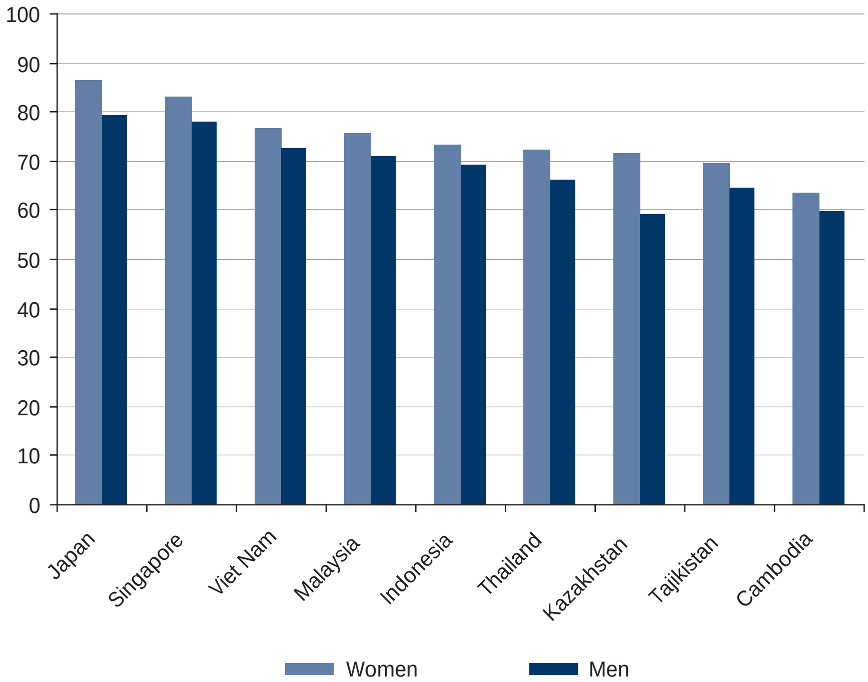
Gender-Specific Vulnerabilities and Old-Age Social Protection

Across the world, women are more likely than men to experience poverty in old age. Such feminization of poverty is likely to occur as a result of the combined effect of behavioral or life-course differences between men and women on the one hand, and institutional features of modern pension systems on the other. Important gender differences in life courses lie in the areas of life expectancy and the changing dependency ratio of the population. Women's domestic and informal care responsibilities, as well as patterns of intergenerational living arrangements, also affect the receipt and provision of support in old age.

Higher Life Expectancy of Women

Women are more likely than men to live longer and their life expectancy has been rising, although some Central Asian countries have benefited less from such demographic changes (Chapter 10). On average in 2009 in Asia, men could expect to live for 67.5 years and women for 71.2 years, with significant country variations (Figure 4.1).

Figure 4.1 Life Expectancy at Birth, by Gender, Selected Asian Countries, 2009



Source: ILO (2010).

Living longer than men, women are more likely to experience widowhood in later life (particularly as women often marry men older than themselves), to live alone, and to risk poverty for longer. Older widows in some parts of Asia, such as Bangladesh and India, as well as the "oldest old" (defined as those 80 and over) across the region face a particularly high risk of vulnerability (Cook, Kabeer, and Suwannarat 2003).

Differences in marital status are also important determinants, and older men are sometimes twice as likely as women to be married in Asia (Kinsella and Velkoff 2001; UN 2005). Widowhood is a far more common cause of being single in old age than having never married or having separated or divorced. Ofstedal, Reidy, and Knodel (2004), for example, studied older people in eight Asian countries and found that fewer than 5% of respondents had never married or had separated or divorced.

Although life expectancy is higher for women than men in every Asian country shown in Table 4.1, the proportion of those "extra" years in which women should expect to live disability free is smaller for women than for men in most countries. The proportion of life years likely to be spent without a disability (that is, healthy life expectancy in Table 4.1) is generally higher in countries where life expectancy is higher (with exceptions such as Malaysia and Thailand). Such differentials have implications for older men's and women's ability to continue contributing to household income and providing support to family members, and for their need for support.

Table 4.1 Healthy Life Expectancy and Life Expectancy by Gender, 2007

Economy	HLE (men)	HLE (women)	LE (men)	LE (women)	% spent in good health (men)	% spent in good health (women)
Japan	73	78	79	86	92	91
Singapore	71	75	79	83	90	90
Indonesia	60	61	66	69	91	88
China, People's Republic of	65	68	72	76	90	89
Viet Nam	62	66	70	75	89	88
Malaysia	62	66	71	76	87	87
Thailand	59	65	66	74	89	88
Tajikistan	58	57	66	69	88	83
Kazakhstan	53	60	59	70	90	86
Cambodia	51	55	59	64	86	86

HLE = healthy life expectancy, LE = life expectancy.
Source: WHO (2010).

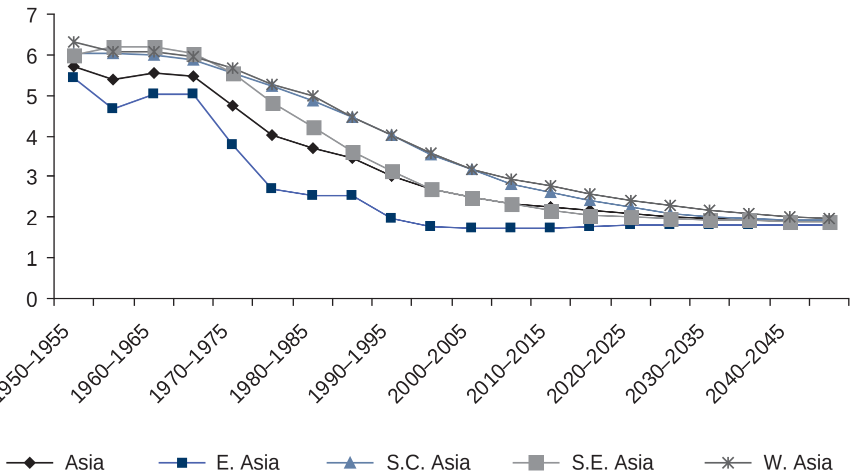
Rapid Aging

Gender and old-age protection in Asia should be viewed in the context of the demographic transition, which has contributed to moving from preindustrial high rates of mortality and fertility to postindustrial low rates (Bloom and Williamson 1998). The drop in fertility rates has contributed to the aging of populations across the world by increasing the proportion of older people, a trend set to continue: the share aged 60 and over is expected to rise strongly between 2010 and 2050 (ILO 2010).

These demographic trends have two main implications for women. First, an increasing proportion of older people can place pressure on women across the life course as support and care providers in the household, in addition to the caregiving and unpaid household labor that they already do. Second, as women are the majority of older people across the world (UN 2010), reflecting gender differences in life expectancy, they are likely to increasingly require care and support themselves in old age.

Figure 4.2 illustrates the actual and projected fall in total fertility rates for different Asian subregions during 1950–2050.

Figure 4.2 Total Fertility Rates in Asian Subregions, 1950–2050



Note: Eastern Asia: People's Republic of China; Hong Kong, China; Japan; Macau, China; Democratic People's Republic of Korea; Republic of Korea; Mongolia. South-Central Asia: Afghanistan; Bangladesh; Bhutan; India; Islamic Republic of Iran; Kazakhstan; Kyrgyz Republic; Maldives; Nepal; Pakistan; Sri Lanka; Tajikistan; Turkmenistan; Uzbekistan. South-Eastern Asia: Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; Viet Nam. Western Asia: Armenia; Azerbaijan; Bahrain; Georgia; Iraq; Israel; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza Strip; Yemen.

Source: UN (2009a).

Rapid population aging has tremendous implications for the design and delivery of old-age pension protection, including the effectiveness of old-age social protection, especially when one looks at projected patterns in the old-age dependency ratio—the relative populations of the old (aged 65 and over) and of those of working age (aged 15–64) (Table 4.2).

Table 4.2 Old-Age Dependency Ratio, 2000–2050 (%)

Economy	2000	2005	2010	2030	2050
Indonesia	8	8	9	15	29
Japan	25	30	35	53	74
Singapore	10	12	14	46	58
China, People's Republic of	10	11	11	24	38
Viet Nam	9	10	9	18	32
Malaysia	6	7	7	15	25
Thailand	9	10	11	23	32
Tajikistan	7	7	6	9	15
Kazakhstan	10	12	10	16	24
Cambodia	5	5	6	9	15

Source: ILO (2010).

Domestic and Informal Care

Women around the world provide the bulk of care inside and outside the household, whether for children or sick, disabled, or elderly relatives (UN 2010). Packard (2006), for example, found that women in rural areas of Viet Nam spent an average of 7.5 hours a day involved in caring activities, against men's 30 minutes (the gap was smaller in urban areas, at 6 hours and 90 minutes). Women are overrepresented among informal carers, whether as spouses, daughters, daughters-in-law, sisters, or other female family members, despite significant differences in the way caring obligations are embedded among cultural contexts (Ofstedal, Reidy, and Knodel 2004). For example, evidence from time-use surveys, covering such areas as paid work, unpaid work in the household, unpaid work in family businesses, civic participation and volunteering, shows that women in Asia spend three times the amount of time on household- and family-related activities than men (UN 2010).

Women's greater likelihood to provide informal care has not changed, even as more women have entered the labor market, while women's longer life expectancy makes them more likely to provide care into their young old age (that is, their early 50s) and more likely to require care and support themselves in the oldest age categories. In addition, women are more likely to spend their share of the household income on maintaining the household and other family members, and to contribute to care provision more (see for example, Evans and Harkness 2008; Hermalin 2001).

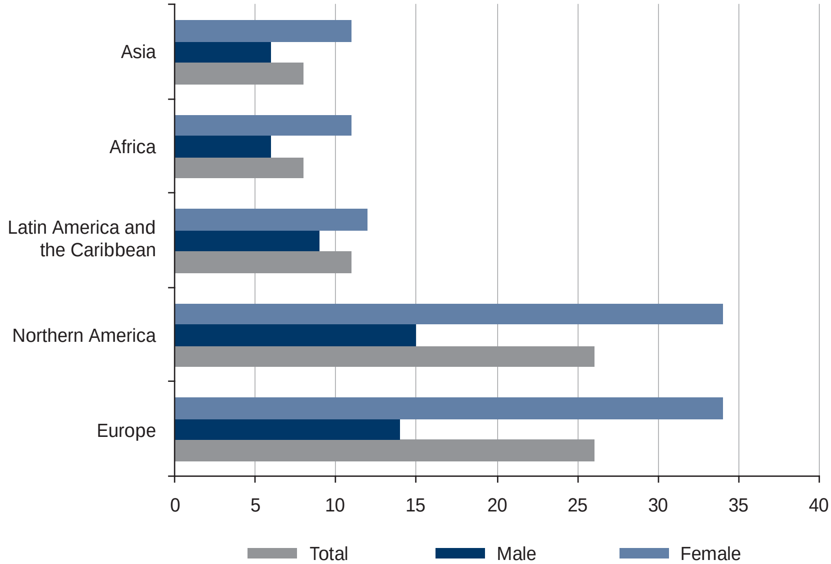
Such care and unpaid household work, whether in high- or low-income countries, can have multiple effects on women's pension accumulation prospects, including their availability to join the labor market, their overall lifetime earnings, and the amount and frequency of their pension contributions (Zaidi 2007).

Intergenerational Living Arrangements

The demand for care in the latter part of the life course is partly mitigated by patterns of intergenerational living arrangements, which reflect flows of support between younger and older generations. Coresidence of older people with their adult children is a traditional household form in low-income countries and reflects the family's obligation to support its older people (Chow 2005; Cameron and Cobb-Clark 2001). Intergenerational coresidence can act as a safety net for older people's well-being when accompanied by the receipt by older people of financial and practical support.

Asia has the lowest incidence of older people living alone, and this has remained unchanged between 1980 and 2000 (UN 2005). Figure 4.3 shows that the proportion of people 60 and over living alone in Asia is much lower than in other parts of the world (UN 2009b). Country-specific studies have found consistent results with the majority of older people living with family; for example, in Malaysia in the mid-2000s, more than half of older people lived with family members (Masud, Haron, and Gikonyo 2008).

Figure 4.3 Share of Population aged 60 and over Living Alone by Sex, Major Regions around 2005 (%)



Source: UN (2009b), Figure 30.

Patterns of living arrangements in Asia mark important gender differences, with older women more likely than older men to live alone, as a result of a lower likelihood to be currently married and a high likelihood of being widowed.

Old-Age Social Protection and Women in the Labor Market

Differences in men's and women's employment rates and sector (formal/informal) heavily affect pension accumulation and entitlement, and so have crucial implications for the effectiveness of existing old-age social protection for women. In most countries globally, women are less likely than men to be employed in the formal labor sector, and are as, or more, likely than men to be employed informally (ILO 2010).

Women in the Formal Labor Market

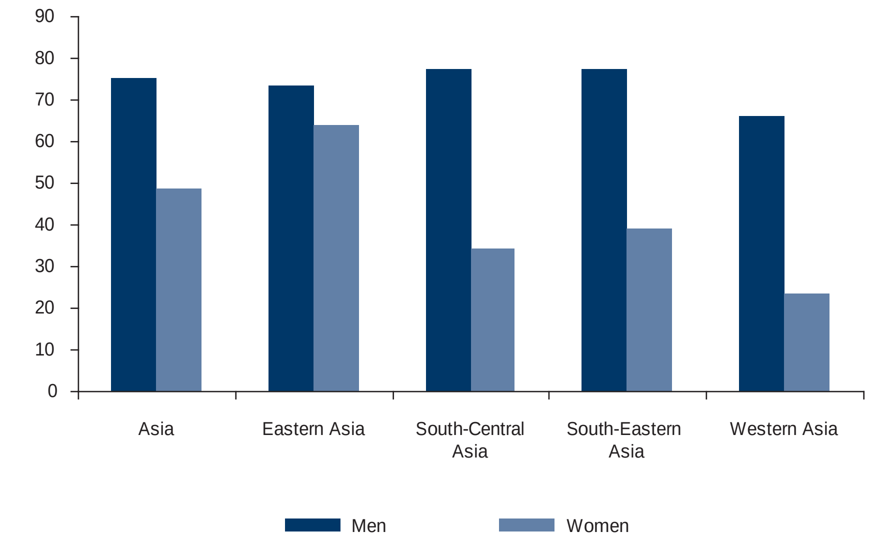
Women's formal labor force participation rates, as well as their earnings capacity relative to men's, are important indicators of their capacity to contribute to a pension scheme. The International Labour Organization (ILO) adopts a broad definition of employment, which includes the proportion of a country's working-age population who are employed. This definition theoretically includes unpaid family workers who work for at least one hour every week, although many countries use higher limits in their definition and thus their rates may not reflect women's (and men's) contribution to the informal economy.

Across Asia, women's formal employment rates have either remained stagnant or slightly decreased between 1990 and 2010 (UN 2010). A smaller proportion of women than men are employed formally in Asia, with wide differences by subregion (ILO 2010). Women in Western Asia are the least likely to be employed, and women in Eastern Asia the most (Figure 4.4).

However, such crude measurements mask the type of employment in which women engage (such as full- or part-time), with repercussions on the security of their current income, their current job, and their pension. Indicators on employment type are particularly useful in the absence of gender-specific analyses of pension coverage in later life.

Among Asia's subregions, women receiving a wage or a salary make up a smaller proportion of the total female population of working age, and of the total population of employed women, relative to their male counterparts (Table 4.3). For example, men receiving a wage or salary make up almost one-third of all working-age men in East Asia; the equivalent figure for women is about 18%.

Figure 4.4 Total Employment Rates of Those Aged 15 and Over, by Region and Sex, Asian Subregions, 2008



Note: Eastern Asia: People's Republic of China; Hong Kong, China; Japan; Macau, China; Democratic People's Republic of Korea; Republic of Korea; Mongolia. South-Central Asia: Afghanistan; Bangladesh; Bhutan; India; Islamic Republic of Iran; Kazakhstan; Kyrgyz Republic; Maldives; Nepal; Pakistan; Sri Lanka; Tajikistan; Turkmenistan; Uzbekistan. South-Eastern Asia: Brunei Darussalam; Cambodia; Indonesia; Lao People's Democratic Republic; Malaysia; Myanmar; Philippines; Singapore; Thailand; Timor-Leste; Viet Nam. Western Asia: Armenia; Azerbaijan; Bahrain; Georgia; Iraq; Israel; Jordan; Kuwait; Lebanon; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; United Arab Emirates; West Bank and Gaza Strip; Yemen.

Source: ILO (2010).

Table 4.3 Shares of Wage or Salaried Employees in Employed and Working-Age Populations, 2008

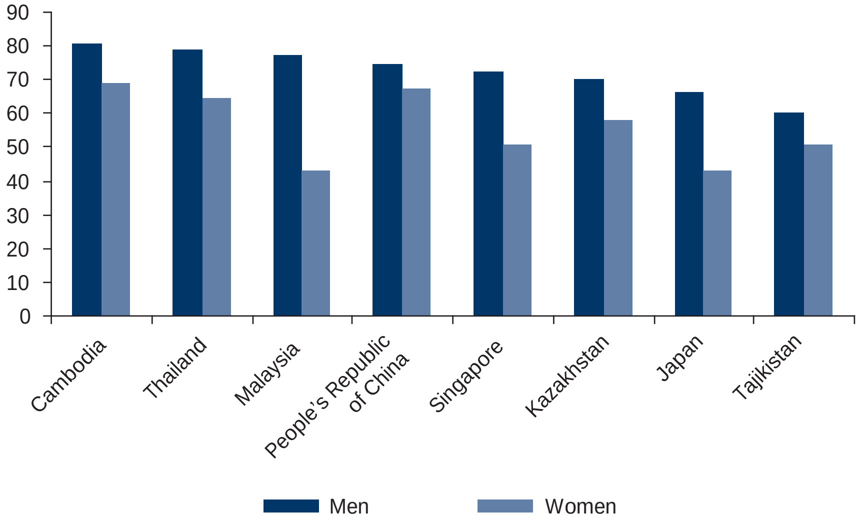
	Total		Men		Women	
Subregion	Share of Employed	Share of Working-Age Population	Share of Employed	Share of Working-Age Population	Share of Employed	Share of Working-Age Population
South Asia	20.8	9.7	23.4	15.6	14.6	3.5
Southeast Asia and Pacific	38.8	21.9	41.5	28.6	35.0	15.1
East Asia	42.6	23.3	46.0	28.9	38.3	17.6

Source: Based on Hagemejer (2009), Table 4.2, p. 64.

Country data also illustrate diversity, pointing to different policy options for social protection (Figure 4.5).

Gender differentials in earnings over the life course can affect the capacity of women (and men) to contribute to pension schemes, and a pay gap persists in many countries in both the high- and the low-income world (UN 2010). In Asia,

Figure 4.5 Employment Rates of Those Aged 15 and Over, Selected Countries, by Gender, 2008



Source: ILO (2010).

Table 4.4 Gender Pay Gaps, Selected Asian Economies

Economy	Year	Women's Monthly Earnings as % of Men's (average)
Hong Kong, China[1]	2006–2008	60
Japan[2]	2008	47
Malaysia[2]	2008	58
Republic of Korea[1]	2006–2008	57
Singapore[1]	2006–2008	65
Sri Lanka[1]	2006–2008	77
Thailand[1]	2006–2008	75

[1] Data from UN (2010), referring to manufacturing and estimated based on daily or monthly wages.

[2] Data from World Economic Forum (2010).

Sources: World Economic Forum (2010); UN (2010).

women earn between one-half and three-quarters of men's earnings (Table 4.4). Such pay gaps reflect gender segregation in the labor market to a degree, with women making up the vast majority of workers in services, where wages tend to be relatively low (ILO 2010). Equally important are cohort-specific patterns and expectations of women in formal employment.

The persistence of a "male breadwinner" model, in which the female spouse is employed in the informal labor market and relies on the male spouse's wages and benefits from formal work, may explain such gaps. Women's income throughout their life course, and particularly in later life, depends on gendered intra-household and intra-family decision-making processes and cultural practices (ILO 2010). Gender pay gaps are particularly important in countries operating earnings-related pension schemes, where the pension entitlement is based on the individual's average earnings over a specified period. Such schemes can benefit women whose employment records approximate typical male employment records—namely long, continuous employment, during which earnings rise continuously. Conversely, women's entitlement in such systems can be hampered by employment breaks and periods of part-time work. Informal employment, too, more often than not unregistered, is a challenge to pension systems of this kind.

For women in the formal labor market, changes in both the kind of occupational sector they work in, as well as changes in their overall employment patterns across the life course, are important for pension protection.

Japan offers an illustrative case. Women's participation in the labor market has remained relatively constant over the last century—40%–50% of all working-age women—but the distribution of working women across industries has changed dramatically, largely reflecting the economy's growth, particularly in the mid-1980s (Kugamai 2005). Such patterns, reflected to greater or lesser extents in other countries, indicate that, despite benefiting from greater labor force participation, women do not necessarily secure adequate earnings or social protection.

Women in the Informal Labor Market

The majority of working women in low-income countries worldwide are in the informal sector. In selected countries in Asia, women are more likely than men to be contributing family workers, and less likely to be classified as wage/salaried or self-employed (Table 4.5)—in Bangladesh, six times as likely. In Thailand and the Philippines, gender differences are less stark.

Many pension systems fail to take women's diverse employment records into account and may perpetuate women's dependence on social assistance schemes in later life (Lund and Srinivas 2000). Certain countries in Asia have, though, designed pension systems to protect people with inadequate or no contributions on a voluntary basis, either within the main pension system, with or without subsidization, or as part of a separate system. Sri Lanka, for example, operates a voluntary pension scheme for farmers, fishermen, and the self-employed in the informal sector (Kidd and Willmore 2008). The Malaysian Employee Provident Fund (EPF) pension system allows workers in the informal sector and the self-employed, who made up almost one-quarter (23%) of the total employed population in 1999, to contribute to the EPF scheme on a voluntary basis (Haji Mat Zin, Lee, and Abdul-Rahman 2002). The National

Table 4.5 Status in Employment by Gender, Selected Asian Countries

		Men			Women		
Economy	Year	Wage and Salaried	Self-Employed	Contributing Family Workers	Wage and Salaried	Self-Employed	Contributing Family Workers
Bangladesh	2005	14.5	75.1	9.7	11.7	26.5	60.1
Lao PDR	1995	14.3	56.6	29.1	5.4	57.1	37.6
Malaysia	2008	74.6	20.8	4.6	78.9	13.0	8.1
Maldives	2006	55.2	24.9	13.4	45.0	31.2	22.9
Nepal	2001	33.7	60.5	5.7	12.8	74.4	12.9
Philippines	2008	52.4	35.4	12.2	51.4	31.2	17.4
Sri Lanka	2008	56.0	33.2	10.8	54.7	22.9	22.4
Thailand	2008	43.2	34.6	22.3	42.6	26.3	31.1

Lao PDR = Lao People's Democratic Republic.

Note: Self-employed include employers, own-account workers, and members of producers' cooperatives.

Source: ILO (2010).

Social Security System (JAMSOSNAS) in Indonesia has undergone reform to allow for the partial subsidization of informal workers' contributions to increase coverage in that sector (MacKellar 2009).

These schemes have, however, been criticized for high administrative charges, poor record-keeping, potential disincentives to contribute, and low rates of return (MacKellar 2009). Most important, special pension schemes for informal workers only benefit a small proportion of women as the majority of informal workers are rarely able to afford even the minimum contributions required.

Among another, but overlapping, group of Asian countries, the proportion of older people covered by a pension program—contributory or noncontributory—ranges from 6% in the Lao People's Democratic Republic (Lao PDR) to more than two-thirds in Nepal (Table 4.6), but in all countries but Nepal, most of the older population do not receive any pension. The table also shows the proportion of the working-age population contributing to a pension program (it does not exceed one-quarter in all but two countries), which is a useful indicator of contribution affordability, as well as the relative importance of noncontributory pension schemes.

Although it is impossible to draw conclusions from such evidence specifically for women or men, it allows us to understand the broader policy framework and the need to provide a safety net for workers with low or no contributions to a contributory pension scheme.

How much can workers in the informal labor market rely on informal support from their family and communities in later life? This is an area where gender

Table 4.6 Effective Extent of Coverage and Active Contributors, Selected Asian Countries

Economy	Coverage (%)	Year	Active Contributors to a Pension Program (% of Working-Age Population)	Year
Bangladesh	18	2004	2	2004
India	24	2005	6	2006
Indonesia	23	2003	14	2003
Lao PDR	6	2005	1	2004
Malaysia	37	2004	64	2003
Nepal	67	2003	1	2003
Philippines	17	2005	55	2003
Sri Lanka	25	2005	22	2004
Thailand	20	2007	21	2006
Viet Nam	34	2004	12	2007

Lao PDR = Lao People's Democratic Republic.

Note: Coverage is the share of the population above the legal retirement age in receipt of a pension.

Source: ILO (2010).

differences are particularly evident, and where cultural differences in the way older people are viewed play a significant role. Masud and Haron (2008), for example, studied older people in three districts in Malaysia and found that 40%–70% of respondents received an income from their sons or daughters. By contrast, only 10%–18% of the respondents received a pension, although the majority of respondents had low educational qualifications and low-paying jobs.

Finally, women in old age tend to rely on remittances sent by migrant family members. The flow of remittances toward low-income countries has increased dramatically over the last decade or so, and is projected to increase further (Mohapatra, Ratha, and Silwal 2010). Research in South Asia has found that older women tend to rely on remittances more than older men as a major source of their income. As older women make up the majority of older people living alone in low-income regions of the world, particularly in rural areas (UN 2005), remittances are likely to become more important in their income in later life (Morrison, Schiff, and Sjoblom 2007).

The Role of Social Pensions in Providing Old-Age Protection for Women

Providing old-age social protection is a major challenge for low-income countries. For the minority of working women there who are employed in the formal sector, traditional pension systems are inadequate for income security in later life. This is because women's working lives tend to be more diverse than men's, often including periods of care-giving as well as part-time work and associated low earnings, which may prevent them from fulfilling the typical eligibility criteria of pension systems designed for men's working lives. In addition, workers in the informal sector—where the majority of women work—are in practice excluded from mainstream contributory pension systems designed for formal workers.

In addition to contributory pension schemes, certain countries in Asia offer noncontributory (social assistance) benefits to older people who have not accumulated adequate contributions based on their employment and/or caring records, and may face a poverty risk in retirement. Such programs are particularly important for women's income adequacy in later life.

Social pensions can be allocated to all older people over a certain age (universal application) or to older people whose individual or household income falls below a certain threshold (means-tested or targeted application). The primary aim of social pensions is to raise the proportion of the population covered by a minimum pension in later life, and this is achieved by disengaging eligibility criteria from one's employment history, in the formal or informal sector (Kidd 2009).

Social pensions present several advantages from a gender perspective. First, they offer a safety net for workers in the informal sector, who tend to have low earnings during their working life and few or no pension contributions. Stahlberg, Kruse, and Sunden (2005) noted that such pensions can benefit women more than men, because women tend to be lower earners than men. In Asia, social pensions are an integral part of women's old-age social protection.

Second, as the eligibility criteria of social pension schemes often include conditions that women are more likely to meet than men, for example, reaching older age, experiencing extreme poverty, being widowed, or being the sole source of support for grandchildren, social pensions are more likely to target older women than men—in Asia as across the world.

Third, providing support to grandchildren is particularly important in the design of social pension schemes in countries where the middle generation of working-age adults is either completely absent from the household or has moved away to work. In Asia, the care of grandchildren by nonworking grandparents often results from economic migration of that middle generation, placing greater importance on older women as caretakers, and on noncontributory cash transfers which may complement income from remittances sent by the migrants.

A fourth advantage of applying social pensions is their use by policy makers and aid organizations not only as a mechanism for alleviating extreme poverty in later life, but also as a mechanism for promoting greater gender equality. Jones and Anh (2010), for example, argue that particular "gendered risks and vulnerabilities" in Vietnamese households can be tackled through social protection programs going beyond social pensions to areas such as human capital development, access to credit, and health insurance.

In addition to reducing poverty in households which include older people, social pensions have the potential to impact on the intrafamily dynamics, gender relations, and decision-making processes within the household. Such an argument is strengthened through evidence that women are more likely than men to invest their income in the well-being of their family or broader household. For example, researching the impact of social pensions in South Africa, Case and Deaton (1998) found that the poverty headcount would be 5 percentage points higher without social pensions, while Dufflo (2000) found that a pension income had a positive impact on school enrollment in households including grandchildren, and similar findings were produced in relation to the Brazilian context (Camarano 2002).

A final reason why social pensions are particularly important for older women is that older women are more likely than older men to reduce their economic activity toward the latter part of the life course to provide care and unpaid household labor (Hagemejer 2009). ILO data (ILO 2010) show that in all Asian subregions, women 65 and over are much less likely than men to be in the labor force, and by extension less likely to rely on an income from work in later life.

But social pensions have limitations. Their main objective is to provide basic income protection to tackle absolute poverty. They are most commonly targeted at the most poor and vulnerable, often including means tests in order to effectively identify beneficiaries. The level of benefits in most countries is rather low and is hardly sufficient for exiting poverty. Social pensions therefore remain a second-best solution to income adequacy in later life.

Several analyses have argued that the contextualization of social pensions in the broader policy framework of social protection is of paramount importance, or that the way social pensions are targeted and implemented matters (HelpAge International 2003; contributions by Hujo and Cook, Chapter 1; and by Samson, Chapter 3). In other words, the effectiveness of social pensions, from the point of design to the point of delivery, largely depends on the extent to which such schemes fit with contributory systems of social protection, as well as broader systems of protection that include health care provision. A country's administrative capacity and political will can often prove more crucial indicators of such effectiveness than the extent to which extreme poverty experienced by older people (men and women) is alleviated.

As social pensions have the potential to safeguard the well-being of the poorest in low-income countries regardless of their gender or other demographic characteristics, the gendered implications and benefits of social pensions are usually explored at the evaluation rather than initial design of such schemes. Given that older women in Asia are more likely than older men to find themselves in the lowest parts of the income distribution, the inclusion of a gender dimension in the design of social pension schemes could therefore serve to enhance their effectiveness in targeting those most at need.

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Chapter 5

Providing Social Security in Old Age: The International Labour Organization View

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Abstract[38]

The chapter focuses on the question of the universalization of affordable retirement as part of a wider objective to guarantee a basic social security package to all. It argues that contributory pensions cannot effectively cover the majority of persons employed in the informal sector and those with shorter, broken careers and low lifetime incomes. In order to provide at least minimum income security in old age to all, one has to go beyond purely earnings-related contributory pensions and introduce various noncontributory interventions—within contributory schemes and outside them.

The Objectives and Standards of Pension Systems

Pension schemes represent an arrangement by which individuals receive an income (a regular periodic payment) when they have reached a certain age and can no longer earn steady income from employment. Countries where social security is more developed usually have several different pension schemes either covering certain groups of the population or with various specific objectives. Some of the latter include the prevention of poverty through

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37 ILO Decent Work Team for East and South-East Asia and the Pacific, Bangkok.

38 This chapter draws on three recent ILO publications: ILO. 2010. World Social Security Report 2010/11: Providing coverage in times of crisis and beyond. Geneva; ILO. 2010. Extending social security to all: A guide through challenges and options. Geneva; and ILO. 2010. Employment and social security protection in the new demographic context. Geneva. It also provides examples from countries that have introduced universal or targeted noncontributory pension schemes in Asia, including Bangladesh, the People's Republic of China, Japan, the Republic of Korea, Mongolia, Nepal, Sri Lanka, Thailand, Timor-Leste, and Viet Nam.

the provision of basic income, the replacement of pre-retirement employment income in order to “smooth” consumption (that is, to prevent a fall in living standards after retirement), and the supplementation of this partial replacement income with additional income at retirement. These different pension schemes may be contributory or noncontributory; defined benefit or defined contribution; mandatory or voluntary; publicly or privately managed; social insurance, occupational, or personal; and basic or supplementary.

What is important is that all these different schemes are designed to play complementary roles so as to provide comprehensive coverage, reaching different groups of the population and meeting different objectives. In this way, they constitute a national pension system. The specific mix of components in the national pension system generally reflects national circumstances such as the country’s policy stance and history of economic development.

Behind any pension system is a social contract that specifies the following: what retirement is; when people should retire; what part of their income at retirement is guaranteed by society, and to whom; and the place of intergenerational solidarity in financing retirement pensions.

The International Labour Organization (ILO) has adopted standards for pensions systems (in the form of conventions, which are binding on member states that ratify them, and of recommendations)[39] following the analysis of legislation and actual policies in its member states. Convention 102 on Minimum Standards in Social Security and Convention 128 on Invalidity, Old-age and Survivors’ Benefits specify the agreed minimum requirements regarding social security benefits at retirement (old-age pension). Both conventions were reconfirmed in 2002 as fully up-to-date instruments by the ILO’s Governing Body.

These two conventions stipulate old-age pensions to be paid in the form of life annuities (“periodical payments” paid “throughout the contingency”) to persons reaching the age prescribed by national legislation. This age should not generally be higher than 65; these two conventions allow, however, countries to set a higher retirement age if justified. Fixing the retirement age at above 65 should give “due regard to the working ability of elderly persons” (Convention 102) and “demographic, economic and social criteria, which shall be demonstrated statistically” (Convention 128).[40]

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39 See http://www.socialsecurityextension.org/gimi/gess/ShowWiki.do?wid=792 for more information on ILO conventions and recommendations in the field of social security.

40 At the same time, Convention 128 says that “If the prescribed age is 65 years or higher, the age shall be lowered, under prescribed conditions, in respect of persons who have been engaged in occupations that are deemed by national legislation, for the purpose of old-age benefit, to be arduous or unhealthy.”

The two ILO conventions give a wide freedom of the mechanism (or combination of mechanisms)[41] to deliver old-age, disability, and survivors' pensions: earnings related or flat rate, contributory or noncontributory, means tested or not—the important thing is the benefit level. If basic income security is to be provided mainly by the earnings-related pensions, the minimum replacement rate should be guaranteed, at least for those with earnings lower than prevailing typical or average levels. For old-age earnings-related pensions of such lower-income beneficiaries, Convention 102 requires the minimum replacement rate to be at least 40% of previous earnings and, if benefits are contributory, already after 30 years of contributions.[42] Reduced pensions should be provided for those with shorter contributions periods. If pensions are paid at the uniform rate, the amount should not be lower than 40% of prevailing levels of earnings of unskilled manual workers. This applies as well to pensions provided as means-tested benefits, but the level of those should also meet another criterion: it "shall be sufficient to maintain the family of the beneficiary in health and decency."[43] Amounts of all kinds of pensions awarded originally to the beneficiaries should be reviewed regularly and adjusted after any "substantial changes" in the general level of earnings or cost of living.

Although a wide choice of policy measures could be adopted to provide pension benefits, these measures should meet certain standards for governance of social security pension systems and their financing:

- Entitlements to benefits should be clearly specified in the legislation and "every claimant shall have a right of appeal in case of refusal of the benefit or complaint as to its quality or quantity" (Convention 102, Article 70 and Convention 128, Article 34).
- There should be no discrimination and treatment should be equal, including migrants: "non-national residents shall have the same rights as national residents" (Convention 102, Article 68).
- Government shall accept general responsibility for the proper administration of the institutions and services concerned (Convention 102, Article 71 and Convention 128, Article 35).
- Where the administration is not entrusted to an institution regulated by the public authorities or to a government department responsible to a legislature, representatives of the persons protected shall participate in the management, or at least be consulted; national laws or regulations may

[41] Including voluntary insurance if it is either administered by public authorities or jointly by workers and employers, covers a substantial proportion of lower-income workers, and meets other provisions of the Convention.

[42] Convention 128 requires higher benefit levels of 45%.

[43] Convention 102, Art. 67. http://www.socialsecurityextension.org/gimi/gess/RessShowRessource.do?ressourceId=313; Convention 128, Art. 28. http://www.socialsecurityextension.org/gimi/gess/RessShowRessource.do?ressourceId=9193

likewise decide as to the participation of representatives of employers and of the public authorities (Convention 102, Article 72 and Convention 128, Article 36).

- Governments have general responsibility for providing adequate benefits and shall take all measures ensuring financial sustainability (Convention 102, Article 71 and Convention 128, Article 35).
- The overall cost of the benefits provided and the cost of administering such benefits shall be borne collectively by way of insurance contributions or taxation (or both) in a manner which avoids "hardship to persons of small means" (Convention 102, Article 71 and Convention 128, Article 18).
- The total of the insurance contributions borne by the employees protected shall not exceed 50% of the total cost of providing benefits (all provided social security benefits included) (Convention 102, Article 71).

Access to Old-Age Pensions

Rapidly aging societies, particularly in Asia, call for greater pension protection of the elderly. Table 5.1 shows that although men and women at age 65 and over now constitute 8% of the world population, they will be 16% of the

Table 5.1 Projected Elderly Population in 2010 and 2050 (%)

Area	Population 65+		Proportion of Population 65+ in Total Population		Proportion of Women Among 65+	
	2010	2050	2010	2050	2010	2050
World	100	100	8	16	56	55
More developed regions	37	22	16	26	59	57
Less developed regions	63	78	6	15	54	55
Less developed regions, (excluding People's Republic of China)	41	56	5	13	55	55
Africa	7	9	3	7	56	54
Asia	54	62	7	18	54	55
China, People's Republic of	21	22	8	24	52	54
India	12	16	5	14	53	54
Europe	22	12	16	28	61	58
Latin America and the Caribbean	8	10	7	19	56	57
North America	9	6	13	21	57	56
Oceania	1	1	11	19	54	55

Note: Country groupings according to the source.
Source: UN (2007).

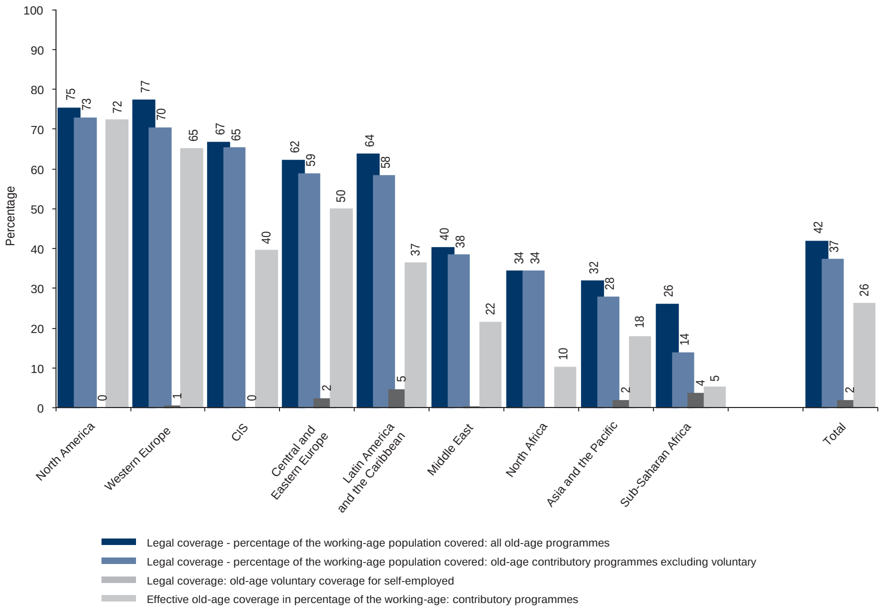
population by 2050. In 2050, the elderly in less developed countries—it is to be hoped, much more "developed" by then—will constitute nearly 80% of the world's elderly population. About 60% of them will be living in Asia, with over half in just two countries: the People's Republic of China (PRC) and India. At the same time, the numbers of the older poor are increasing and older people are overrepresented among the chronically poor in most developing countries. According to HelpAge International (2006), a global nongovernment organization that helps older people claim their rights, challenge discrimination, and overcome poverty, two-thirds of older people receive no regular income, while 100 million live on less than $1 a day. Coverage by old-age pension schemes around the world (apart from industrial countries) is concentrated on formal sector employees, mainly in the civil service and large enterprises.

It is important to distinguish between the notions of legal and effective coverage in old age (ILO 2010, 22). Legal coverage refers to existing legal provisions that stipulate old-age benefit entitlements of specific groups of the population. The legal extent of coverage is measured as the ratio of the estimated number of people with legal entitlement to the working-age population. Effective coverage is measured as the number of protected persons as a share of those expected to be protected in old age by the legal provisions. It can be expressed, for example, as the number of individuals contributing to old-age pension schemes, or the number of individuals who receive any pension benefits. The concepts of legal and effective coverage are complementary, but should be assessed separately. Thus, effective coverage is usually lower than legal coverage due to the difficulty in ensuring appropriate funding and enforcement of legal provisions. Figure 5.1 shows the distribution of coverage of old-age individuals around the world. The highest coverage is in North America and Europe, the lowest in Asia and Africa. As shown, the extent of legal coverage differs significantly from effective coverage in most regions.

As the *World Social Security Report 2010/11* shows (ILO 2010, 45–46), worldwide, nearly two-fifths of the working-age population is legally covered by contributory old-age pension schemes. But the regional situation is very diverse. In North America and Europe, the rate is nearly twice as high as this, while in Asia and Sub-Saharan Africa the rates are around one third and one quarter. The countries of the former Soviet Union, including some of the poorer countries in Central Asia, have inherited comprehensive pension schemes that provide much higher coverage than schemes in other countries of comparable gross domestic product (GDP) per capita. In all regions, the proportion of voluntary contributory programs hardly reaches 4% of the working-age population.

On effective coverage, 75% of persons aged 65 or over in high-income countries receive some kind of pension, but fewer than 20% in low-income

Figure 5.1 Old-Age Pensions: Legal Coverage and Effective Active Contributors in the Working-Age Population, by Region, 2008–2009 (%)



CIS = Commonwealth of Independent States (Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyz Republic, Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine, and Uzbekistan).

Note: Data are for either of the 2 years, depending on availability.

Source: ILO (2010).

countries.[44] With the exception of North America and to a lesser extent Western Europe, effective coverage is quite low in all regions. For example, in Sub-Saharan Africa, only 5% of the working-age population is effectively covered by contributory programs, while this share is about 10% in North Africa and 20% in Asia and the Middle East.

Pension benefit levels are of course dependent on resources invested. High-income countries spend on average 6.9% of GDP on social security old-age pensions (slightly more than the average they spend on social health protection); middle-income countries only 2.1% of GDP; and low-income countries 0.6%. The size of national benefit expenditure is a function of both the number of beneficiaries and the level of benefits. Pension spending per person above retirement age in a country, expressed as a proportion of GDP per capita, is an average of 56% in high-income countries, 33.2% in middle-income countries, and 17.8% in low-income countries (ILO 2010, 55).

[44] See Figure 4.2 in ILO (2010). The figures section is available at http://www.socialsecurityextension.org/gimi/gess/ShowWiki.do?wid=76

In Asia, the populations of Mongolia and countries of the former Soviet Union enjoy relatively high coverage, but the pensions paid are very low and often insufficient to keep the elderly out of poverty. In Japan, coverage is high and the indicator is only below 100% because many Japanese retire much later than 60. However, in most other countries in the region, effective coverage rates vary between 20% and 40%, with the exception of Southeast Asian countries such as Cambodia and the Lao People's Democratic Republic (Lao PDR), where coverage is even lower.[45]

Some countries have made major efforts to extend coverage beyond the formal sector. Sri Lanka, for example, has a system covering farmers and fishers that has achieved substantial coverage rates (57% and 42%, respectively). India, too, made efforts to cover the informal sector through a new pension scheme in 2003.[46] Bangladesh, Nepal, Thailand, and some other countries have introduced noncontributory or social pensions for the elderly.

Taking into account these policy reforms, improvements in coverage may be expected in some countries (for example, the PRC), but many are still challenged by how to prevent widespread and deep poverty among rapidly aging populations where the majority of people work in the informal economy and have no access to any contributory social security system.[47]

Poverty in old age has a strong gender dimension (Chapter 4). Life expectancy for women is higher than for men; therefore, women may be in poverty for longer than men. A woman's chance of losing her partner is higher, and women are less likely to remarry than men. Women over 60 who have lost their partners greatly outnumber their male counterparts. In many countries, women are obliged to maintain certain levels of activity to compensate for declining intrafamily support and the absence of universal pension schemes. They not only face the threat of poverty in old age but, living longer, must assume this burden for longer. Further, since they are likely to outlive their husbands, in some societies they have to deal with exclusion due to the stigma of widowhood.

Limited access to pensions implies that "retirement" from economic activity in old age, while widespread in industrial countries, is rare in developing countries.

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[45] Cambodia, for example, has a pension scheme for civil servants only and a new national social security fund to cover private employees only, which so far provides only employment injury benefits. The national social protection strategy for the poor and vulnerable, approved in March 2011 by the Prime Minister, does not foresee a minimum pension for the elderly in the short term.

[46] In 2003, the Indian government embarked upon an ambitious pension system reform that aimed to replace the traditional public sector unfunded defined benefit scheme with a mandatory individual accounts system for government workers that would also provide voluntary coverage to informal sector workers above the poverty line.

[47] For more details, see Chapter 4 in ILO 2010. http://www.socialsecurityextension.org/gimi/gess/ShowWiki.do?wid=76

The majority of older people in low-income countries are obliged to continue working, mainly informally, because they are not entitled to pensions, or if they are, they are too low. As shown by ILO (2010, 48–49 and Table 4.1), in Sub-Saharan Africa, people—in particular men—can reduce their economic activity rates by only up to 20% as they get older, and this situation did not change between 1980 and 2005. Also in South and East Asia, an exit from economic activity in old age is less common than in Europe or the Americas. Women nearly everywhere reduce their economic activity as they reach old age more than men do; however, they very often switch to occupations not picked up by labor force surveys as "employment": care-giving and running the household for other family members.

Universal Pension as Part of the Social Protection Floor

The ILO believes that a guaranteed basic pension for all the elderly should be one of the components of the set of social security guarantees referred to as the "social protection floor." The relevant ILO conventions are concerned with providing a minimum necessary level of protection (with pensions, the minimum necessary income security) but to all those needing such protection.[48] The ILO social security policy development vision focuses on building country-specific effective and efficient national social security systems, affordable to countries at different levels of development (Cichon and Hagemejer 2006). The principal objective of the vision is the fastest possible achievement of universal access to basic benefits to combat poverty and the reduction of income insecurity to the extent possible, compatible with economic performance. As countries mature economically, higher levels of protection can gradually be achieved.

The key objective is universality. That is the core mandate of the ILO global campaign on social security and coverage for all. Universality does not mean uniformity. It is not realistic to believe that all societies can—left to their own devices—achieve the same level of social protection irrespective of their level of economic development. National social security systems inevitably have to grow with the fiscal space that is made available through growing economies. What is critical, however, is that systems are in a rational way progressive, i.e., they address priority needs in a logical order and are built in such a way that

[48] Although countries can ratify the convention while providing initially protection only to a specified percentage of the population, it is expected that all those needing protection will be eventually covered. This expectation is explicitly expressed in Income Security Recommendation, 1944 (No. 67) which says that even countries which already have necessary social security provisions in place should "take further steps towards the attainment of income security by the unification or co-ordination of social insurance schemes, the extension of such schemes to all workers and their families, including rural populations and the self-employed, and the elimination of inequitable anomalies."

the level of security can be increased as economic development progresses. Within an overall national resource envelope, at different stages of development, contributions and taxes allocated to social security priority expenditures have to be defined. In developing countries, social expenditures should be prioritized with respect to their contributions to achieving an acceptable level of health, to reducing poverty, and to reducing social insecurity.

Universality may refer to the various dimensions of social security, with the main emphasis on universality of individuals' access to formal systems of social protection. The notion of a universal benefit, payable without distinction to all qualified members of a scheme, on the other hand, fits well into the concept of a rights-based scheme, but may in practice have to be tempered by some form of targeting of resources when they are limited.

The ILO thus believes that social security in the poorest countries can gradually start with building a basic benefit package—a social protection floor—consisting of a modest set of social security guarantees implemented through social transfers in cash and in kind. It would ultimately ensure that:

- all residents have access to basic/essential health care benefits through pluralistic delivery mechanisms where the state accepts the general responsibility for ensuring adequacy of the delivery system and its financing;
- all children enjoy income security at least at the poverty level through various family/child benefits aimed at facilitating access to nutrition, education, and care;
- some targeted income support is provided to the poor and the unemployed in the economically active age group; and
- all residents in old age or with disabilities enjoy income security at least at the poverty level through pensions for old age, disability, and survivors.

The social protection floor is thus formulated as a set of guarantees rather than a set of defined benefits. This allows individual countries to realize these guarantees by way of means-tested, conditional, or universal transfers ("social transfers" are also understood as providing free access to social services).

The key point is that everybody in a society can access these essential transfers, in cash or in kind. While conceptually they form part of social security architecture, in most countries they have the characteristics of noncontributory social assistance rather than social insurance benefits. It is assumed here also that the basic benefits are most likely financed from general taxation. The transfers of the social floor are granted to all residents as of right, thus their financing is generally the responsibility of society as a whole. This is the notion of the "welfare society," promoted for instance in Thailand, as opposed to the "welfare state," where all members of society should contribute to social welfare according to their own resources.

Policy Options for Pension Protection

According to ILO principles, pension financing—by whatever means—should be equitable and affordable to all protected persons. Particularly, the need to pay taxes or contributions to finance future benefits should not be a reason for “hardship” to those on low incomes. Further, adequate benefits should be guaranteed in the first place to those with lower incomes and—when contribution or residency periods are taken into account to establish the right to benefit—required periods should not be set too high, and reduced benefits should be guaranteed even to those with shorter periods than those prescribed.

Providing a pension to everyone in need requires efforts through a pension system composed of a mix of policy measures: contributory and noncontributory (in terms of building entitlements to pensions), earnings-related and flat rate (in terms of pension amounts), and contributory and tax-financed (in terms of financing sources). Although these policy measures can be undertaken through separate schemes forming different “tiers” or “pillars” of the pension system, they are often present in a single scheme.

Experience shows that any pension system that is solely based on a pension scheme delivering “actuarially fair” or “actuarially neutral” pensions (that is, pensions whose amounts are solely determined by the amounts of contributions each individual pays into the system during his or her working career) cannot on its own deliver the outcomes outlined above. There is a need to create or provide pension entitlements that arise not just within the purely earnings contribution–related system. This can only be done by subsidizing contributions or benefits (or both), which can be achieved by redistribution within the social insurance system: social insurance pensions are based on a solidarity principle, which means not just pooling risk but also allowing (at least some) redistribution among contributors to protect those with lower contributory capacity, shorter careers, and lower lifetime earnings.[49] This is usually done by a combination of instituting a minimum pension, a redistributive benefit formula in a defined benefit system, or treating (when calculating benefit) certain noncontributory periods of certain categories of members as contributory—that is, subsidizing benefits of certain categories of members covered by a scheme. But one can imagine also subsidizing (within the scheme) contributions of certain categories of members.

Often, such redistributive measures are financed from outside the members of a pension scheme but still apply only to members of the contributory scheme. Topping up the lowest pensions from the contributory scheme to a guaranteed

49 Even a strict defined contribution or nonfinancial defined contribution pension system allows a certain degree of redistribution from male to female contributors when using unisex life tables to calculate pensions.

minimum by state budget funds but only to those who contributed a required minimum number of years (as in Chile or in Poland) is one approach. Paying, again from the state budget, contributions on behalf of certain categories of members during specified periods (i.e., to those on maternity or parental leave, as in Sweden or Poland to a degree) is another. Another group of measures includes subsidies (from the state budget) of employees' or employers' contributions of low-income earners (or other specific categories of contributors to the contributory scheme) with the aim of enhancing their membership and building up their pension entitlements. Redistribution among members in the contributory pension scheme should not have negative effects on membership and incentives to contribute, as long as the members accept it. While subsidies from outside the scheme to its members can have some positive effects on membership and contribution incentives, there are important equity questions if membership of the scheme is not universal or if subsidies are not directed to the worst-off group of members.

The other possible way to deliver minimum income security to beneficiaries is to do it basically outside the pension insurance scheme, either through universal pension paid to all residents meeting specified criteria (a certain age) or through income or means-tested pension to all those below a specified income threshold. These are "social pensions" and are the most effective way to reach, relatively quickly, all those who for various reasons (such as very low or irregular incomes) cannot be members of a contributory schemes—that is, to reach universal coverage. ILO standards allow both universal and means-tested pensions as ways to provide minimum income security. A universal pension solution has an advantage over the means-tested approach as not only much simpler and less costly to administer and deliver, but as the most equitable way to provide to everybody a minimum income security at retirement, avoiding stigma and exclusion often associated with means testing. However, the solution will always depend on prevailing societal attitudes toward equity and redistribution, and on overall costs.

Bangladesh, Mongolia, Sri Lanka, and Viet Nam present examples of means-tested pension schemes, where the governments have established noncontributory social pensions targeted at the poor elderly who are not covered by formal pension schemes. To be eligible the elderly need to have reached a certain age (65 years in Bangladesh, 55 for women and 60 for men in Mongolia, and 80 in Viet Nam) and considered poor (for instance in Bangladesh, the annual income should be not more than Tk3,000 per annum, around $43.50). Beneficiaries are usually selected locally. The amount of benefits is below the national poverty line in most countries. In Viet Nam, for instance, although the benefit level was raised from D180,000 to D270,000 ($13) in January 2011, that represents only two-thirds of the nationally defined poverty line. The Republic of Korea established a means-tested noncontributory pension scheme for old age in 2008. The qualifying conditions are age 65 with an income below a maximum set by presidential order. In 2010, the monthly maximum was W700,000 ($583) for a single person and W1,120,000 ($933) for a couple; the monthly benefit was W90,000 ($75) for a single person and W144,000 ($120) for a couple.

Other countries have established universal social pensions. In Nepal, for instance, a universal noncontributory social pension scheme was introduced in 1995 and covers people aged 70 and above. The benefit level is NRs500 ($6.75) per person per month.

Thailand is a good example of a successful transition from a means-tested pension to a universal one. The means-tested old-age allowance system, established in 1993, was facing many issues of implementation. The tasks of identifying beneficiaries and defining allowance payments were delegated to local authorities. Implementation differed, however, depending on the understanding of these procedures in local areas. Some authorities allocated the allowance to all old people without means testing, while others followed the process strictly. In addition, local authorities with strong enough fiscal resources could use their own funding to increase allowances or increase the number of qualified recipients. Targeting inefficiency problems also occurred. It is estimated that more than 50% of the poor elderly were not receiving the old-age allowance despite their entitlement (Chulalongkorn University 2008). Given these failures, the government moved from a means-tested to a universal scheme, in line with the government's conception of old-age allowances as a basic human right. The 500 Baht person per month universal pension scheme was officially launched in April 2009. During April–September 2009, the government used an additional budget to implement this scheme, as one item of its stimulus package to face the global economic and financial crisis. From fiscal year 2010 (October 2009–September 2010), the source of funding was switched to the annual government budget.[50]

Some countries such as the PRC and Thailand are willing to go one step further by providing at least a minimum level of social pension guaranteed to all residents or citizens and by encouraging informal and rural workers to contribute to their old-age pension. This allows a smooth transition between noncontributory and contributory pension schemes, and encourages people to progressively move to higher benefit levels. In the PRC, for example, the rural pilot pension insurance program has two components: a basic minimum pension that is tax financed (with a mix of central government and local government funding) and guaranteed to all rural residents; and subsidized individual accounts. The funding method of the basic pension allows for redistribution across regions, since the share of funding from the central government is greater for less developed regions, and local governments from better-off regions have to contribute more proportionately. This plan

[50] For a complete description of the 500 Baht scheme, see ILO and UNDP (2011), Chapter 18.

also encourages local governments of relatively developed areas to make additional contributions. For example, residents living in the suburb of Beijing will receive a basic pension benefit of CNY280 ($41) per person per month instead of the minimum of CNY55 ($8) per person per month, which is guaranteed in all the PRC.

In addition, rural residents have to contribute in individual accounts 4%–8% of the county's average personal income (this contribution should in any case not be below CNY100 [$14.66] per year). In some richer regions such as Beijing, the contribution rate is higher (by 10%). Local governments provide on top of that, subsidies of CNY30 ($4.40) per person per year. Village collectives/cooperatives can also add contributions to the individual accounts. This mixed system promotes individual responsibility (with individual contributions) and the participation of not only the central government but also of other stakeholders (such as local governments and cooperatives) in funding the pension scheme (this system is an example of the "welfare society," rather than the "welfare state").

Thailand is at present developing, beyond the basic noncontributory and universal 500 Baht scheme, subsidized savings accounts. Initiated by the Ministry of Finance, legislation has already been passed by Parliament and House of Senate. The implementation of this scheme is planned for April 2012. All Thai nationals 15–59 years old who have not affiliated to any compulsory public pension scheme (i.e., mainly workers in the informal economy) will be able to contribute to this voluntary, contributory, and subsidized defined-contribution pension scheme. Contributions range from B50 ($1.67) to B1,100 ($36.67) per month. The government will contribute to each member's account depending on his or her age and as a proportion of the member's contribution: 50% for those below 30 years, 80% for those of 30–50, and 100% for those above 50.

The Cost of Basic Social Protection

The ILO undertook costing studies for a basic social protection package in 12 low-income countries.[51] The costed package includes universal basic old-age and disability pensions; basic child benefits; universal access to essential health care; and social assistance in the form of the 100-day a year employment guarantee scheme.

In all 12 countries, the initial annual cost of the whole package was projected—if introduced in one go—to be 3.7%–10.6% of projected GDP for 2010. Six countries—Burkina Faso, Ethiopia, Kenya, Nepal, Senegal, and Tanzania—would spend more than 6% of GDP. The basic pension was assumed at 30% of

51 For details on assumptions and results, as well as on other studies concerned with potential poverty reduction impact of universal pension and some other cash benefits, see ILO (2008).

per capita GDP and would be paid to all men and women aged 65 and older, and to persons of working age with serious disabilities. On these assumptions, the annual cost of providing universal basic old-age and disability pensions was estimated for 2010 at 0.6%–1.5% of GDP in the countries analyzed. Projected costs for 2010 were at or below 1.0% of GDP in Bangladesh, Cameroon, Guinea, India, Pakistan, and Viet Nam, while the six countries mentioned earlier had costs of 1.1%–1.5% of GDP.

Since then, the ILO has undertaken such costing studies for many other countries, covering various benefit packages or its individual elements like basic pensions or child benefits. The ILO is currently undertaking a systematic calculation of the cost of introducing social protection floor guarantees that some countries lack. These costing exercises are part of an assessment-based national dialogue exercise where the social security situation and practice of the country are analyzed with the spectrum of the social protection floor's four guarantees that all the population should enjoy. The main outputs of the assessment exercise are:

- the assessment matrix, which describes for each of the four guarantees of the social protection floor existing and planned provisions in the country, and identifies policy gaps and implementation issues;
- the formulation of recommendations to fill the gaps and overcome implementation issues and the calculation of the cost entailed by the implementation of these recommended priority policy options, using an ILO-UNICEF costing tool, the Rapid Assessment Protocol;
- the costing tool itself that can be used by policy makers to develop and cost new scenarios; and
- the facilitation of a dialogue at the national level on the priorities and gradual implementation of social protection.

In Asia, the assessment and costing have been conducted in Viet Nam, are being conducted in Indonesia and Thailand, and will be continued in other countries such as Cambodia, Lao PDR, and Nepal. The assessment and costing are conducted as closely as possible with all country actors involved in the social protection floor initiative, and provide an opportunity to discuss policy choices and priorities with the government, social partners, and civil society. In Indonesia, this exercise was based on a number of consultations and workshops at provincial (Maluku, East Java, and East Nusa Tenggara provinces) and central level (Jakarta). It involved the main ministries, institutions, and schemes involved in the design, delivery, coordination, planning, financing, and monitoring of social protection and social security programs in Indonesia. In Thailand, the exercise is jointly conducted by all the members of the United Nations Social Protection Floor Team; the assessment's recommendations will be used to develop the United Nations Partnership Framework implementation plan on social protection.

ILO costing studies show that introducing a complete package of basic social security benefits requires a level of resources that is higher than current social security spending in the majority of low-income countries (which rarely spend more than 3% of GDP on health care or 1% of GDP on non-health social security). Any package therefore has to be introduced gradually, and a considerable joint national and international effort is needed: by the low-income countries—reallocating existing resources and raising new resources, i.e., through health insurance or other earmarked sources of financing for social security; and by the international donor community (which in some cases will have to refocus international grants on the supplementary direct financing of social protection benefits)—strengthening the administrative and delivery capacity of national social protection institutions and providing the necessary technical and other support. Some low-income countries have started taking these steps, and there are signs that the process will accelerate in the near future.

The evidence presented in many ILO and other studies shows that low-income countries not only should but also can have social security systems that provide a basic package of health services to everyone—basic cash benefits to the elderly and to families with children, and social assistance to a proportion of the unemployed. Even if a complete basic social protection package cannot be implemented at once, a sequential approach can generate immediate benefits for poverty reduction, pro-poor growth, and social development. A national forward-looking social protection strategy can help to sequence the implementation of various social programs and policy instruments and to ensure that these are integrated in broader development frameworks. As low-income countries achieve higher levels of economic development, their social security systems can also advance in parallel, extending the scope, level, and quality of benefits and services.

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Chapter 6

Development of the Old-Age Allowance System in Thailand: Challenges and Policy Implications

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Abstract

This chapter examines the development of the old-age allowance (or social pensions) system in Thailand from a means-tested system to universal coverage, discussing some of the main challenges and implications for policy and practice. It is based on a desk review of academic literature, official documents and statistical data, interviews with policy makers and experts, and focus groups in two communities. The chapter argues that the universal system has helped to remove some drawbacks associated with means testing, including favoritism in selecting beneficiaries and difficulty in determining eligibility. Some of the challenges facing the new system include ensuring financial sustainability, strengthening administrative capacity, preventing corruption, and creating a consolidated social security framework.

Introduction

This chapter aims, first, to assess the origin, impacts, and institutional models of the noncontributory social pension for older people in Thailand; and second, to distill policy lessons for informing design and implementation of social protection schemes for older people in the region. This research uses both primary and secondary data for current situation analysis. The sources for primary data are as follows:

- Interviews with three key people, who are or were national government officials involved in the introduction of the social pension scheme in 1993

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or are in charge of the social protection system or the implementation of the social pension system.

- Interviews with local government officials in three targeted areas, who are in charge of the implementation of the social pension system. In each area, three local government officials were interviewed.
- Focus groups in three local authority areas. Each focus group involved one group of men (benefit recipients), one group of women (benefit recipients), and nonrecipients. Each focus group had 8–12 participants. The focus group participants represented the diverse composition of the selected communities. The three local authority areas were chosen by considering the economic level of the province where the local authority was located. We chose three local authority areas from Nan (in the Northern region), Uthaithani (between the Central and Northern regions), and Patthalung (in the Southern region). The criteria for choosing those provinces were that areas in the province had
  - low per capita gross provincial product (based on data from the National Economic and Social Development Board [NESDB]);
  - low average household income (based on the socioeconomic survey from the National Statistical Office); and
  - a high proportion of older people.

Old-Age Pension System

After former Prime Minister Abhisit Vejajiva, who proposed a "welfare society," had come to power, government organizations reviewed and proposed future directions for social welfare provision. This was outlined in the 11th National Economic and Social Development Plan 2011–2016. The main government organizations are the NESDB and the Ministry of Social Development and Human Security.

Social protection schemes in Thailand encompass both formal and informal schemes, as well as public and private schemes. The social protection system proposed in the 11th National Plan has four main pillars (Figure 6.1): social services, social assistance, social insurance, and private mutual support.

The social services pillar comprises publicly provided social services aiming to fulfill the basic needs of people, such as health care, education, and housing. The pillar for social assistance aims to provide support or assist specific vulnerable groups, such as children and youth, the handicapped, older people, women, and the unprivileged. That for social insurance is made up of various insurance schemes, which protect people from losing income in many unexpected contingencies. The private mutual support pillar refers to social protection schemes provided by, for example, nongovernment organizations

Figure 6.1 Social Protection System in Thailand

SOCIAL SERVICES	SOCIAL ASSISTANCE	SOCIAL INSURANCE	PRIVATE MUTUAL SUPPORT
– education for all – health care – housing	– assistance by the government to specific groups	– social protection for employed persons by contributory schemes	– social protection schemes by the community, nongovernment organizations, and private companies

Source: Based on NESDB (2010).

(NGOs), the private sector, and the community (the government provides some incentives to these).

Thailand has a variety of social protection schemes, which differ in the value of benefits, timing of implementation, target group, public financing method, and responsible government organization.

Public Officials' Pension Scheme

National and regional government officials were the first group in the working population with a public pension system. National and regional government officials attain old-age income security from two tiers—from pensions financed from the national budget (after a certain employment period) and from a lump-sum payment as a member of the Government Pension Fund (GPF). Government officials who were employed before 7 March 1997 can choose whether or not to take part in the GPF. For those who were employed after 1997, the GPF system is mandatory. It works on the basis of a fully funded pension system with an individual account. A GPF member and the government each contributes 3% of monthly wages. When a member of the GPF retires, he or she receives both a pension financed from the national budget and a lump-sum benefit from the GPF.

The number of members of the GPF in November 2010 was 1.18 million (Table 6.1). Coverage was relatively gender balanced. As of 2010, the number of retired government officials receiving a pension was 0.42 million.

Old-Age Benefits under the Social Security Fund

The Social Security Fund (SSF) is a mandatory and contributory social insurance system for employees of businesses that employ more than one person. This insures them for illness, childbirth, disability, old age, assistance for the family, death, and unemployment. The working population in the informal sector can also voluntarily join this scheme.

Table 6.1 Members of the Government Pension Fund, November 2010

	Number	Share (%)
Type		
Teachers	453,004	38.38
Civil officials	334,427	28.33
Police officials	177,224	15.02
Military officials	168,159	14.25
Others	47,497	4.02
	1,180,311	100.00
By Sex		
Male	627,689	53.18
Female	552,622	46.82
	1,180,311	100.00
Age		
Below 20	1,027	0.09
20–30	115,298	9.77
31–40	309,337	26.21
41–50	375,641	31.83
51–60	368,397	31.21
60 and above	10,611	0.90
Total	1,180,311	100.00

Source: Government Pension Fund, http://www.gpf.or.th/web/GPF_MemberStat.asp, accessed 18 February 2011.

Table 6.2 Insured Population and Old-Age Benefits Beneficiaries of the Social Security Fund, 2001–2010

Year	Total Insured Population	Insured Population (compulsory)	Old-Age Beneficiaries
2001	5,865,208	5,746,977	–
2002	6,900,223	6,752,808	–
2003	7,434,237	7,259,096	–
2004	7,831,463	7,631,158	46,779
2005	8,225,477	7,983,544	60,874
2006	8,537,801	8,215,419	65,696
2007	8,781,262	8,380,354	76,248
2008	8,779,131	8,264,662	89,273
2009	8,744,795	8,065,035	98,035
2010[a]	8,865,599	8,146,332	72,437

– = data not available.

[a] July.

Note: Old-age benefits for 2004–2010 are not pension benefits but old-age gratuities.

Source: Social Security Fund.

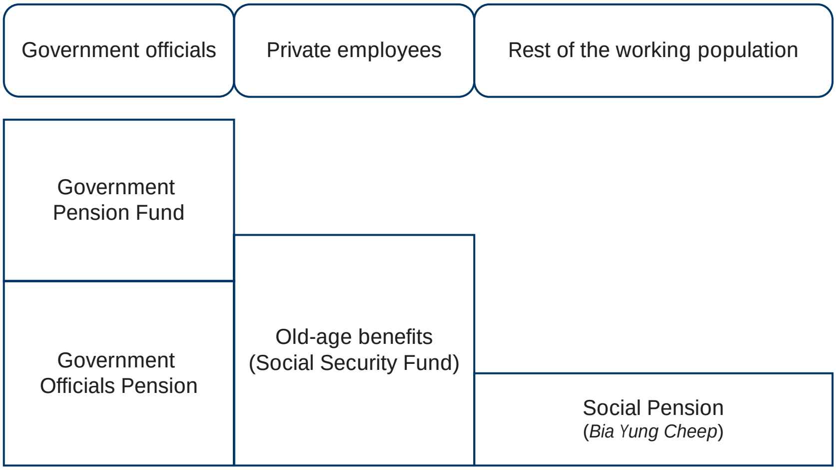
Members must contribute, subject to a maximum of 5% of their wages. This contribution comprises 1.5% for illness, death, disability, and childbirth; 3% for old age and the child allowance; and 0.5% for unemployment compensation. Employers and the government contribute 5% and 2.75% of wages, respectively. Wages used for calculating monthly contributions are limited to B15,000 (Thai baht) per month (around $500).[54]

Members are eligible for an annuitized pension benefit once they reach 55 years of age provided they have paid contributions to the fund for a total of 180 months. The monthly pension is calculated as 20% of their average monthly income during their last 60 months before retirement. The ceiling income principle will be applied here as well. Moreover, if the insured member pays contributions for more than 180 months, an additional rate of 1% will be applied on top of the 20% for every 12 months' contribution.

If the insured member's contribution period is shorter than 180 months but longer than 12 months, he or she can get the lump-sum payment, which is equal to the lifetime contribution and its financial returns, calculated by applying the SSF-determined rate of return. If the contribution period is shorter than 12 months, the member receives the contributions back without any financial returns. Table 6.2 shows the rise in the insured population and old-age beneficiaries during the 2000s.

A schematic of the public pension system is in Figure 6.2.

Figure 6.2 Public Pension System



Source: Authors.

[54] This chapter uses the average exchange rate of commercial banks reported by the Bank of Thailand on 26 August 2011 of $1 = B30.13.

Introducing Universal Social Pensions

The old-age allowance system, commonly referred to in Thai as *Bia Yung Cheep* ("money for sustaining life") and also known as the "B500 pension scheme," was introduced in 1993 as a means-tested old-age income guarantee targeted at underprivileged older people. According to an interview conducted with a retired national government official who was involved in the system from the start, the motivation was to give some financial support to this group to help lower demand for public old-people's homes.

Between 1993 and 2009, the allowance underwent many changes in eligibility, size of benefits, authority in charge, targeting system, and administration. The biggest change, however, was from fiscal year 2010 (October 2009–September 2010) when the allowance was extended to all older people. All Thai people aged 60 years or older, who are not living in public old-people's homes or do not receive permanent income as a salary or pension are eligible. This universal old-age allowance has 5.69 million recipients.

The allowance has been separated from other benefits, such as the allowances for disabled people and for patients with HIV/AIDS. The new system entailed revisions to beneficiary eligibility, application processes, payment method, termination of pension payment, monitoring and recording, and budgeting.

Three sets of factors explain the reasons for the reform.

First, the transition reflected a particular ideology of the government, as reflected in policy speeches of former Prime Minister Abhisit Vejajiva in 2008 and 2009.

In addition was the need to address the existing economic and social reality in the country (Sakunphanit and Suwanrada 2011). One interviewee—a national government official involved indirectly in the old-age allowance system—suggested, for example, that the social pension scheme could be seen as part of the economic stimulus package that sought to mitigate the impact of the economic downturn prompted by the Asian financial crisis. Some interviewees also felt that the change was part of a government strategy to gain popularity among voters ahead of general elections.

Second, the former means-tested system presented various challenges that the new system largely simplified. Empirical analysis in Prachuabmoh et al. (2009) found that more than 50% of underprivileged older people with an income below the poverty line and living without support from their families did not receive the previous old-age allowance. Administratively, the approach of local authorities to targeting was very diverse: some allocated the allowance to all older people while some undertook strict targeting. Local authorities also treated differently the meaning of "community participation," a requirement for targeting beneficiaries. Some let all members of the community be involved; others allowed only a household representative join the process.

Whether these issues were due to the inherent challenges of targeting or implementation are up to debate. One interviewee—a national government official involved indirectly in the old-age allowance system—insisted that the targeting system itself was not problematic, but that the government had not invested in building the institutional capacity of the targeting system.

Three national government officials involved in elderly welfare administration stated that local authorities faced difficulties in selecting beneficiaries, but could not clearly explain why one older person had been selected but not another. (These points are consistent with previous work such as Suwanrada and Kamwachirapitak [2008].) The government officials interviewed described that in the past, there had been many appeals against perceived unfair results of targeting and the favoritism by local officials. Sometimes, conflicts between older people had occurred. They regarded the change to universal coverage as a price to pay for avoiding social tension and perceptions of unfairness.

The third factor was the role of domestic and foreign academicians, institutions, and NGOs, which helped to stimulate debate on pensions in Thailand. This debate originated from concerns that the majority of the population had no income guarantee in old age and only one-third of the working population—including government officials and employees in the private sector—were enjoying old-age financial security under occupational public pension schemes.

Coverage and Financing

After the change to the universal system in 2009, the number of the old-age allowance beneficiaries shot up (Table 6.3).

Table 6.3 Old-Age Allowance Beneficiaries by Region, FY2008–2011

Region	FY2008	FY2009	FY2010	FY2011
Northeastern	863,794	1,732,717	1,834,293	1,855,282
Northern	370,913	1,162,829	1,198,406	1,202,829
Southern	183,211	742,330	759,428	755,632
Eastern	98,017	373,824	386,168	384,106
Western	86,598	353,116	361,591	356,709
Central	90,474	298,237	306,958	300,462
Vicinities	62,259	307,571	327,166	323,032
Pattaya City	114	4,077	4,608	4,905
Bangkok	5,674	43,726	474,219	515,457
Whole country	1,761,054	5,018,427	5,652,837	5,698,414

Note: FY2008 = October 2007–September 2008, etc.

Sources: Department of Local Administration, Ministry of Interior, Pattaya City, and Metropolitan Bangkok.

The old-age allowance is financed entirely from the national budget as a specific grant from the national government to local authorities every month. The budget for the old-age allowance increased by more than three times from FY2008 to FY2011, to B34.1 billion ($1.1 billion), or 1.65% of the government budget (Table 6.4).

Table 6.4 Old-Age Allowance and Government Budget, FY2008–2011

Region	FY2008	FY2009	FY2010	FY2011
Old-age allowance funding (B)	10,566,324,000	20,436,031,000	33,917,022,000	34,190,484,000
Share of government total budget (%)	0.64	1.05	2.00	1.65

Notes: FY2008 = October 2007–September 2008, etc.

Source: Authors' calculations based on Department of Local Administration, Ministry of Interior.

Table 6.5 Projected Fiscal Burden to 2010

Year		2011	2012	2015	2020	2025	2030
Projected no. of older people (1,000 persons)		8,289	8,609	9,819	12,272	14,994	17,744
National budget (B million)		1,823,333	1,914,500	2,216,273	2,828,588	3,610,075	4,607,473
Constant Share of Beneficiaries in Total Older Population							
Share (%)		68.4	68.4	68.4	68.4	68.4	68.4
Budget (B million)	B500/month	34,008	35,319	40,286	50,348	61,514	72,797
		1.9	*1.8*	*1.8*	*1.8*	*1.7*	*1.6*
	B1,000/month	68,016	70,637	80,572	100,696	123,029	145,594
		3.7	*3.7*	*3.6*	*3.6*	*3.4*	*3.2*
	B1,500/month	102,025	105,956	120,858	151,044	184,543	218,391
		5.6	*5.5*	*5.5*	*5.3*	*5.1*	*4.7*
Constant Share of Beneficiaries in Total Older Population							
Share (%)		68.4	68.4	70.0	75.0	80.0	80.0
Budget (B million)	B500/month	34,008	35,319	41,242	55,224	71,970	85,170
		1.9	*1.8*	*1.9*	*2.0*	*2.0*	*1.8*
	B1,000/month	68,016	70,637	82,484	110,448	143,940	170,341
		3.7	*3.7*	*3.7*	*3.9*	*4.0*	*3.7*
	B1,500/month	102,025	105,956	123,725	165,672	215,910	255,511
		5.6	*5.5*	*5.6*	*5.9*	*6.0*	*5.5*

Notes:

1. Projected number of older people estimated by the National Economic and Social Development Board.
2. National budget in 2011 has been averaged by applying those of FY2010 and FY2011. The future value is calculated basing on an average annual increase of 5%.
3. Future share of beneficiaries in the total older population is assumed.
4. Italics show % of national budget.

Source: Authors.

Table 6.5 shows the estimated future fiscal burden for the old-age allowance. If the benefits and share of beneficiaries in the total elderly population remain unchanged, the burden will be about 2%, on the assumption that the national budget increases annually by 5%. If the government increases the monthly allowance to B1,000 ($32.80) or B1,500 ($49.20) a month, the burden rises to 4%–6%. Future sustainability may require an increase in taxes, however.

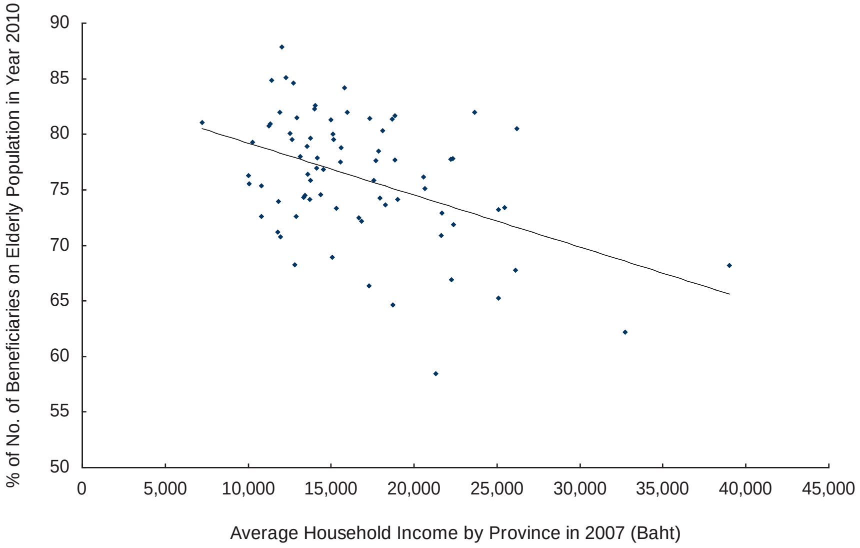
Economic, Social, and Institutional Impacts of the Social Pension

Income Poverty Reduction

This section considers the redistributive effect and the ability of the social pension to reduce income poverty among older people along two dimensions.

First, we investigate the redistributive effect of social pensions by considering macro data, namely the relationship between the average income of household by provinces (in 2007) and the population coverage by province (in 2010) (Figure 6.3). From the equity viewpoint, it is clearly better for poorer elderly people to register for receiving the old-age allowance.

Figure 6.3 Average Household Income and Population Coverage



Sources: National Economic and Social Development Board and Department of Local Administration, Ministry of Interior, Pattaya City, and Metropolitan Bangkok.

In the provinces with lower average household income, population coverage of the allowance tends to be higher. This might indicate that older people in poorer provinces tend to apply more than those in the richer provinces. Thus, we can conjecture that the social pension has a redistributive effect.

Second, we use micro data from the Socioeconomic Survey in 2009 to consider the income poverty reduction effect of the social pension, in particular for elderly households (households whose members are 60 and above). In these households, the share of old-age and disability assistance in household income is 3.21% for an older person living alone and 4.11% for an older person living with another older person. At the same time, that of all households is only 1.74%. Hence, the social pension is more important for those who live alone.

Table 6.6 Income Poverty Reduction of Social Pension in 2009

	Number of Households			
	Current Situation		Hypothetical Calculation Excluding Social Pension from Household Income	
Household Type	Average Household Income Per Head Below Poverty Line	Average Household Income Per Head Above Poverty Line	Average Household Income Per Head Below Poverty Line	Average Household Income Per Head Above Poverty Line
All households	1,621,536	17,957,685	1,877,013	17,702,207
	8.28%	91.72%	9.6%	90.4%
Elderly living alone	20,112	791,343	47,029	764,426
	2.48%	97.52%	5.8%	94.2%
Two-elderly households	73,717	649,768	117,427	606,058
	10.19%	89.81%	16.2%	83.8%

Notes:

1. The poverty line is B1,586 or $52.02.
2. Due to data limitations, we cannot extract the social pension from the total for old-age allowance and disability assistance.

Source: Authors' calculations, based on National Statistical Office, Socioeconomic Survey 2009.

Table 6.6 shows the income poverty reduction of the social pension. Relative to the current situation, if we exclude the social pension (and disability assistance from the government) from total income, the number of households with an average income lower than poverty line of B1,586 per head per month would increase to 47,029 and 117,427 households, respectively. The social pension (and disability assistance from the government) seems to reduce the numbers of such households by about 1.3% of the total number of households. It reduces the number of older people living alone below the poverty line by about 3.3%, and the number of two-elderly households by about 6.0%.

These results show that the social pension reduces income poverty, especially among underprivileged older people.

Nearly all the older people interviewed insist that the B500 scheme benefits them positively. None of the respondents mentioned any negative impacts. Although the amount of the pension is not high, they use it to meet their basic needs, especially basic expenses such as food, clothing, and medicine. The older people also spend money on donations or social contributions on important occasions, including religious activities, marriage, funerals, and so on. A government official in Uthaithani noted that the scheme was especially important as many older people had been left alone by family members who had migrated to the city in search of economic opportunities. Many of the migrants had also left their children behind. Although migrants as a rule send money to relatives left behind, remittances can often be irregular or insufficient.

More than two-thirds of the older people in the focus groups said that the B500 pension was their main source of income. None of the interviewed beneficiaries thought that B500 was enough and appropriate for older people. Most of the older respondents in Nan and Uthaitahni preferred B1,000 a month. Only a few thought B1,500 or B2,000 appropriate.

Cash transfers have the potential to have economic impacts, for example, on consumption and on investment. While most of the money was spent on basic needs, two respondents used the B500 pension for starting a small business.

Social Impact

Although Thai people attain health security under a universal coverage scheme, for older people in Nan, Patahlung, and Uthaithani, as well as in emergency cases, on holidays, or at night when they cannot access public health facilities for medical treatment, they can use their B500 pension to visit a doctor in a private clinic. In rural areas in both Uthaithani and Nan older people cannot easily access the health facilities because of the limitations of public transport.

Local government officials interviewed felt that income transfers were insufficient to improve the well-being of the older people, and that older people needed not only cash but also systems of care to provide them with support. They also suggested that older individuals would have benefited from health promotion activities, including access to fitness centers and preventive health care. Other officials focused on issues of social isolation and family care needs.

According to some interviewees, the old-age allowance benefits not only the recipients themselves but also their families, partly because many pension beneficiaries directly support their family members. Thus, most female respondents said they shared a portion of this money with their grandchildren whose parents are working in other areas or whose parents are separated or divorced and left them with the older person.

The transition from the means-tested to the universal system appears to be instrumental for relieving social tensions and preventing possible conflicts. Some respondents who had not been included in the former targeted system expressed their discontent with those older people who had been targeted. Uthaithani officials noted the removal of local arbitrary discretion as one of the advantages. Similarly, a local government official in Pathalung said that the "universal system decreases the conflicts within community and the conflict between the elderly and the local authorities. There exists no more favouritism."

Finally, the government officials interviewed agreed that the benefit could have a positive effect regardless of the recipient's income status.

Institutional Impacts

The national government officials interviewed agreed that the change to the universal system was mostly positive. It helped to avoid difficulties associated with targeting. A respondent in Uthaithani said, "The [means-tested] order was strict. The process was difficult to pursue. Now, for us, it has changed dramatically." It was also difficult for local officials to justify the award of means-tested benefits to some individuals while a large number of local population was poor. Some local officials commented on the difficulty of distinguishing between rich and poor. For instance, an official in Uthaithani said, "We should treat the pension as the right of all elderly. The classification of 'rich' and 'poor' is difficult."

The universal eligibility requirement has indeed had practical and administrative advantages. The complicated targeting process has been eliminated and the process from registration to benefits delivery has been simplified. After the change to the universal scheme, it is not necessary to reconfirm eligibility. The local authority needs to check that recipients are still alive when the new data are updated by the registration regional office every month. Of course, in the case of cash payment, the local authority can confirm the status of recipients when they go to the village to pay cash to the older people. The universal criteria have also helped local officials to avoid possible accusations of mistargeting and favoritism.

From the citizen's perspective, universalism has been important for limiting corruption and favoritism, and has greatly reduced favoritism. Focus group interviews with older persons did not reveal any perceptions that the benefits could be misappropriated or misallocated. In contrast, interviews with government officials highlighted concerns about administrative loopholes that rendered the system vulnerable to corruption or manipulation. A local government official said, "A disqualified elderly person, who is a government retiree, applied for the pension. This case occurred because the elderly worked outside the area for a long time. No one realized that this elderly was not qualified until someone in the same community captured the truth and appealed to the local authority."

Another local official recalled, "An assistant of the head of the village (who still receives wages from the government) applied for the pension and the head of the village signed the document to guarantee." Another possibility is when "the elderly living outside the area and receiving a pension via bank account transfer passes away, the local authority keeps on transferring money to them if it is not informed formally or this information is not captured online."

Finally, another local authority official said, "In case of changing address by registering at the new local authority, the registration of social pension at the old local authority will not be changed automatically. We must take care of such double registration." It seems that the existing registration system does not have sufficient monitoring capacity to be able to effectively track double registration unless residents themselves inform the authorities.

Implications for Policy and Practice

Thailand

Four main policy implications can be drawn.

First, there is the issue of benefit amount. The pension amount is quite low and far below the poverty line. In the future, an increase should be seriously considered and a mechanism put in place outside the political structure for periodic revision of the benefit. But any such increases must be considered as part of the overall public pension system, and other types of welfare schemes for older people, for example, care and, especially, long-term care, should be expanded.

Second, there is the need to strengthen administrative capacity, especially personnel issues and information and communication technology issues, for preventing fraud and corruption and to make delivery more efficient. Various databases—namely, the database of current recipients, the database of unqualified older people (recipients of a government pension, income earners) and the registered population—should be linked.

Third, according to the need for a higher pension and the greater number of recipients along with population aging in the future, the government should consider the source of funds for sustainable benefits delivery, including tax reform.

Fourth, how the social pensions system should be positioned among other coexisting pension schemes, especially after the start of the National Saving Fund scheme, is a big issue. As shown in Figure 1, the social pension is for the rest of working population without any direct contribution, whereas government officials and private employees contribute to their old-age financial security. In short, whether the universal old-age allowance should be treated as the basic pension of the entire system and whether this system will be unified or merged with other pension systems are challenges for the medium to long term.

Other Asian Countries

What can Asia learn from Thailand's experience with the old-age allowance?

The first lesson is that even a relatively small pension can have important impacts on older people, and wider poverty rates. The pension reduces the poverty rate of older people living alone by over half (from 5.8% to 2.5%) and reduces the poverty rate of all Thai households by 14% (from 9.6% to 8.3%). The pension appears to be crucial in supporting many older people to pay for their basic needs, with over two-thirds of older people consulted saying it was their main source of income. Other important expenditures included health (particularly transport), investment in small livestock, and contributing to social occasions, such as religious activities. The pension was found to be particularly important in supporting older people whose family members had migrated and left grandchildren in the care of grandparents.

The second lesson is that these impacts are achieved at a relatively low cost. Expenditure on the pension makes up less than 2% of the government's total budget, and costs are set to remain relatively stable into the future. This is a modest cost for a pension which reaches close to 6 million older people, making up over three-quarters of the population over 60 years old.

The third lesson is that, for countries that wish to introduce the means-tested social pension, investing in a strong targeting system is critical. In Thailand, before the universal approach in 2009, the means-tested system required local officials to verify eligibility. This led to significant opportunities for misallocation, corruption, and favoritism, which benefited those who were well connected within the community. The approach used by each community was also diverse which gave significant discretion to each community. The result was that a large proportion of the most vulnerable older people missed out, with one study estimating that more than 50% of underprivileged older people with an income below the poverty line and living without support from their families did not receive the old-age allowance. The introduction of a universal pension has largely eliminated these issues.

Nevertheless, the national guidelines must be well designed. Clear and well defined rules for targeting process (i.e., conditions for beneficiaries, who to target and how to target) must be well done to promote targeting efficiency. It must be noted that decentralization and equity might be dilemmas. The collection of the information on the beneficiaries is also a must for policy design.

The fourth lesson is that countries can successfully adopt a step-by-step approach, but that politics matters in accelerating that gradual process and achieving universal coverage. Thailand started from a small pension amount and small numbers of recipients and gradually expanded them. With this historical foundation in place, changing the targeting system and expanding fiscal space eventually allowed for a great leap. While the old-age allowance has been in existence for nearly 20 years, the major expansion in coverage came about in just 1 year, 2009, when it was changed from a means-tested to a universal scheme. This move to universal coverage came through a political decision which appears to have been an outcome of the government's focus on a rights-based approach, and the need to respond to the economic downturn. This political moment, nevertheless, appears to have been strongly influenced by research and lobbying by a range of domestic and foreign academics, institutions, and NGOs.

Finally, the design of a social pension should be part of a wider pension system. It will be easier for the government to deal with social pension policy if the government can show the entire picture of pension policy of the country. In particular, the government should link the social pension policy to the other coexisting pension schemes in order to achieve a harmonized system, which can financially secure older people better than fragmented schemes.

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Chapter 7
Social Pensions in Viet Nam: Status and Recommendations for Policy Responses

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Abstract

This chapter examines the social pension scheme in Viet Nam, focusing on a number of operational features, including benefits, coverage, and targeting, as well as financing and affordability. The analysis is based on findings from qualitative assessments in three rural communities, conversational interviews with policy makers, and reviews of program documents and academic literature. It argues that the social pension scheme has helped recipients cope with poverty and risks. The chapter also highlights some of the main challenges to expanding and scaling up the current scheme. It concludes that social pensions can have a significant impact on poverty reduction in Viet Nam. With similar costs, the chapter argues in favor of providing lower benefits to a larger number of beneficiaries, rather than providing more generous benefits to a smaller number of beneficiaries. In addition, the chapter discusses a number of challenges for Viet Nam to improve system efficiency and effectiveness, and draws policy lessons from Viet Nam's experience for other Asian developing countries.

Introduction

Rapid declines in fertility and mortality rates along with higher life expectancy due to substantial improvements in health care systems have resulted in large increases in older populations around the world, and this trend is expected to continue in the coming years. Defining an older person as aged 60 and over, the medium-variant population projections of the United Nations (UN 2008) show that the number of older people will increase from 759 million in 2010 to around 2 billion in 2050, with their shared growing from 11% to 22% of the world's

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population. This poses socioeconomic challenges particularly for developing countries that will grow old before becoming rich. As older people usually work in the informal sector, they have limited access to formal pension systems and personal savings. In addition, profound social and economic changes stemming from urbanization and out-migration have weakened family bonds particularly in rural areas, exposing older people to further vulnerabilities. In countries where social security systems are underdeveloped, social pensions, i.e., noncontributory cash transfers, can help older people from slipping into poverty (Mujahid, Pannirselvam, and Doge 2008).

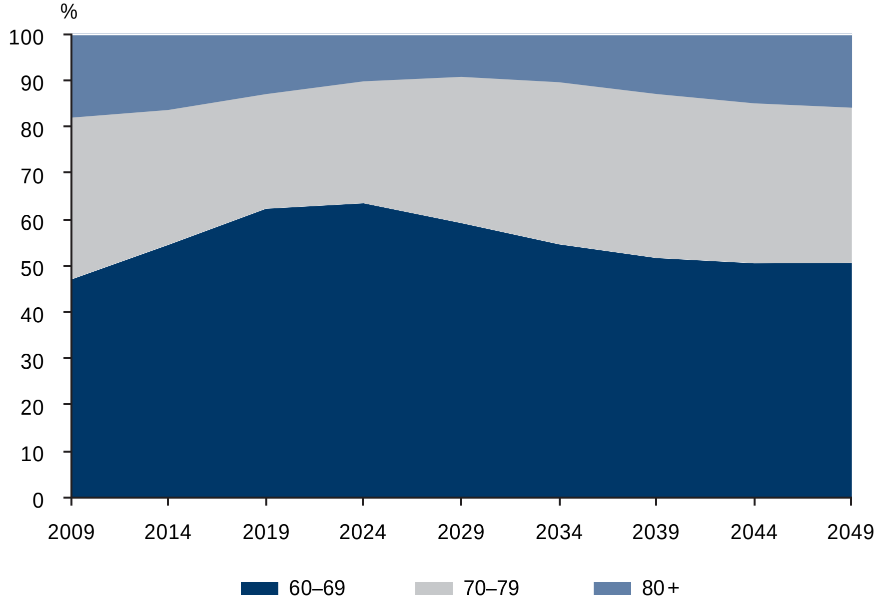
This chapter offers an analysis of the impacts and effectiveness of the social pension scheme in Viet Nam, which was established in 2000. It provides a brief overview of the features of the social pension scheme, including coverage, benefits, and financing. It then discusses the main impacts of the scheme and addresses critical issues in program design and implementation. The chapter concludes with implications for Viet Nam and other developing Asian countries.

Three methodologies are employed to present the current status and arguments for expanding the social pension scheme in Viet Nam. First, it taps existing studies and reports on Viet Nam's social pension scheme to present operational issues. Second, the chapter uses the results of focus group discussions and in-depth interviews in November 2010 with beneficiaries, non-beneficiaries, and local authorities in three rural communes (namely, An Chau, Dong Ha, and Dong La) of Dong Hung District in Thai Binh Province. These communes have different per capita income levels but have recorded aging populations—i.e., with older people accounting for more than 10% of the total population—and strong out-migration flows in recent years. In each commune, three groups were interviewed: female beneficiaries; male beneficiaries; and non-beneficiaries (both females and males). For each group, 12 older people aged 80 and over were included as respondents to understand their opinions and suggestions about the social pension system. There were also discussions with 15 local authorities involved in the implementation and supervision processes of the social pension scheme in each commune. The respondents came from the Commune's Association of the Elderly; District's Labour, War Invalid, and Social Affairs Bureau; District's Fatherland Front; and District and Communal People's Committee. In addition to these, interviews were conducted with central authorities as well as social researchers on social pension in Viet Nam to hear their evaluations and policy suggestions.

Aging, Income Insecurity, and Old-Age Pension

Even though Viet Nam reached lower middle–income status only recently, it has experienced a remarkable demographic transition toward an aging population. For 3 decades, when Viet Nam started strong population and family planning

Figure 7.1 Distribution of Population Aged 60 or more



Source: General Statistics Office (2011).

policies aimed at reducing total fertility rates, there had been notable changes in the population's age structure, with older populations growing at the fastest pace, both in absolute and relative terms (UNFPA Viet Nam 2011). Recent population projections by the General Statistics Office (GSO 2011) indicate that the share of older populations will continue to rise in the coming decades, from 9% of the total population in 2009 to 26% in 2050. The projections also highlight two key issues: the growth of the "oldest old," i.e., those aged 80+ (Figure 7.1); and the feminization of aging (Table 7.1). Figure 7.1 shows that the share of the oldest old group will decline then rise again beginning in 2030. Meanwhile, Table 7.1 shows that females outnumber males, increasingly so at higher age groups, implying the prevalence of widowhood and living-alone among females. In 2009, for instance, there were 131 females for every 100 males at the 60–69 age group, but the numbers were 149 and 200 for the

Table 7.1 Feminization of the Old-Age Population in Viet Nam, 2009–2049
(number of females for every 100 males per age group)

Age Group	2009	2019	2029	2039	2049
60–69	131	119	109	104	105
70–79	149	140	127	116	111
80+	200	179	164	143	130

Source: General Statistics Office (2011).

70–79 and 80+ groups, respectively. In the future, feminization is projected to continue, albeit at a severely declining trend.

Swift economic transformation since the *Doi moi* (economic reform programs) in 1986 resulted in substantial improvements in people's living standards. From one of the world's poorest countries in the mid-1980s, Viet Nam has become a low middle-income economy since 2008. Together with high economic growth, the social protection system contributed to the improvement of people's welfare. However, the benefits of economic growth and the social protection system have not been shared equitably among population groups, leaving a number of older people poor and vulnerable.

Viet Nam has two contributory pension schemes—mandatory and voluntary. The contributory pension scheme is the most important component of the social insurance system, and has been in operation since 1961. As indicated in Social Insurance Law 2009, it is mandatory for laborers working with indefinite duration contracts or contracts valid for at least three months; state officials and employees; laborers working for state defense and public security; officers in the military and police forces; and laborers who joined the mandatory social insurance system before working abroad with definite duration. The pension scheme is voluntary for all working age (aged 15 and over) citizens who do not fit in the above groups. The mandatory pension scheme covered about 9.34 million people (20% of the labor force) by 2010; the voluntary scheme covered about 62,000 people (0.14% of the labor force).

Due to strict requirements, a large number of older people are unable to join these pension schemes (MoLISA 2010), partially contributing to their poverty and vulnerability. According to UNFPA Viet Nam (2011), older people are vulnerable because poverty increases as people get older; female older people are always poorer than their male counterparts; and rural and ethnic minority older people are always much poorer than their urban and Kinh (Vietnamese) counterparts. Indeed, recent studies show that majority of contributory pensioners are better-off older groups, such as those living in urban areas and working for government institutions (Evans et al. 2007b; World Bank 2007; Giang 2010). However, the pension and social allowance benefits are low and account for a mere 15% of household income. More importantly, as a permanent source of income, pensions still play a much limited role for vulnerable households than for better-off groups. For instance, Giang (2010) shows that annual pension benefits account for about 18% of the Kinh (Vietnamese) elderly household income, but only 4.5% of the ethnic minority elderly household income.

Main Features of the Social Pension Scheme

Realizing the importance of addressing older people's income insecurity, the Government of Viet Nam conducted a number of studies in the late 1990s and early 2000s to learn from other developing countries' experiences as well as examine the possibility of introducing a social pension scheme. Following a proposal by the Ministry of Labour – Invalids and Social Affairs (MoLISA), Viet Nam established a social pension scheme on 26 March 2000, with older people aged 90 and over—who did not receive contributory pensions and social allowances—as beneficiaries.

Pension benefits amounting to a minimum of D45,000 (or about \$3) per month were first paid out in 2002. The benefits were increased to a minimum of D65,000 (or about \$4.2) per month in 2004. Benefit levels were adjusted according to cost of living conditions in residential regions and areas. Decree 67/ND-CP dated 13 April 2007 reduced the minimum eligibility age from 90 to 85 and increased the minimum benefit to D120,000 (about \$7.5) per month. On 27 February 2010, Decree 13/ND-CP further reduced the minimum eligible age to 80 and raised the minimum benefit to D180,000 (about \$9.5) per month.[57] The final benefit amount is based on a set of multipliers that depend on household composition or specific beneficiary characteristics.

The current social pension scheme in Viet Nam is designed as a targeted scheme, with age, health status, and poverty incidence as three important criteria. The poor are identified based on the poverty threshold defined by MoLISA. Households with incomes below the threshold will be considered for social allowance programs. Since its initial poverty threshold announcement in 1993, MoLISA's poverty line has only considered demand for food, so it is also called the food poverty line. Reducing poverty thus implies reducing hunger. The poverty threshold is adjusted over time and differs between rural and urban areas. According to Decree 13 in 2010, the following categories of older people are covered by the social pension scheme:

- **Category I:** Older people aged 80 and over, who do not receive contributory pensions and social allowances.
- **Category II:** Older people—aged between 60 and 80 years—living alone in poor households; older people living with other older people and unhealthy spouses, without relatives to get support, and in poor households.

As of 2009, there were 119,068 beneficiaries from the first category and 691,120 beneficiaries from the second category. They account for about 10% of the total older population and about 50% of total social allowance recipients (Dac 2010). As regards regional distribution, the Red River Delta accounts for the largest

[57] The average D/\$1 exchange rates in 2002, 2004, 2007 and 2010 were 15,084; 15,739; 16,131; and 18,947 (IMF various years).

share of beneficiaries (31%), followed by the North Central Coast (22%). A key concern is the disproportionate regional distribution of beneficiaries, with more developed regions having higher coverage than less developed ones (Evans et al. 2007a; MoLISA 2010).

The social pension scheme is mainly funded by both central and local government budgets. As of 2008, total government expenditures for living-alone poor older people were D140 billion (about $0.75 million) and D622 billion (about $4.1 million) for people aged 85 and over. As a share of gross domestic product (GDP), these account for about 0.05% (Table 7.2).[58]

Table 7.2 Coverage and Costs of Social Pensions in Viet Nam, 2008

Type of Beneficiary	Number of Beneficiaries (persons)	Monthly Benefits (D1,000)	Yearly Costs (D million)	Yearly Costs (% of GDP)
Living-alone elderly	96,700	120	139,248	0.01
Elderly aged 85+	431,871	120	621,894	0.04

GDP = gross domestic product.
Source: Dac (2010).

Impacts of the Social Pension Scheme

This section, using various data sources and studies, provides an analysis of the impacts of the current social pension scheme in Viet Nam on old-age persons in terms of poverty reduction, labor force participation, access to health care services, and support to other household members.

Income Poverty Reduction

The social pension benefits, though small, can help improve harsh living conditions and reduce income poverty. Indeed, recent studies by the Institute for Labour Science and Social Affairs (ILSSA) and United Nations Population Fund (UNFPA) (2007) and Mujahid, Pannirselvam, and Doge (2008) show that the benefits are an important income source for older people, especially those living alone without any familial support. The qualitative interviews also confirm that the social pension provided important support to the respondents. About 95% of the respondents said their small pensions could help them, to some extent, meet daily expenses. A female aged 88 from An Chau commune, Vu Thi T., said, "…Though the pension is small, I can use to it buy some additional food like meat or fish. Without the pension, my meals could not change, since I cannot work much and only have little income from agriculture." A similar

58 At the time of drafting this paper, the 2010 budget was not yet implemented. As such, the most updated and available data for the scheme are under the 2008 budget.

opinion is shared by an An Chau Bureau of Labor–Invalids and Social Affairs staff at the communal level handling poverty reduction programs, "…With the current living standard of older people in our commune, a small pension benefit still really helps the recipients in their daily expenses."

While social pension benefits do improve older people's lives, the benefit level is insufficient for recipients to exit poverty. True, benefit levels have been hiked in line with rising inflation in recent years, but research by Dac (2010) shows that the adjusted levels account for only 60% of the national minimum living standard. For regions experiencing significant price volatility, benefit levels were only 40% of the minimum consumption demand. These suggest that older people need additional support from families and communities. However, such support is usually not enough to fill the gap. These findings are consistent with surveys on social pension by the Vietnam Association of the Elderly (VAE 2010) and social transfer programs by Giang, Nguyen, and Le (2011).

Qualitative interviews confirm that benefits are indeed inadequate. Nguyen Thi L., a female aged 86 from Dong Ha commune, said that "…I do not have any income, since I cannot work. Previously, the pension was enough for me to buy food. But now, it is really difficult. Everything is getting more expensive. I wish the government would provide some more. Otherwise, I do not know how to live, especially as I have high blood pressure and cannot do anything." A Bureau of Labor–Invalids and Social Affairs staff in charge of social allowance programs at Dong Ha commune also commented that "…frankly, the current benefit is too low to cover everything needed for an older person. Most of the living-alone older people are poor and do not have any relatives living nearby. Other households living next door are also poor, so they cannot help each other much."

Another problem is that age eligibility (80 and over) is still too high compared to the average life expectancy in rural areas. Most of the interviewed older people have serious health problems and are living in poor conditions. Differences in living conditions between urban and rural older people should thus be taken into account. A leader of the Women's Union commented that "…as you can see in the meeting hall, all the people aged 85 and over are not well. They could not come here for the interview since they all have problems with walking and vision. They did manual work for a long time, and now they are paying for it with their health. I think the eligible age of 80 is okay, but 75 would be better." Similarly, a staff member of the Bureau of Labour – Invalids and Social Affairs from Dong La commune noted that "…in some cases, unfortunately, as soon as their documents were finished, they passed away. Some of them really had to live desperate lives in poverty."

Participation in the Labor Force

Data from household surveys in Viet Nam over the past decade show that older people are still active in the labor force, though their participation has changed over time. The labor force participation rate of the elderly declined from 54.3% in 1992 to 42.8% in 2008, but more than 60% of the working elderly are engaged in agricultural production. This is consistent with interview findings from this study, in which respondent older persons were found to be doing agricultural work.

The limited social pension compared to total expenditures of older households pushes older people to continue working to secure additional income. Pham Thi V., a female aged 87 from An Chau commune, said that "…social pension cannot help me to get what I wanted for a daily simple meal. Therefore, I have to work. I usually go to the local market in the morning to buy vegetables, and then sell them back to other consumers. I can get a small profit, but this is enough for me." Apart from the income-generating motive, older people continue working to maintain a sense of independence from their children and relatives.

Access to Health Care

The share of older people without social health insurance declined substantially from 67.1% in 2004 to 40.1% in 2008 (Giang 2010), mainly due to increased state budget spending on health care for targeted groups, including older people. Nevertheless, the social pension benefit is further helping older people improve their access to health services.

Most of the respondents have poor health, resulting in their economic inactivity. A majority of interviewees also had chronic illnesses requiring significant expenditures for health care. But with the social pension, recipients were able to pay for additional medical costs (such as out-of-pocket payments for medicines and special treatments) that were not covered by the free health insurance. Nguyen Thi L., an 86-year-old female from An Chau commune, said, "…I have chronic backbone pain, so that I cannot do anything. Although I have the free health insurance card, the medicine provided by this card is not enough for me. I can have more medicine with my pension money."

However, out-of-pocket spending (for both formal and informal payments) is still heavy in Viet Nam, compelling older people to use commune health centers, even if they normally provide lower quality health services. In addition, high costs prevent older people from getting inpatient care, even if they have serious illnesses. Bui Van L., a male aged 89 from An Chau commune said that "…we do not have any money to stay in district or provincial hospitals. Health insurance cannot cover everything. So I usually buy medicines to take at home with advice from local doctors." The higher costs of inpatient visits and dearth of health care facilities in poorer regions are aggravating the situation for older people (Nguyen 2010; Giang 2010).

Supporting Other Household Members

Induced by growing urbanization and out-migration, older people are experiencing substantial changes in living arrangements. Data from the Viet Nam (Household) Living Standards Survey during 1992–2008 show that the share of older people living with children declined from about 80% in 1992 to 63% in 2008. At the same time, the share of households with only one older person (or living alone) and older persons living with old-age spouses increased significantly. More importantly, due to out-migration, the share of "skip-generation" families—in which only grandparents live with grandchildren—has also increased over time. These conditions were confirmed during the interviews. Nevertheless, changes in living arrangements do not imply weaker familial ties (see, for instance, Babieri 2006; Pfau and Giang 2011). In fact, older people still receive support from their children in the form of remittances, and, in their turn, they provide support their families in various ways to keep family relations. This is not exceptional for even poor older people.

Interview respondents reported that the amount of social pension benefit was too small to share with household members. But those living with children sometimes use their pensions to buy food, medicines, or gifts. Nguyen Thi K., a female aged 87 from Dong Ha commune, shared that "…I only have a little money from the social pension, but I sometimes give my 7-year-old grandchild D2,000 for her breakfast. She cannot go to school without eating anything." An 87-year-old male, Nguyen Ngoc T., from An Chau commune shared that "…I can give some medicines, bought by my social pension money, which my children can use. Sometimes those medicines are useful." Similarly, the social pension can also help cover permanent health care costs for other household members. Nguyen Thi T., an 89-year-old female from Dong La commune, said that "…I am living with my mentally-disabled daughter. She cannot do anything. I use my social pension to buy her some medicine when necessary."

Current Issues in Design and Implementation

Identifying Beneficiaries

In Viet Nam's social protection system, MoLISA takes care of policy design and implementation, while the Ministry of Finance (MOF) takes care of allocating finance. These two institutions are organized vertically, from central to communal levels. MoLISA staff members at the communal level are responsible for identifying beneficiaries of different social programs, including the social pension scheme. After the list is finalized, it will be submitted to the upper levels of administration, i.e., district, provincial, then central. Proposals of financial costs for social pension submitted to MOF's affiliations go through a similar approval process.

Beneficiaries of the social pension scheme under Category I—older people aged 80 and over who do not have any contributory pensions or other social allowances—are recognized based on their personal identification card or household registration. Older people who remain uncovered under this category often cannot provide the required certified documents for whatever reason.

Identifying beneficiaries under Category II is more problematic, especially in terms of ascertaining poverty and evaluating health status. As mentioned earlier, the poor are identified based on the poverty line defined by MoLISA, on which the level of benefits are determined. As a result, MoLISA's poverty threshold has always been much lower than the World Bank's standard of $1.25 per person per day. Rural and urban poverty lines are also different, and due to budget constraints, poverty lines have remained unadjusted in some provinces.

In addition, the list of poor households is updated annually based on households' income sources and other characteristics (such as housing conditions). A household's per capita income is then estimated and used to categorize near-poor, poor, and extremely poor households. However, estimating household incomes from different sources is subjective and dependent on the evaluation of local staff. Comparability across households and provinces is thus difficult.

Some regulations are very restrictive, making it tough for older people to comply with the requirements, such as in proving disability (mental or physical). A staff from the Bureau of Labour – Invalids and Social Affairs of An Chau commune said that "…we know some people are mentally disabled, but it is difficult for us to include them in the list of beneficiaries, because we need to get certification from assigned medical centers. Ironically, no one from such centers come to these people to examine them, or we cannot bring these people to medical centers for checkup." In addition, there is a high degree of subjectivity in deciding whether or not a poor older person, with children who have migrated to urban areas to work, lives alone without familial support. Nguyen Van T., a male nonrecipient aged 86, said that "…I do not have social pension, because it is said that I usually receive money from my children who are working in the south. But frankly speaking, they rarely send money to me since they also have a lot of difficulties there."

Before finalizing the list of the poor, each locality's representative citizens meet to examine the proposed list. This has, however, proven ineffective in objectively identifying the poor, since familiarity and established relations with each other have made evaluations extremely discretionary.

The problems associated with accurately identifying beneficiaries are common across all means-tested benefits in the country. A World Bank (2008) study shows that both exclusion and inclusion errors in social transfer programs in Viet Nam are significant. In the Northern Mountainous area in 2006, for instance, 49% of the population was classified as poor, but only 22% was officially listed as such.

Benefit Delivery

The delivery mechanism for any social transfer program in Viet Nam, including the social pension, has followed the "push method" (Schüring, Nguyen, and Nguyen 2009), with cash directly delivered to beneficiaries through the following ways:

- Method 1: Communal People's Committee financial staff directly pay beneficiaries after eligibility validation (usually through signatures or fingerprints). Documents are copied and sent to the District People's Committee for final certification and approval of the list. Everything is implemented at the Communal People's Committee office.
- Method 2: If beneficiaries are unable to go to the Communal People's Committee office where benefit money is handed over to recipients, a staff member or relative will receive the cash on behalf of the beneficiary, who then certifies receipt of the benefit.
- Method 3: If the Communal People's Committee is unable to make payments to beneficiaries due to geographic difficulties, the District People's Committee will. Beneficiaries' certifications of receipt are also required.

Respondents of the qualitative study confirmed the widespread use of Method 2. For example, Pham Thi V., a female aged 86 from An Chau commune, said that "…I usually cannot go far to do anything, so I ask my niece to help me. When she is busy, a staff of Communal People's Committee will help me because he lives next to my house. I receive all my money then." A staff member of the District Bureau of Labour – Invalids and Social Affairs shared that "…Usually, beneficiaries are not well because most of them are old. If they cannot go to the Communal People's Committee office to receive money, we will ask a staff who lives nearby to receive on behalf of the beneficiaries. We do this without requesting anything back since we are also good neighbors."

An important factor contributing to good benefit delivery at the commune level is strict and frequent supervision of the Communal Older People's Association, which is an affiliate of the Viet Nam Association of the Elderly (VAE). The Communal Older People's Association works closely with local authorities to generate the list of eligible older beneficiaries, helps older people complete the documents required by the District Bureau of Labour–Invalids and Social Affairs, and ensures that older people receive benefits in a timely manner.

One area of concern is the timing of benefit delivery. Respondents sometimes do not receive cash on the same day of every month due to delays in cash transfers between the local and central governments.

Administrative Capacity for Outreach, Implementation, and Monitoring

While the coverage of Viet Nam's social pension scheme has expanded, the staff handling its administration remain limited and inappropriately distributed across areas and regions. A number of critical issues have been identified by our fieldwork and existing studies (see, for instance, ILSSA and UNFPA 2007; World Bank 2008; and Giang, Nguyen, and Le 2011):

First, relative to the number of beneficiaries and poor households, the number of MoLISA staff at different administrative levels handling social transfer programs is small. A report by Giang, Nguyen, and Le (2011) shows that in some districts, one staff member supervises and updates information for 600 poor households living in mountainous and remote areas. Differences in geography, traditions, and living conditions also pose additional challenges for staff. They are generally overburdened and unable to update and supervise the programs well.

Second, staff usually do not have professional training in social policy and practice, going by just self-study and experience. Program management is thus suboptimal. A staff of the District Bureau of Labour – Invalids, and Social Affairs said that "…it takes a lot of time for us to understand how to define a poor household since regulations are strict. There are also many other documents relating to poverty. We sometimes cannot remember exactly, and as such it takes time to review." Giang, Nguyen, and Le (2011) find numerous documents related to social allowance programs that have not been upgraded to reflect current regulations.

Third, demands from local staff are high, but compensation is inadequate and adjusted infrequently because salaries are based on minimum wage, which is just about 40% of per capita GDP; and staff generally have low qualifications, pegging their salary at a low scale. In addition, compensation tends to be equalized irrespective of working conditions. A staff member at An Chau Bureau of Labour – Invalids and Social Affairs handling poverty reduction programs said that "…every day we have a heavy workload with different documents for hundreds of beneficiaries, but our salary is less than D1 million (about $50) per month. We have to work as it is our responsibility. But frankly speaking, we sometimes feel really tired." A leader at Dong La Communal Older People's Association also shared that "…we are involved in a lot of work related to older people, including supervision of cash delivery to older people, but we do not get any compensation."

Fourth, program design and implementation are decided by various central and local government institutions (such as the Provincial Department of Labour – Invalids and Social Affairs and Department of Finance) at various stages, and inevitably, the demarcation of responsibilities are blurred, delaying policy implementation.

Scaling Up Social Pensions: Potential Poverty Impacts and Fiscal Costs

Micro-simulation analysis conducted by Giang and Pfau (2009a) illustrates the possible economic impacts and costs of the social pension scheme. The analysis is based on data from the Viet Nam Household Living Standards Survey in 2004, which was conducted by the GSO as part of the World Bank's Living Standard Measurement Surveys. The survey covered 39,696 individuals in 9,189 households, including 3,806 older persons (aged 60 and over) and 2,784 older households (with at least one older person).

Table 7.3 Alternative Programs Costing About 1% of Gross Domestic Product in 2004

Category	Starting Age	Benefit Level as % of Official Poverty Line	Total Cost (D billion)	Change in Poverty Gap for Older People (%)	Change in Poverty Severity for Older People (%)
ALL	64	55	7,128.7	–55.2	–59.9
ALL	65	60	7,187.3	–54.7	–59.2
ALL	69	80	7,191.0	–49.4	–53.2
RUR	60	60	7,197.2	–59.7	–65.5
RUR	63	70	7,188.2	–58.6	–64.3
RUR	65	80	7,161.5	–57.7	–62.8
RUR	66	85	7,138.2	–56.9	–61.7
RUR	67	90	7,094.4	–53.8	–58.4
RUR	75	200	7,224.2	–34.8	–37.0
FEM	60	75	7,167.3	–52.2	–56.2
FEM	64	95	7,212.8	–51.7	–54.6

ALL = for all elderly, FEM = for female older people only, RUR = for rural older people only.

Note: In 2004, the official poverty line, measured by real per capita expenditure, was D2,077,000 per year.

Source: Giang and Pfau (2009a).

Alternatives for a social pension scheme that would have cost about 1% of GDP in 2004 were considered. Table 7.3 presents the options, with the eligibility age varying from 60 to 90 and the benefit level ranging from 5% to 200% of the official poverty line. The results show that a scheme providing rural older people aged 60 and over with a benefit equivalent to 60% of the official poverty line would be most successful in reducing both the poverty gap and poverty severity. In particular, the old-age poverty gap would have been reduced by 59.7% and poverty severity by 65.5%, both the maximum reductions achievable with the options presented. An important implication from Table 7.3 is that gains in poverty reduction are larger with lower age eligibility and lower benefit levels.

In addition, Giang and Pfau (2009b) estimate the potential impacts on inequality of universal social pension transfers at three eligible age thresholds, i.e., 60, 70, and 80. In all scenarios, inequality in older populations and in the general population is reduced. For instance, the Gini coefficient for older people will fall from 0.377 to 0.347 if a social pension scheme for all older people (aged 60 and over) were introduced; the Gini coefficient for the general population will also decline from 0.370 to 0.364.

Table 7.4 Projected Impacts on Inequality of a Universal Social Pension Scheme

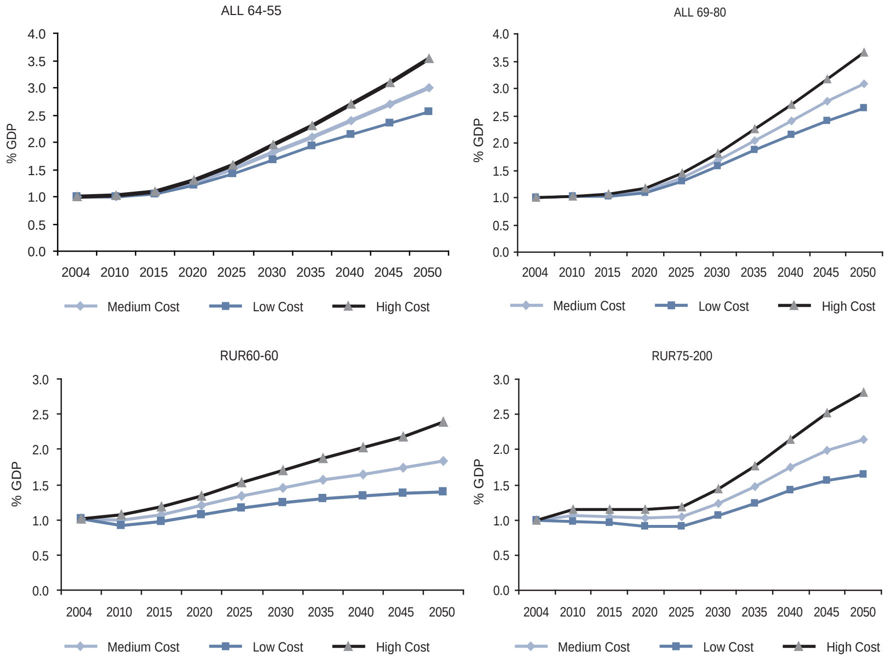
Type of Population	Pre-scheme Gini Coefficient	Post-scheme Gini Coefficient		
		60+	70+	80+
Viet Nam	0.370	0.364	0.366	0.369
Older people	0.377	0.347	0.359	0.372

Source: Giang and Pfau (2009b).

Viet Nam's total expenditures on social pensions of 0.05% of GDP are relatively low compared with other expenditures on social services (such as 6% of GDP for health and 5.3% of GDP for education). Weeks et al. (2004) show that a universal social pension scheme would only cost about 2% of Viet Nam's GDP. A similar cost estimate was generated using micro-simulation analysis by Giang and Pfau (2009a), albeit targeting different categories of older people.

The upper panels of Figure 7.2 present the estimated costs of two universal social pension schemes: the one on the left provides all people aged 64 and over a benefit equivalent to 55% of the official poverty line (ALL64–55); the one on the right provides all people aged 69 and over a benefit equivalent to 80% of the official poverty line (ALL69–80). These show that population aging will lead to large-scale increases in program costs, with medium-cost estimates expected to reach 3% of GDP in 2050. Meanwhile, the lower panels of Figure 7.2 show the estimated costs of two social pension schemes targeting rural older people: the left one provides all older people living in rural areas with a benefit equivalent to 60% of the official poverty line (RUR60–60); the right one provides all people aged 75 and over in rural areas with a benefit equivalent to 200% of the official poverty line (RUR75–200). For these options, the projected costs increase only gradually (due to the projected future urbanization), with medium-cost projections at just about 2% of GDP in 2050. This is consistent with the earlier finding by Giang and Pfau (2009a) that for the same cost, focusing on older people living in rural areas will have the greatest influence on poverty reduction.

Figure 7.2 Future Costs of Social Pensions for "ALL" and "RUR", 2004–2050



Note: ALL: a universal scheme; RUR: a scheme for rural older people only.
Source: Giang and Pfau (2009a).

Implications for Policy and Practice

This section identifies important lessons for Viet Nam in dealing with rapid aging and old-age poverty, which may also be relevant for other developing Asian nations.

Promoting and Strengthening the Role of Social Pension in Reducing Old-Age Poverty

The UN (2007) shows that older people living in countries with comprehensive formal pension systems and public transfer schemes are less likely to fall into poverty than younger cohorts in the same population. Absence of such formal systems expose older people to the risk of destitution arising from their inability to adapt to rapid social and economic transformation. The limited coverage of formal social protection systems also poses great challenges to providing income security to older people—Viet Nam faces such challenges.

The first challenge is ensuring fiscal sustainability of the social pension scheme. As a lower-middle income economy with limited financial capacity, Viet Nam must have a well-targeted scheme that at least covers the most vulnerable older people.

The second challenge is accurately identifying beneficiaries. While all beneficiaries are poor and vulnerable, their degrees of poverty and vulnerability vary, requiring different benefit levels. In this case, “equalization” does not work.

The third challenge is increasing coverage. A number of older nonpoor persons are dangerously close to the poverty line, implying that small shocks are sufficient to push them into poverty. Expanding coverage of the social pension scheme to include poor older persons living in rural and coastal areas where natural disaster shocks usually occur will reduce their vulnerability.

The fourth challenge is improving the benefit delivery system. Separating the administrative and service provision functions will reduce the heavy workload of communal staff, as well as prevent abuse and corruption. It can also help develop a service delivery system at the communal levels, including postal, banking, and information technology services. With the expected expansion in coverage, the average operating cost per beneficiary is likely to decline.

The fifth challenge is strengthening the human resource complement for scheme implementation. Staff working on the social pension scheme generally have multiple tasks, resulting in heavy workloads. The lack of professional staff, especially at the communal level, also makes scheme operations inefficient.

The final challenge is enhancing the scheme’s monitoring and evaluation system. Weak data reporting makes proper evaluation of the efficiency and effectiveness of the social pension program difficult. A better system must go hand in hand with stronger human resources.

Implications for Other Developing Countries

Viet Nam’s experience may offer some lessons for other developing Asian countries considering social pensions for older people.

First, social pensions can work in low-income countries with a fairly small initial expenditure. Viet Nam began implementing its social pension scheme in 2002 when it was still a low-income country. Coverage and benefits started low, implying low implementation cost at just 0.05% of GDP. Nevertheless, the pension improved recipients’ standard of living, augmenting their spending on food, medicines, and other household needs.

Second, a social pension scheme providing low benefits to a large number of beneficiaries can reduce poverty more than a scheme providing high benefits to a small number of beneficiaries. Using the Viet Nam Household

Living Standards Survey in 2004, alternative scenarios for expanding the social pension scheme were studied, with each option costing about 1% of GDP. In each scenario, the depth of poverty for older people will be reduced by half, but the above approach provides the greatest impact.

Third, an incremental approach to expanding social pension coverage can be adopted if funding is limited. At the beginning of the scheme in 2002, the age eligibility was 90 and over, which was reduced to 85 and over in 2007, and further to 80 and over in 2010.

Fourth, if funding remains limited, targeting the most vulnerable groups, such as rural older people, can help substantially reduce the incidence of poverty. Such a scheme could be an intermediate measure toward a comprehensive social protection system aimed at protecting all citizens.

Fifth, a universal approach is administratively simpler to implement than a targeted approach. Fewer difficulties were encountered in implementing the almost universal Category I social pension (for 80+ persons), compared to the means-tested Category II social pension (for the poor aged 60–79).

Sixth, aging and the elderly should be considered in any development strategy. Social pensions are instrumental in reducing poverty, but should not be seen as the main solution for lifting older people out of poverty. It is necessary to prepare the youth for aging by promoting education and health, and encouraging saving.

Finally, older people's organizations can be tapped to monitor and help implement social pension schemes. The local Communal Older People's Association, for instance, works closely with local authorities in assisting older people complete the documents required by the District Bureau of Labour–Invalids and Social Affairs, and ensuring that older people receive their benefits in a timely manner.

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Chapter 8
Overview of the Old Age Allowance Programme in Bangladesh

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Abstract

This chapter reviews Bangladesh's Old Age Allowance Programme, which has received wide attention from policy makers. Substantially expanding coverage, the program bears immense value to the country's poor older people by assisting them in meeting their basic needs, enhancing their status at home, and improving their psychosocial well-being, through providing a reliable source of income. It also has some spillover effects to other household members as well as macro impacts.

It has a few weaknesses: it is means tested and so does not cover all poor older people. Nor has it been effective in reaching the target population. Some main causes are abuse of power, malpractices, and political bias of locally elected representatives. Also, the benefit is very small (around $4 per month).

The selection process could be greatly improved through closer involvement of civil society—particularly the older people themselves—in program implementation. Most of the program's weaknesses, including selection bias, can be overcome if the program is scaled up to a universal one. Estimates suggest such an upgrading, with a reasonably decent benefit size, is possible—given the political will.

Introduction

The problem of rapid population aging, which has become a characteristic of the Asian population, has profound policy implications. In all Asian countries,

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including Bangladesh, the demographic dynamics are leading to deep changes in the population age structure, with an increasing number of people in old age and fewer of working age. These changes have developmental implications for societal well-being.

This phenomenon places the issue of old-age poverty and vulnerability at the forefront of the development agenda. The obvious policy imperative is to establish and strengthen old-age social protection for this growing population segment. Such protection, broadly defined as the public actions carried out by the state to enable older people to deal more effectively with risks and vulnerabilities, is extremely important. Social (noncontributory) pensions are an effective way of reducing income poverty and other forms of poverty among older people.

The Government of Bangladesh recently introduced a social pension scheme. The scheme has subsequently undergone several modifications and expansions.

This study has two specific objectives: to assess the origin, main features, impacts, and weaknesses/constraints of the Old Age Allowance Programme, and to discern the policy lessons from this assessment in order to inform the design and implementation of social protection schemes for older people both in Bangladesh and in other developing countries of Asia.

The realization of the above objectives requires a comprehensive understanding of the Old Age Allowance in Bangladesh, and in turn, multidimensional primary information from beneficiaries and non-beneficiary older people.

This study has been prepared using primarily the secondary information available from relevant government agencies such as the Department of Social Services (DSS) under the Ministry of Social Welfare, and the Bangladesh Bureau of Statistics (BBS). It also draws on evidence produced by a few research studies of limited coverage and nature on the Old Age Allowance. The lack of primary information has restricted an analysis of the extent of coverage of the target population, preventing an assessment of the eligibility of older people who receive this benefit, and hence of the program's impacts, strengths, and weaknesses.

To substitute for existing primary information from older people, this study has gathered information from them through focus groups discussions (FGDs). In addition, interviews were conducted with people implementing or administering the program both at headquarters and field levels. The information gathered from older people through the FGDs relates primarily to various aspects of program implementation including beneficiary selection, effective targeting of the beneficiaries, weaknesses/inefficiencies as well as strengths of the program, and its impact on their lives. The information collected in this way relates primarily to the implementation aspects of the program.

The FGDs for older people, including both beneficiaries and non-beneficiaries, were conducted in three villages in different *upazilas* (districts). The villages were Hijli Model village under Manikganj *Upazila*/Municipality, Kabirpur village under North-Channel Union of Faridpur *Upazila*, and Mukundirchar village under Ibrahimpur Union of Chandpur *Upazila*. The first village is relatively better-off in terms of infrastructure facilities and is a reasonable distance from the *upazila* headquarters. Kabirpur village, on the other hand, is some distance from the *upazila* headquarters with communication facilities that are not so good between the village and the headquarters. Mukundirchar village is in an isolated *char* (estuary) area where most of the people are very poor; it has no infrastructure, such as roads.

The FGDs in each village were attended by both male and female beneficiaries and non-beneficiaries. In the FGDs for beneficiaries, there were 14–18 participants in different villages. There were 10–11 non-beneficiary participants. In every FGD, including those for beneficiaries and non-beneficiaries, about half the participants were women. The age of the beneficiary participants was between 60 to 100 years and they had been receiving the allowance for 1 to 12 years, with most falling between 1 to 8 years. The age range of the non-beneficiaries was between 64 to 80 years.

Safety Net Programs in Bangladesh

For the past 3 decades, although successive governments have embarked on numerous poverty/risk alleviation strategies and programs and have made significant improvements in this regard, Bangladesh has remained among the least developed countries, with 40% of its population living below the poverty line (Government of Bangladesh 2010). An urgent challenge confronting Bangladesh has therefore been to eliminate the widespread poverty and raise the standard of living of the masses. The poverty reduction strategies of Bangladesh have identified eight specific avenues to reduce poverty. One of the avenues identified has been safety net measures to protect the poor and other vulnerable people against income/consumption shocks through targeted and other efforts (Government of Bangladesh 2005).

The four key agencies involved in poverty alleviation or helping in the well-being and empowerment of the poor are the Ministry of Social Welfare (MoSW), the Ministry of Women and Children Affairs, the Ministry of Food and Disaster Management, and the Local Government Division. The government administers about 70 safety net programs, which can be

Table 8.1 Safety Net Programs and Their Budget Allocation 2008/09

Safety Net Program	Number	Budget allocation for 2008/09 (Tk million)
Cash transfer program	20	51,621.0
Food assistance program	7	68,680.5
Microcredit program and Special Funds	24	29,859.0
Development sector program	15	19,156.5
Total	66	169,317.0

Source: Center for Policy Dialogue (2009).

grouped under the four categories shown in Table 8.1. A selection of major cash transfer programs in Bangladesh, the agencies administering them and the budget allocated to them in 2009/10 is given in Table 8.2.

Table 8.2 Different Cash Transfer Programs of Bangladesh, Including the Agencies Administering Them and Budget Allocation for 2009/10

Cash Transfer Program	Coverage (million persons)	Implementing Agency	Budget for 2009/10 (Tk million)
Old Age Allowance Programme	2.25	Ministry of Social Welfare	8,100
Allowance for widowed, deserted, and destitute women	0.92	Ministry of Women and Children Affairs	3,312
Allowance for financially insolvent disabled	0.26	Ministry of Social Welfare	936
Honorarium for insolvent and injured freedom fighters	0.14	Ministry of Liberation War Affairs	2,814

Source: Cordaid and HelpAge International (2010).

The safety net programs currently cover 13 million–14 million of the country's poor individuals (Roy, Murshid, and Begum 2010), but the number of extreme poor at present is around 38 million–40 million (BBS 2007). These programs can therefore ensure only a limited coverage even of the country's extreme poor population (Chowdhury and Ali 2006). Actual spending on all of these safety net programs in 2008/09 amounted to 2.8% of the country's gross domestic product (GDP) (Government of Bangladesh 2010). However, despite limited spending and coverage, the existing social safety net programs have contributed much to reducing the sufferings of the country's poor and vulnerable people. Many of these programs have been in operation for several decades and have helped the country to make significant progress toward poverty reduction. In the 1970s, nearly 70% of the country's population was poor, but this figure has dropped to 40%.

Among the social safety net programs administered by Bangladesh, only the Old Age Allowance specifically targets older people. This program was introduced in 1998 and the current number of approved beneficiaries is 2.48 million older people in 2010–2011. Although the target populations of a few other cash transfer programs by definition are different, older people by default derive some benefits from them. Two such major programs are the Allowance Program for the Widowed, Deserted, and Destitute Women, and the Honorarium Program for the Insolvent and Injured Freedom Fighters. It was observed that 44% of the beneficiaries of the former were elderly widowed, divorced, or separated women aged 60 and over (Begum and Paul-Majumder 2008), while almost all beneficiaries of the honorarium program for the freedom fighters are older people as the country fought the Liberation War in 1971. However, the government recently placed a maximum age of 45 on the widowed, divorced, or destitute women's allowance program, disfavoring the older women.

In addition to the Old Age Allowance, the government administers a public sector pension scheme. Under the existing provision, after completing at least 10 years of effective services to the government, or on reaching the age of 57 years, one is entitled to a monthly allowance on the basis of last salary drawn and the years of service rendered. This pension scheme is a mandatory, publicly managed, tax financed defined benefit scheme and is administered on a pay-as-you-go (PAYG) basis. In 2009–2010, the allocation for this scheme was Tk35.3 billion ($476 million), which was about 4.5 times higher than the allocation made for the Old Age Allowance. Some 325,000 public servants received retirement benefits from this scheme in 2009–2010.

While different safety net programs are aimed at bringing tangible and direct benefits to the vulnerable groups through cash or in-kind transfers, their effectiveness to alleviate poverty and deprivation is adversely affected by the inefficiencies, malpractices, abuses, and corruption associated with the implementation/administration of these programs. Almost all the studies conducted on these have highlighted this fact (World Bank 2006; Mannan 2010; Chowdhury and Ali 2006) and expressed the views that these programs suffer from insufficient coverage, inappropriate targeting, leakage of resources, and malpractices—eroding program benefits.

Our interest in the Old Age Allowance Programme stems from the fact that this is the only official program for the country's older people, who have already reached a figure of more than 10 million,[61] and possess much potential to grow to a significantly higher number in the coming decades. The older people also represent a vulnerable segment of the population, with poverty being

[61] This figure may be much higher than 10 million if the United Nation's Population Fund's (UNFPA) estimate of 164.4 million for the country's total population is correct. Also, results of a recent survey show that people aged 60 years and older in Bangladesh, particularly in its rural areas, may represent nearly 8% of the country's total population (Begum 2010).

widespread among them and their employment being highly dominated by the informal sector, which gives no retirement benefits.

Bangladesh, like other countries, has experienced population aging, causing an increase in the elderly population both in terms of share and absolute number. And, while the number of older people almost tripled during the 40 years preceding 2000, the size may increase sixfold during the first 50 years of the present century (Table 8.3).

Table 8.3 Share of Older People (60 Years and Above) in Total Population

Period	% of Total Population	Absolute Number
1961	5.2	2,647,268
1974	5.7	4,074,246
1981	5.6	4,878,720
1991	5.4	5,741,010
2001	6.1	7,590,340
2000	5.0	6,819,000
2010	5.8	8,875,000
2020	7.8	12,967,000
2030	11.1	19,851,000
2050	20.0	40,231,000
2100	26.4	65,290,000

Source: Figures for 1961 to 2001 are from different population censuses of Bangladesh, and those for 2000 to 2100 (lower panel) are from World Population Projections (Bos, Massiah, and Bulatao 1994).

Such concerns have been compounded by ongoing socioeconomic and cultural changes where the traditional household structures, which give protection to the older members, are increasingly falling apart, giving rise to nuclear households.

The government's concern for the older people in Bangladesh until the late 1990s was limited to the public sector employees, who represent less than 5% of the labor force and about 1% of older people. For the remaining large majority, there were no provisions at all. Following the recent increase in the size of the older population and increasing global concern for older people, the government became more aware and sensitive about older people and issues relating to them, and following the UN Declaration of the International Day of the Older Person constituted a National Committee on Ageing (Miyan 2005; Cordaid and HelpAge International 2010). The international concerns and the increasing failure of the traditional family-oriented safety net to protect the interest of the older people in Bangladesh led the government in the latter part of the 1990s to come up with concrete measures for the older people.

The government introduced the allowance program for poor older people aimed at transferring cash assistance to them to reduce old-age vulnerabilities and insecurities, if not remove them totally. The program is primarily a government-sponsored program inspired by the global awareness, concerns, and commitment for older people, their rights, and well-being.

Since its launch, the program has received much commitment from successive governments. The reason for this, in large part, may be political, although welfare concern has also been there. No government has shown any inclination to disown, dismantle, or disregard the program; rather, they have strongly supported it and expanded it substantially since its introduction.

Main Features of the Old Age Allowance Program

The program is a means-tested program funded from the national budget. The program provides an unconditional monthly allowance benefit to selected older people. It has countrywide coverage although initially its implementation was limited to rural areas. The program has since its introduction expanded in all dimensions (Table 8.4).

As noted above, the program was initially introduced in rural areas only. In the beginning, the 10 most eligible older persons from each rural ward, including at least five women, were granted this benefit. The program has therefore been gender-sensitive since the beginning and maintained a gender balance in benefit distribution. Its gender sensitivity was further reflected in recent years; in 2010/11 the minimum eligibility age for women was lowered from 65 years to 62 years. It has remained unchanged at 65 years for men.

However, the initial provision of sanctioning the allowance to a fixed number of older people in a rural/urban ward was revised in 2002/03 and the population size was adopted as the principle to identify the number of beneficiaries in an area. That is, the additional number of beneficiaries granted in a year is distributed across different areas according to the population size.

Program Administration

While the DSS under the MoSW implements the Old Age Allowance Programme, a ministerial committee headed by the Minister for Finance looks after the program activities and decides on all matters relating to it.

In rural areas, the records of the Old Age Allowance beneficiaries, including their passbook, picture, and the certified signature/fingerprints are maintained by the *thana*/*upazila* (subdistrict) Social Service Office, the local level office

Table 8.4 Number of Beneficiaries, Monthly Rate of Allowance, and Budgetary Allocation for the Old Age Allowance, 1997–2010

Year	Number of Beneficiaries	Monthly Rate (Tk)	Budget Allocation (Tk million)	Budget Allocation (% of GDP)
1997/98	403,110	100	125	–
1998/99	403,110	100	485	0.022
1999/00	413,190	100	500	0.021
2000/01	415,170	100	500	0.020
2001/02	415,170	100	499	0.018
2002/03	500,390	125	750	0.025
2003/04	999,998	150	1,800	0.054
2004/05	1,315,000	165	2,603	0.070
2005/06	1,500,000	180	3,240	0.078
2006/07	1,600,000	200	3,840	0.813
2007/08	1,700,000	220	4,488	0.822
2008/09	2,000,000	250	6,000	0.976
2009/10	2,250,000	300	8,100	0.124a
2010/11	2,475,000	300	8,910	0.129a

GDP = gross domestic product.

[a] Estimated assuming 6% GDP growth rate (Government of Bangladesh 2010).

Note: $1= Tk74 (July 2011).

Source: Data from the Department of Social Services, Ministry of Social Welfare.

of the DSS. This office also forwards them to the *Thana*/*Upazila* Accounts Officer. Hence, in rural areas, such records on *upazila* basis are maintained by these two offices. In urban areas, the office of the Deputy Director or the District Social Service Officer (district level office of DSS) and the Office of the District Accounts keep these records. The implementation of the program at local level is supervised/monitored by the *upazila*/municipal committee, and these committees make arrangements for payment of the allowance money to the beneficiaries through the bank.

Beneficiary Selection

At the time of beneficiary selection, there has to be advertisement in the media so that people are aware of the selection, and the community, including older people, must be informed also about it locally. The older people who wish to apply for this benefit are then required to apply via a prescribed form.

To assist the beneficiary selection process, two committees work jointly both in rural and urban areas. In rural areas, one of them is the rural ward committee, representing a part of the *Union Parishad*, the lowest level administrative unit of the country, and the other is the *upazila* committee. In urban areas, one of them is the urban ward committee and the other is the municipal committee.

The ward committee located at the community level makes the primary selection of candidates from the applicants and recommends the list to the *upazila*/municipal committee for its finalization. As such, the latter committee is responsible for finalizing the primary list prepared by the former committee. Since the program has been expanding continuously, the selection of beneficiaries is largely an annual affair in the country.

At the time of beneficiary selection, the ward committee, along with the primary list of candidates, prepares a waiting list of candidates, comprising six applicants on priority basis, of which three must be women. This waiting list is then sent to the *upazila*/municipal committee for finalization. The waiting list is prepared and kept ready to facilitate replacement of beneficiaries in the case of their death. The actual replacement from the waiting list is done again by the *upazila* (subdistrict) committee in rural areas and by the municipal committee in urban areas.

If a beneficiary remains absent in the area for 3 months or more, he or she is dropped from the beneficiary list of that area and the gap is filled from the waiting list. Every year, the Director General of the DSS office is supposed to place a list of the deceased beneficiaries before the cabinet committee headed by the Minister for Finance and the Director General further reports the replacement against these deceased beneficiaries.

Selection Criteria

To become eligible, one must fulfill other conditions in addition to the age criterion. The initial cutoff age to become eligible was 57 years, which is in line with the retirement age of public sector employees. This minimum age was raised to 60 years in 2003/04 and to 65 years in 2004/05. The age requirement until 2010 was the same for both men and women, but in 2010/11, the minimum age for women was reduced to 62 years while it remained 65 years for men. However, this is just the minimum age to attain the eligibility for this benefit. The priority is given to the oldest people.

During FGDs, most of the older people were not in favor of raising the minimum age to 65 years. The general perception was that mortality is higher among poor older people and they start the aging process—referring to the decay of physical vitality—early in life due to persistent vulnerability to malnutrition and ill-health. Hence, raising the minimum age to 65 years makes many poor and vulnerable older people wait longer before becoming eligible for this benefit, giving them only a shorter period to enjoy this benefit once granted.

Apart from age, a person is required to fulfill other conditions to become eligible for this benefit. The operations manual for the program mentions nothing about who actually represents the target population for this program, whether it is the elderly who are poor or those who are extremely poor. The manual only mentions the criteria for priority consideration during selection. Neither is it clear how many of the priority criteria must be satisfied to become eligible.

As gathered from the FGDs, poor, asset-less older people who have no one to look after them generally get preference for this benefit. The general feeling among the target beneficiaries is that the priority consideration in granting this benefit is given mostly to those who are very poor, have no assets, have nobody to look after them, cannot work, and have no alternative income sources.

As gathered from the FGDs, once a person is selected for this benefit, there is no history of dropping him or her from the beneficiary list even if he or she is later found to be ineligible or not a priority candidate, or has managed to graduate from poverty. A person is excluded from the beneficiary list only when he or she is discovered to be receiving another benefit simultaneously. These findings have been corroborated by other research studies (Shirin 2008; RED/BRAC 2007). The priority criteria set for beneficiary selection has remained unchanged since the introduction of the program.

Allowance Delivery

The monthly allowance granted to older people under the program is distributed through the local branches of the government scheduled banks. For benefit distribution, there is an allowance disbursement book called the passbook. In principle, one should be able to draw the monthly allowance every month, but it is distributed generally once in every 3 months on a particular day. If one fails to arrive on his or her scheduled date for allowance collection, he or she can draw it from the bank later on, but it has to be a free day when the bank has no schedule for allowance distribution.

The beneficiary is required to receive the allowance money in person from the bank, showing his or her documents/passbook, etc. But, in case of physical disability or other valid reasons, one is allowed to nominate a person to receive his or her money from the bank. In the case of death of a beneficiary, a nominee is allowed to receive allowances for an additional 3 months to facilitate the funeral of the beneficiary. No one is entitled to the benefit as an inheritor.

Grievance Procedures

According to official provisions, if an older person feels aggrieved about the beneficiary selection or has any complaints, he or she can file a complaint with the ward committee responsible for primary selection of the candidates. This committee will then try to address the grievance at local level and if it fails to resolve the issue and the question of appeal arises, the case will then be forwarded to the *upazila*/municipal committee for settlement. A Bangladesh

Rural Advancement Committee (BRAC) study (RED/BRAC 2007) with 1,660 eligible rural non-beneficiaries noted that about one-third of these elderly lodged complaints against beneficiary selection, and in 88% of the cases the complaints were lodged with the local *Union Parishad* member/chair only, although a wide range of other influential people were also contacted. But in none of the cases were such complaints addressed properly, except by giving promises to the complainants of considering them for the benefit next time.

Coverage

While the number of approved beneficiaries under this program is known as it is a part of the national budget, the number of older people actually receiving this benefit in a year is not known, for various reasons. The DSS, the implementing agency of the program, has no information about it. The banks that distribute the allowance money to the selected older people cannot supply such information to the DSS due to systemic problems. To date, the banks have received every year the allocation for this program under a single account, which did not allow them to identify easily the undistributed money in a year and report and return it to the DSS, although the official requirement is that the banks return the undistributed money to the MoSW, and the ministry would deposit the amount to the government exchequer. Hence a provision is being made whereby banks will receive the yearly allocation of money under a new account every year, to facilitate the identification of actual yearly disbursement and undistributed money, if any, in the account at the end of the year. This is only a recent provision so results are yet to be seen.

Worse, there is little knowledge about the coverage of the target population by this program even on the basis of approved number of beneficiaries. The government manual says nothing in clear terms about the target population of this program—it is all poor older people or the extreme poor elderly in the country? The manual describes only the criteria that should receive priority consideration during selection of beneficiaries and these criteria suggest that the program is focused on destitute elderly who fall in the category of extreme or vulnerable poor.

The problem does not end there. For example, there is no knowledge about the incidence of poverty or extreme poverty among older people in Bangladesh; also, there is controversy about the correct size of total population and proportion of this population who are elderly; estimates for them by different agencies vary greatly (BBS 2009; Begum 2010). However, as we learned during our interviews with the officials of the DSS in the head-office, the government, while it has no clear pronouncement on this, does desire to reach all older people with priority criteria with this benefit.

Table 8.5 Share of Total Older People Covered by the Old Age Allowance Programme, Various Years (%)

Year	% of People Aged 60+ Covered by the Program	% of People Aged 65+ Covered by the program
2001/02	5.1	–
2002/03	6.1	–
2003/04	11.96	–
2004/05	15.52	24.05
2005/06	17.18	25.77
2006/07	18.06	27.10
2007/08	18.62	29.00
2008/09	21.50	31.99

Note: The minimum age for the program being raised to 65 years in 2004/05, the coverage for 65+ years is shown from that particular year only.

Source: Sample Vital Registration System Report of the BBS (2008).

Given the estimated older population and the number of approved beneficiaries, the program coverage in 2008/09 was about one-fifth of the older people aged 60 and above and about one-third of those aged 65 and above (Table 8.5). This indicates that if the country desires to upgrade the program to a universal one, a substantial scaling up would be required. However, the estimate also suggests that such scaling up of the program is possible provided there is political will; in case of the elderly aged 65+, it may require 0.34% of the country's GDP instead of the 0.13% the country spends now. This expense has to be viewed in a context that Bangladesh at present spends nearly 3% of its GDP on different safety net programs—hence 0.34% should not pose a problem.

Impacts of the Program

Although the Old Age Allowance Programme has been in existence for about 12 years, no full-scale evaluation has yet been done, leaving a knowledge gap about this program and its impacts on the lives of older people and their families. A few research studies are available: RED/BRAC (2007), Shirin (2008), Paul-Majumder and Begum (2008), and Mannan (2010). All these studies and the FGDs conducted for the present study suggest positive impacts of the country's Old Age Allowance Programme on the lives of both older people and their families. The following paragraphs draw heavily on these studies.

Food

By definition, the older people who are granted the Old Age Allowance in Bangladesh belong to the extreme poor category, hence, deprived of all basic prerequisites of life such as food, shelter, and health care. Meeting the needs of daily survival is a perennial problem for them. Both Bangladesh Institute of Development Studies (BIDS) studies (Paul-Majumder and Begum 2008; Mannan 2010) noted that nearly all the allowance beneficiaries spend their allowance money to meet their daily consumption needs; encouragingly, 85%–95% reportedly managed an improvement in their household food situation with 15%–37% making sufficient improvement in this regard (Mannan 2010). RED/BRAC (2007) noted that expenditure on protein consumption is significantly higher and the carbohydrates consumption is lower among beneficiary households compared to the households of eligible non-beneficiaries. Even the proportion of older people reporting an improvement in body weight was found significantly higher among the former than the latter. An improvement in the food situation of older people was reported also in the FGDs. Many said that without this financial assistance such needs in most part would have remained unattended at the cost of their sufferings. Hence, almost all beneficiaries spend this money to satisfy their very basic food needs.

Health Care

After food, the major item for elderly recipients is health. Most recipients, being extremely old (their mean age was about 71 years—Paul-Majumder and Begum 2008),[62] poor, and malnourished, they are more vulnerable to sicknesses. During 1 month, more than 75% of these older people either fall ill or remain sick and around 20% are disabled (Paul-Majumder and Begum 2008). Another study reported that in a period of 15 days, two-thirds of them fall sick and suffer on average 8 days from an acute illness. The study also reported that in 3 months, 46% of these elderly encounter major sickness at least once (RED/BRAC 2007).

In short, health care among poor older people persists as a dire need and an overwhelming majority of the allowance recipients spend their allowance money on health care needs. More important, 82%–93% of beneficiaries reported that both health awareness and the treatment status of the family members also improved in their households with 22%–35% indicating improvement in these areas (Mannan 2010). Further, it was observed that the allowance recipients spend more than 16% of their allowance money on health care and they spend (Tk270 or $3.64 on average) significantly more on health care than their counterparts who do not receive such benefit (Tk195 or $2.63) (Paul-Majumder and Begum 2008).

These positive impacts were evident during the FGDs, too. The allowance has greatly enhanced older people's access to health care services.

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[62] This mean age was observed when the minimum eligibility age for old-age allowance was 60 years; hence, the current mean age may now be higher as the minimum age was raised to 65 years.

The health care impact of the allowance is higher for older women than older men. In rural areas, the treatment rate by allowance receipt status was found to vary only in the case of women and not in the case of men; also, average expenses between beneficiaries and non-beneficiaries varies by a larger margin in the case of the former (Tk148 or $2 vs. Tk80 or $1.08) than the latter (Tk316 or $4.26 vs. Tk268 or $3.16). Also, the sex variation for treatment expenses is less among allowance beneficiaries (Tk316 vs. Tk148) than the non-beneficiaries (Tk268 vs. Tk80) (Paul-Majumder and Begum 2008). In short, the allowance has helped mitigate old-age discrimination against women, who are more vulnerable to health risks.

Psychosocial Well-Being

The above studies noted that this small but regular flow of money to poor older people has enormous positive value in ensuring their psychosocial well-being. It helps reduce, among other things, their loneliness, insecurity, social deprivation, and ignorance or lack of support by their children. A smaller proportion of allowance recipients suffers from these problems than those who do not receive it (Paul-Majumder and Begum 2008).

Also, as observed by another study (Mannan 2010) among the recipients, 30%–40% were receiving more input than before in family decision making, 85%–95% were receiving more care from family members, 40%–62% were receiving more respect from the family members, and more than 70% were receiving better food and/or meals.

In response to a query for both beneficiaries and non-beneficiaries, a smaller proportion of the former (16%) expressed willingness to live in an "old people's home" than the latter (25%). It was further observed that among former, the majority of those who expressed desire to live in an old people's home did so mostly for ensuring food and shelter. Among nonrecipients, a good proportion expressed the desire to avoid loneliness and negligence, and to ensure health care (Paul-Majumder and Begum 2008).

As noted by Paul-Majumder and Begum (2008), more than 70% of the allowance recipients feel happy and relieved when they receive the cash allowance in their hand, with a few saying that it gives them a rare pleasure. Mannan (2010) observed that a large number of beneficiaries feel self-reliant and their crisis coping strategy improved significantly due to the Old Age Allowance.

As reported by both Paul-Majumder and Begum (2008) and by RED/BRAC (2007), and found in our FGDs, the monthly allowance makes beneficiaries feel happy, peaceful, and tension-free. More than 90% of the FGD participants said that they now felt "happier and more satisfied than before," as the allowance gave them some economic security, allowed them some freedom in expenditure, enabled them to fulfill some of their own idiosyncratic needs that may sound luxurious to others but they find immense pleasure in, and provided them a sense of usefulness to the family as they are now able to contribute to the household, which is highly insufficient. According to RED/BRAC (2007), the beneficiaries feel happy because they can now buy food, pay for health care, and enjoy income without work that is physically stressful.

Most of the indicators used to measure psychosocial well-being showed greater value for women than for men, and the female gain across beneficiary status was greater than for men (Paul-Majumder and Begum 2008).

Economic Security

The research evidence from Mannan (2010) suggests that the Old Age Allowance has helped beneficiaries and their households make a better move economically; 90% of the beneficiaries reported an improvement in their economic condition. Also, the average income of the beneficiary households has shown an increase after receiving the allowance; the estimated average household income of allowance recipients was Tk3,948–Tk5,000 ($53.24–$67.43) in 2010, against Tk2,282–Tk3,908 ($30.78–$52.70) before receiving such benefit. More than 70% of the beneficiary households also reported some improvements in alternative income sources. Their housing conditions too have shown some improvement (Mannan 2010).

As observed by other studies (Paul-Majumder and Begum 2008; RED/BRAC 2007), a few allowance beneficiaries have been able to acquire some assets out of the allowance money, which either helps them generate further income or assists them to improve their quality of life through repair/construction of houses, purchase of furniture, etc. According to RED/BRAC and our FGDs, among the beneficiaries 15%–20% invested some money out of the allowance. The average amount invested was about Tk149 (RED/BRAC 2007).

Social Impact

Paul-Majumder and Begum (2008) claimed that the Old Age Allowance Programme has some social impacts too. The allowance has made poor, older people into more desirable members of the household and their children are now more eager to take care of them and co-reside with them. According to the study authors, the allowance has helped to restore and continue the traditional values of looking after the older family members/parents by the younger family members/children. The authors feel that this itself should be considered a great achievement.

This program is also contributing to restoring the role of older people as venerable counselors and guardians of ancestral values, as a larger number of recipients can spend their time with grandchildren than non-beneficiaries (Paul-Majumder and Begum 2008). A few beneficiaries spend a part of their allowance to support the education of their grandchildren, thus helping to build human capital (Paul-Majumder and Begum 2008). This may help break the route of poverty transmission. Also, Mannan (2010) reports that the educational status of the children of more than 50% of the beneficiary households has improved.

During the FGDs, it was found that the impact of the allowance money on the lives of older people in general is greater in poorer and remote areas where older people face more distressed conditions.

Design and Implementation Issues

Although the Old Age Allowance Programme has many benefits, it has weaknesses as well, as now discussed.

Benefit Size

Almost all beneficiaries said that the monthly Tk300 (around $4) was highly insufficient to meet their daily needs. This insufficiency is to be viewed also in a context that these older people by definition have no assets, no land, no income, and often have no one to rely on for survival support. More important, as shown by Begum (2010) and Paul-Majumder and Begum (2008), most of these older people (about two-thirds or more) have dependents and in rural areas they support on average more than two family members, with the number being more than three for male beneficiaries (Paul-Majumder and Begum 2008). In rural areas, half of the older people of both sexes and 86% of all older men are currently the head of the household, who in most cases remains responsible for supporting the household (Begum 2010). Thus, with the help of allowance money, most of the allowance recipients not only support themselves but support their families/dependents.

Even if we consider an older person on their own and ignore his or her family obligation, the amount of monthly allowance of Tk300 paid to them is far below a decent amount to meet their own personal needs for food, health care, etc. In 2005, the poverty line income was between Tk743 and Tk1,171 for different regions, while the monthly allowance was between Tk150 and Tk165 (no estimate for the current poverty line could be obtained). Thus, even in an absolute sense, the monthly pension granted to the poor older people by the government under the Old Age Allowance Programme is inadequate. As found during the FGDs, demand for a monthly allowance was for Tk500–Tk600 (around $8–$9)—double the current amount.

Fulfilling the above demand may not be too difficult for the government. According to estimates, at the rate of Tk300, the government currently spends

0.13% of GDP on this allowance. Hence, doubling the allowance money would demand a share of 0.26% from GDP. Spending this amount may be possible provided there is will, as the government currently spends about 3% of GDP on different safety net programs (CPD 2009).

Candidate Selection

As gathered from our FGDs and different research studies, the Old Age Allowance Programme suffers from some implementation problems. The major one relates to the beneficiary selection. A substantial number of older people, including both beneficiaries and non-beneficiaries, believe the beneficiary selection is not fair at the local level. Unsurprisingly, this perception is strongest among non-beneficiaries—more than 60% do not have any trust in the beneficiary selection or the selection process (RED/BRAC 2007).

RED/BRAC (2007) and Shirin (2008) found 25%–30% of the beneficiaries were indeed ineligible and belonged to the nonpoor category, while a substantial number were found also to be aged below 60 (Mannan 2010) when the official minimum age to become eligible for this benefit has been 65 years during the past 5 years. A noticeable number of beneficiaries were found to be grossly under-aged, that is aged below 50 years (Mannan 2010). According to the participants of FGDs for this study, 20%–40% of beneficiaries are ineligible. Also, they mentioned that while many of the selected beneficiaries may meet the eligibility criteria, there are many older people in the community who also meet these criteria but who fail to be selected.

As suggested by the four studies and our FGDs, the inappropriate selection of beneficiaries through flouting the set priority criteria by the program arises primarily due to excessive authority of the *Union Parishad* member/chairman in candidate selection and the malpractices and political consideration that they exercise while selecting beneficiaries. While the beneficiary selection is supposed to be done by two committees through a process of screening, it is in reality the *Union Parishad* member/chairman who is the key decision maker. Shirin (2008) in two unions observed that in a few wards there was no existence even of a ward committee, which is supposed to make the primary selection of candidates, and the *Union Parishad* member/chairman did not feel such a committee was necessary. One member said, "We know everyone in the community and know very much their conditions, so there is no need of any such committee." On their part, there are some attitudinal problems as well, as reported by the study (Shirin 2008). The local elected representatives felt this program was their own and that they had the prerogative to select whoever they deemed fit.

That the *Union Parishad* members/chairmen are the key actors in beneficiary selection was confirmed by RED/BRAC (2007), Paul-Majumder and Begum (2008), and the FGDs. "Lobbying" by a candidate has also become a crucial factor in determining one's entry into the program, excluding people who are less empowered politically (Mannan 2010).

More importantly and alarmingly, the beneficiary selection is often done without any announcement; consequently, the community people, including the older people, frequently do not know when such an exercise is done. Our FGDs suggested that the members/chairmen kept this a secret for political gain.

They are also reportedly negligent, and unwilling to spend much time and energy on this program as they have many other programs that serve their interests more (Shirin 2008).

Further, as gathered from our own FGDs, there is another important bottleneck for appropriate candidate selection; this is the ineffective provision for filing complaints about the selection. As the current procedure goes, such complaints are to be lodged with the ward committee which is responsible for candidate selection. However, such complaints in reality are lodged mostly with the *Union Parishad* member/chairman who actually makes the selection. They, being the selector, remain hardly in a mood to listen to such complaints. Such cases are never referred to the *upazila* committee for appeal. Hence, in reality, there is little remedy for inappropriate selection and no one dares ask for a remedy. According to FGD participants, all such complaints are filed and heard verbally and the complainants are only given verbal assurance to be considered next time. As also gathered from the FGDs, the *Union Parishad* member/chairman never allows one to file a written complaint. They admit that their decision is inappropriate. As learned during FGDs, there is no history of dropping a person from the beneficiary list even if one is found ineligible later.

In summary, the overwhelming dominance of the local level functionaries, namely the *Union Parishad* member/chairman, their high-handedness, and motive to use this program as an instrument to establish and strengthen their political connections, are in large part responsible for inappropriate selection of candidates and denying the benefit to deserving people.

Benefit Delivery

The system of paying the allowance money through the government bank is a preferred and efficient mode of allowance delivery. Almost all the beneficiaries favor this payment mode. As Mannan (2010) observed, the safety net programs of the cash transfer type (such as the Old Age Allowance and the Widow Allowance) perform quite well in terms of the payment mechanism, while in-kind programs are notoriously prone to leakage and corruption.

However, bank officials report that the major bank-related problems in local distribution arise from the shortage of bank manpower. For this reason, they remain unable to verify the beneficiary records while paying the money, which sometimes causes incorrect payments, such as payments on behalf of deceased people and inappropriate nominees. Neither can the banks update payment records in a timely manner, which causes difficulties for payments of missed installments to beneficiaries who are absent on the due date.

From the recipients' side, one problem has been that it often costs money to receive the payment—sometimes a substantial amount. Financial costs are incurred for transport, food, and sometimes for an accompanied person and nominee. The financial costs sometimes prove unbearable when the recipient has to attend the allowance collection two or three times before being successful. This problem arises from the fact that the number of beneficiaries in a union is quite large (around 400–500), and so many people gather on a fixed date of payment, such that the bank sometimes cannot disburse money to everyone and requires some of them to come back the following day.

Along with financial costs, this increases the physical cost for older people. It requires them to stand in the queue for a long time. Also, a few beneficiaries complained of food problems, lack of toilet facilities, and insufficient places to sit.

A few older beneficiaries complained of malpractices by the bank staff. According to them, bank people, for one reason or another, will ask for money or deduct an amount from the entitlement. This happens more when one draws accumulated installments or a nominee goes to collect the money.

Administrative Challenges

The efficient functioning of the program faces a few additional problems (Shirin 2008 and the FGDs for this study).

Lack of effectiveness of the upazila committee. This committee cannot assert itself at the local level by going beyond the desire of *Union Parishad* member/chairmen (Shirin 2008). All *Union Parishad* chairmen under the *upazila* are members of this committee and they often dominate in the committee's group decision making by using their political clout and group force. The role of supervising and monitoring the program by this committee at the field level is weak.

No consistent committee structure. There is no union structure for the committee for the Old Age Allowance and there is no recognized role for the *Union Parishad* chairperson at local level, yet the chairman plays an important role in the program.

Weak coordination among government agencies. Three government departments are involved—the Social Service Department under the Ministry of Social Welfare, Accounts Department, and the concerned bank—but they rarely work in a coordinated manner, causing delays in the allowance delivery process. As there is no framework of supervision and coordination of allowance-related activities in place, there are no effective interactions among these agencies.

Inadequate staff. As reported by the *upazila* social service officer, the number of field level staff of the DSS is insufficient, preventing smooth functioning of the field level activities relating to the old-age allowances. For example, each rural union is supposed to have one union social worker but one such worker often looks after more than one union, sometimes even three to four unions due to a shortage of workers. This causes inefficient supervision of the Old Age Allowance Programme.

Urban component. The program is yet to consolidate its activities in urban areas. It still has difficulties in finding efficient mechanisms to reach the urban poor older people effectively. These people mostly live in slums and often move from place to place.

No built-in monitoring and evaluation. While the cabinet committee overseeing the Old Age Allowance Programme saw the need for an annual evaluation of the program by an independent research body (the BIDS) to identify deficiencies, such an evaluation has been conducted only once, in 2000/01 (Paul-Majumder and Begum 2008).

Potential for Scaling Up

To overcome many of the targeted program's problems, including inappropriate selection causing delivery failure, and high administrative costs, which are likely to increase following the necessary expansion of the program, many would think it appropriate to upgrade the current targeted program to a universal one. This is all the more necessary because 40% of the population live below the poverty line and the informal sector, which rarely offers retirement benefits, dominates the employment market.

Although there are no statistics, most Bangladeshis are likely to have little income in their old age. The situation turns more serious for older women, who are mostly widowed. In the absence of a husband, women often face doubly distressed conditions. The overall situation for older people in recent years has been further aggravated because the family system, which used to provide a safety net to older people who have no work, no income, and are often physically dependent on others, is falling apart due to a number of forces, leaving older people in a vulnerable position. Also, the current old-age allowance system through the targeted approach has a charity flavor and a stigma attached to it—identifying the beneficiaries as the helpless poor older people in the community. Hence, to adopt the right approach for the allowance and remove the stigma, a universal system is preferred.

Scaling up the existing means-tested benefits to universal coverage of older people under the social pension scheme may not be an impossible task for the country. As noted, a universal allowance at the present Tk300 per month would require roughly 0.34% of GDP (Government of Bangladesh 2010). Even at Tk600, this would be only 0.68%—versus 2.5%–2.8% on different safety net programs currently spent (Mannan 2010; CPD 2009). Spending less than 1% of GDP should not pose a big problem.

One may argue that such spending may become problematic in the future as the number of older people grows substantially. But such universal provision should not pose a problem in the future either as the country's economy is growing at 6% at present, and this rate is expected to rise in the future (Government of Bangladesh 2010). Also, given the growth potential of the country's economy, the per capita income of the population is also expected to increase continuously in the future despite the size of the population increasing (Table 8.6). Hence, upgrading the current means-tested allowance program to a universal one is more a matter of policy decision than of resource scarcity.

Table 8.6 Projected Population Aged 65+ and Share of Gross Domestic Product Required to Provide a Universal Pension

Year	Number of Elderly Aged 65+ (million)	% of GDP That Would Be Required To Provide Universal Pension at Tk300 p/m	Per Capita GDP	
			Tk	$
2015	7.04	0.282	53,416	742
2020	8.83	0.272	64.450	895
2025	11.04	0.262	78,348	1,088
2030	13.76	0.251	95,965	1,333

GDP= gross domestic product, p/m = per month.

Note: Population estimates are taken from World Population Prospects: The 2004 Revision, and the GDP share is estimated assuming a GDP growth of 6% per year. In calculating dollar equivalents, Tk72=$1 is assumed.

Source: Authors' calculations.

Implications for Policy and Practice

This study brings forth a few lessons from the Old Age Allowance Programme from which both Bangladesh and other similar countries can benefit.

Strengthening and Scaling Up the Old Age Allowance Programme

Despite immense value as discussed above, the program has some weaknesses restricting its effectiveness, and such weaknesses cause inefficiencies that work against the objectives of the program. These weaknesses need attention as follows.

Bangladesh's main challenge is improving the current beneficiary selection process. A major challenge with the existing means-tested program is to improve the beneficiary selection process. While this program has been launched with the aim to serve the poorest older people, various research studies and the FGDs conducted for this study suggest that it has not been able to reach the target population properly; the beneficiary selection is biased by both inclusion and exclusion errors. According to available studies, the erroneous inclusion may account for 30% of the beneficiaries or more. As gathered during this study, the inappropriate selection of beneficiaries arises primarily due to the excessive authority of the *Union Parishad* members/chairmen who sometimes exercise undue power while making the selection.

Under the existing system, to make the program more effective and aligned with its purpose, major reform is necessary in the ongoing candidate selection process. This essentially requires an arrangement for neutralizing the authority of the local elected representatives in program implementation. This change may pose a major challenge as these people are local elected representatives, but evidence suggests (RED/BRAC 2007; Shirin 2008) that a more open, transparent beneficiary selection process by the existing local committees would ensure greater representation from civil society, including the older people living in the community. As the empirical studies (Shirin 2008; Mannan 2010) noted, where civil society participates, including older people's associations and NGOs, beneficiary selection is better and inappropriate practices are less common. Also, civil society involvement not only brings improvement to candidate selection, but also to allowance disbursement by the bank (Shirin 2010; Mannan 2010).

Another measure may prove useful in making the candidate selection fairer. Under the current system, complaints against inappropriate selection of beneficiaries are to be lodged with the selectors only; consequently, such complaints often remain nonstarters. An overwhelming feeling is that there should be a second body to hear and look after such complaints and assist fairer selection.

A related challenge is clarifying the beneficiary selection criteria. Only a few priority criteria for beneficiary selection are mentioned, and the government manual says nothing about how to weigh priority criteria during the selection process. These criteria are also sometimes less than clear in the field. As noted by Shirin (2008), the local ward committee has little knowledge as to how to evaluate who the most deserving candidates are. Even the local *Union Parishad* members and chairmen are unaware of these criteria as they rarely read the manual describing them. Hence, to ensure fairer selection, the criteria and their priority order need clear description and local level leaders need orientation about them. There is a need to develop an information base for persons with priority conditions so transparent selection is possible.

A third challenge is raising the benefit amount. The monthly allowance of Tk300—13%–21% of the country's poverty line income—is insufficient. Although the amount suffices to meet older people's own needs, as the majority of allowance beneficiaries in rural areas support dependents, to have a reasonable impact on elderly poverty, raising the benefit size for poor older people is urgent.

In this connection, some may argue that a poor country like Bangladesh may not afford such enhancement, particularly because the population of older people in Bangladesh is large. However, as seen, even doubling the allowance to Tk600 would only require 0.26% of GDP, which should not pose a problem.

A fourth challenge in Bangladesh is improving benefit delivery. Given different options of allowance delivery, older people are greatly in favor of the present mode of allowance delivery through the bank. But as major bank-related problems arise from staff shortages at the banks, the government could launch dialogue with them, as they are often reluctant to appoint an officer for this purpose.

Instead of the current practice of one union a day, depending on the number of beneficiaries, several payment dates should be fixed by dividing the union into wards. Also, the local administration should take care of the physical vulnerabilities of the older people who need proper sitting arrangements, toilet facilities, and similar conveniences.

Also, there are complaints of malpractice by the bank staff. One of the suggestions to overcome this problem is to allow the allowance beneficiaries to open a bank account with a minimum amount of Tk10, which the government has allowed farmers to do, so the allowance may be paid directly to that account. However, a significant number of older people remain fragile, constrained in physical movements, and thus require a nominee to collect money, which often involves greater costs. Some local *Union Parishad* leaders reportedly try to avoid selecting such fragile candidates for the old-age allowance because of the apprehension that their nominees may misappropriate the money. Considering all these constraints, there is a suggestion for a "mobile bank" system to deliver the allowance money at the village level.

However, all these suggested alternatives require piloting before being institutionalized.

A fifth challenge is improving benefit administration. The program faces a few formidable administrative challenges also, such as the ineffectiveness of local committees, the lack of a consistent committee structure, weak coordination among agencies implementing the allowance program, ineffective mechanisms to reach the urban poor, no monitoring and evaluation to feed the program and above all, a severe shortage of manpower in all agencies. The onus for addressing these problems lies on the government. For example, for monitoring and supervising the program a more comprehensive central structure of the MoSW and DSS may be set up; detailed guidelines may be prepared for institutionalizing the selection process; training of the local elected representatives may be organized to orient them about this program; the media may be sensitized about the program; and some indicators for monitoring the quality of the selection may be developed and used (Shirin 2008).

A final challenge is scaling up the program. Many of the program's ills can be overcome if the program is scaled up to the national level. Given the political will, the expenditures noted above to achieve this should be affordable by the government. Such a universal pension is a sustainable measure for the country as the economy is growing at a 6% rate at present and has the potential to grow by an even higher rate in the future.

Lessons for Other Asian Countries

A number of lessons for other Asian countries emerge from the experience of Bangladesh.

The first is that even a low pension level can have a meaningful impact on the lives of older people and their families. The pension level in Bangladesh is very low (at $4.50 per month) and there is a strong argument for increasing it. Nevertheless, the impacts of the pension so far have been far from negligible. The main improvement has been in the nutrition of recipient households, almost all of which (85%–95%) reported some improvement in their household food situation. Similarly, 9 out of 10 households used at least some of the money to meet health expenditure. The experience of Bangladesh shows how a country can start with a low benefit level and begin supporting older people and their families today, with a view to moving to a more generous benefit over time.

Second, especially striking in Bangladesh is the evidence of increased empowerment and dignity of older people. As people age, there is a risk that they become marginalized in their households as their ability to earn income reduces, and their need for care and support increases. There is evidence in Bangladesh that many older people are seen—and even see themselves—as a burden on poor households struggling to make ends meet. The social pension seems to have helped reduce this trend, with older people being seen as financial contributors to the family budget. More than a third of recipients reported that they now receive more importance in family decision-making while more than 90% reported receiving more care from family members. These findings show that—far from undermining family support—the social pension is strengthening the relationship of older people and their families.

Third, the social pension appears to benefit women more than men. This particularly relates to impacts on health and psychosocial well-being. In part, this impact is likely linked to the design of the scheme. The age of eligibility is lower (62) for women than it is for men (65) while the initial program guidelines dictated that at least half of the beneficiaries selected should be women. However, it may also be due to broader factors such as the fact that women usually have fewer opportunities to save for old age, and they tend to live longer than men, thus having a longer old age. Social pensions are likely to particularly benefit older women in other Asian countries.

Fourth, the targeting process has met with significant errors, and discriminated against some of the most marginalized older people. In theory, the relatively high coverage of the social pension means that it should be able to cover the most-poor elderly. However, a large portion of the beneficiaries (20%–40%) do not actually meet the eligibility criteria. Meanwhile, some of the most vulnerable older people miss out. Other major issues are the lack of announcement of beneficiary selection and the fact that the grievance mechanism is ineffective. Refinement of the targeting mechanism may possibly reduce these errors, but would not get rid of them altogether. One option is a universal pension, as discussed.

Fifth, working with the private sector for pension payments appears to have some benefits, though inefficiencies can create challenges. The current payment method, which works through a number of banks across the country, is broadly an efficient approach, and one preferred by beneficiaries. Working with the private sector may be a positive opportunity for other Asian countries. Nevertheless, a number of issues have arisen through this delivery mechanism. These include the inability of the banks to verify and update beneficiary records, the often high cost for beneficiaries of accessing banking facilities, issues of long queues on payday and some cases of malpractice of banking staff. Other countries in Asia considering the use of banks in delivering social pensions and other cash transfers would do well to assess how these issues can be overcome.

An old-age allowance program can be very popular. In Bangladesh, policy makers saw its popularity and this led to substantial expansion of the program within a short period (during 1998–2011 the approved beneficiary population increased from 0.4 million to 2.48 million and the budget allocation rose from Tk485 million to Tk8.91 billion). It is feasible for developing countries to provide such a pension to older people from government revenue, provided there is political will.

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Chapter 9

Nepal's Senior Citizens' Allowance: A Model of Universalism in a Low-Income Country Context

Michael Samson[63]

Abstract

Nepal's Senior Citizens' Allowance, a universal and noncontributory social pension, provides the central pillar for the country's expanding social protection system. This chapter reviews and analyzes implementation. It employs several methodologies, including a review of existing literature, focus group discussions with beneficiaries, and quantitative analysis of the Nepal Living Standards Survey and fiscal data from the Ministry of Finance. The chapter finds that the Senior Citizens' Allowance effectively tackles poverty and vulnerability, raises the status of older people, and contributes to a range of developmental outcomes in poor households. The benefits are well targeted and are provided through transparent registration and delivery systems, despite many challenges. The tax-funded allowance has proven to be affordable, costing about one-quarter of 1% of national income in fiscal year 2007/08. Repeated increases in benefit size (the most recent for 2008/09) and coverage reflect recognition by the government of the program's success and political popularity, and it appears committed to further lowering the eligibility age, as resources permit. These findings demonstrate that a rights-based, universal approach can succeed in a low-income country context.

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Introduction

Nepal's Senior Citizens' Allowance—a universal and noncontributory social pension—provides the central pillar for the country's social protection system, which has built on this intervention's success in tackling poverty, vulnerability, and social exclusion to evolve an integrated system of cash transfers protecting many vulnerable groups. This chapter analyzes the evidence on the allowance, and identifies lessons from the country's experience with it.

This chapter adopts several methodologies for presenting the evidence on Nepal's social pension. The first draws on prior studies, synthesizing Nepal's existing social pension literature into a review of knowledge on operational issues and the limited evidence of impact. The second approach builds on a series of focus group discussions and in-depth interviews that investigated the perceptions and realities of the Senior Citizens' Allowance. The third quantitatively assesses the Nepal Living Standards Survey (NLSS) and fiscal data from the Ministry of Finance, estimating the poverty-reducing impact of the allowance and the potential impact of progressive extensions. The three approaches are integrated, although certain sections of the chapter depend more heavily on one or two of them.

The qualitative fieldwork included focus group discussions and in-depth interviews. Focus group discussions covered 54 beneficiaries in four rural and two urban localities in five different districts, including:

- Kathmandu, the capital district, with Nepal's highest degree of urbanization. In this district, one focus group discussion was conducted with 10 respondents from ward number 21 of Kathmandu Metropolitan City.
- Lalitpur and Bhaktapur, districts adjoining Kathmandu with a substantial concentration of poor areas and ghetto localities. In Lalitpur, one focus group discussion was conducted with nine respondents from Champapur Village Development Committee (VDC). In Bhaktapur, one focus group discussion was held with 10 respondents from Sirutar VDC. Both VDCs are rural.
- Kavre, one of the districts with the highest number of VDCs. In this district, one focus group discussion was organized with nine respondents from rural Katunje VDC.
- Rupandehi, a district far from Central Kathmandu. In this district, one focus group discussion was conducted with eight respondents from ward number 2 of Siddhartha Nagar Municipality, an urban locality. One focus group discussion was conducted with eight respondents from rural Belghache VDC.

Focus group discussion respondents were selected considering ethnicity and caste diversity, living standards diversity, and gender composition criteria. In rural localities, one respondent was selected from each ward of each VDC considering caste, ethnicity, and living standards diversity. In urban localities, the participants were selected from a single ward using ethnicity and caste diversity, living standards diversity, and gender composition criteria. In each focus group discussion, 50%–75% of the respondents were female, 40%–80% of respondents belonged to ethnic caste groups and Dalits, and 20%–90% of respondents had low living standards.

In-depth interviews were conducted with officers from various government organizations, including Laxmi Humagain and Bimal Bwgalie (Section Officers of Ministry of Local Development looking after the Senior Citizens' Allowance), Sanjaya Khanal (Program Director, National Planning Commission), and Durgesh Pradhan (Section Officer, Budget and Program Division, Ministry of Finance).

A micro-simulation analysis was employed using the NLSS 2003/04 (or NLSS II), the most recent comprehensive living standards survey for the country. Nepal's Central Bureau of Statistics conducted this survey and its predecessor survey in 1996.[64] The methodological approach of the survey follows the example of the World Bank's Living Standards Measurement Study, constructing indicators on household well-being including money–metric measures such as household (and per capita) income and consumption as well as broader indicators in sectors such as education, health, housing, employment, and livelihoods.

The NLSS 2003/04 targeted a randomly drawn and nationally representative cross-section of 4,008 households. The survey's sample frame employed the 2001 Population Census of Nepal and covered 36,067 enumeration areas covering 3 ecological zones, 5 development regions, 58 municipalities, 75 districts, and 3,914 VDCs. The NLSS's sampling strategy used the probability proportional to size methodology, implemented within a stratified framework. Due to a number of fieldwork challenges, particularly security risks in some rural areas affected by conflict, the survey's completed sample covered 3,912 household observations.

Background

Five major types of interventions constitute Nepal's current social protection system:[65]

- social assistance, such as cash and in-kind transfers;

[64] For more information on the survey design and implementation, see Bontch-Osmolovski (2004) and Nepal Central Bureau of Statistics (2004). These two documents provide the information in this section.

[65] Interview with Sanjaya K. Khanal of the National Planning Commission and coordinator of the Government of Nepal's Social Protection Steering Committee, conducted as part of this study.

- labor market interventions, including legislation protecting workers' rights;
- programs promoting access to social services, including education and maternal health;
- pension and social insurance programs; and
- poverty reduction and social empowerment programs aimed at women, vulnerable groups, and marginalized communities.

The Senior Citizens' Allowance provides the main pillar of the social assistance component, with an estimated 682,000 people receiving the benefit in 2010. Related cash transfer schemes include the Single Women's Allowance, which provides a benefit to 314,000 divorced, unmarried, and widowed women aged 60 years and older. The newest grant provides a cash benefit to caregivers of all children from birth up to the fifth birthday in the Karnali zone (one of Nepal's poorest areas), and to poor Dalit children in this age group in other parts of Nepal. The government also provides grants to people with both partial and total disabilities, and a cash transfer to indigenous people whose ethnicities it considers endangered. Nepal's main social assistance programs target vulnerable groups, usually avoiding poverty targeting processes.

Nepal's labor legislation provides some social protection to the minority of workers in the formal sector. Labor acts of the early 1990s require private employers to provide their workers with sick leave benefits (15 days a year at 50% of wages) and up to 60 days maternity leave for women employees. Earlier legislation (Nepal's 1974 Bonus Act) mandates private employers to provide basic medical benefits to workers.

Nepal's 1992 work injury law (as amended in 1993) requires private employers with 10 or more workers to give insurance through a private carrier, providing benefits in the case of work-related injury equal to 50% of earnings (100% of earnings if the worker is hospitalized) plus the total cost of medical treatment. A worker suffering a total disability receives a lump-sum payment equal to 5 years' wages, with proportional benefits for partial disabilities. In the case of work-related death, the worker's dependent survivor receives a lump-sum equal to 3 years' wages. While the government provides for no statutory unemployment insurance benefits, early 1990s' labor legislation requires private employers with 10 or more employees to provide severance payments to workers when they are laid off or resign. The government's Labor and Employment Promotion Department enforces these laws.

The government provides benefits to improve access to basic social and economic services, particularly for poor households. A maternity incentive scheme is provided to women who choose institutional deliveries or skilled midwives. Government hospitals provide free medical care to older people. The government's pilot employment scheme provides work on a self-targeted basis to workers in the Karnali zone; small landowners benefit from a fertilizer subsidy scheme.

The government also provides for social insurance through the National Provident Fund, although coverage is limited. Employers are obliged to deduct and match 10% of earnings, deposited in the fund's or a commercial bank account, as investments for each worker's retirement.

In 2007, the civil pension coverage rate was only an estimated 7% (compared to 13%–14% for Bangladesh and India). The estimated rate of private pension coverage was only 0.8% (2%–3% for Bangladesh and India). Only an estimated four companies provide private pensions (ILO Key Indicators of the Labour Market database; World Bank 2007, cited in Irudaya Rajan 2009, 15).

A range of other somewhat fragmented poverty reduction and social empowerment programs provide benefits for women, other vulnerable groups, and marginalized communities. The District Development Committee Block Grant provides annual support to Nepal's VDCs, improving community development and local governance, mainly through projects to strengthen government delivery and infrastructure development. The Local Development Fund supports poverty reduction and social development projects delivering basic services and small-scale rural infrastructure. Other programs funded by development partners support a variety of social protection objectives.

The government has recognized the incomplete and fragmented nature of the social protection system and in 2010 established a social protection steering committee in the National Planning Commission.

Nepal's largest, longest running, and most successful social protection intervention is the Senior Citizens' Allowance, and the government's recent innovations build on this successful model with similar instruments.

Rationale

On 26 December 1994, Prime Minister Manmohan Adhikari announced the introduction of a universal social pension for all Nepalis 75 years of age and older, an innovation described as a symbol of the government's "responsibility towards its people" (Irudaya Rajan 2003, 1). The Senior Citizens' Allowance meets constitutional objectives while strengthening the social contract between the state and the people of Nepal.

This initial implementation of the program aimed to support the aged and their family-based support systems by providing cash payments of NRs100 per month to persons 75 years and older. In 1996, the government increased the benefit payable to people 100 years of age and older, and introduced a means-tested social transfer for widows 60 years of age and older, as well as a grant for people with disabilities (Shrestha and Satyal 2008).

While little publicly available written documentation explains the government's thinking at the time about the objectives and motivation for the social pension, consultations for this study with government officials showed consistent themes. The government views social protection as the central instrument for tackling poverty, vulnerability, and social exclusion. The Senior Citizens' Allowance effectively reaches poor households and reduces the vulnerability of falling into poverty. The choice of a universal approach minimized the costs of targeting, maximizing the likelihood of reaching all eligible older people without creating perverse incentives, stigma, social disruption, political tensions, or other adverse effects that undermine the program's benefits.

The rationale for the introduction of allowance evolved over the following decade, informed by growing evidence of the intervention's success in tackling poverty. Research linked the program's success to its universal character, and the potential of cash transfers to promote developmental impacts (HelpAge International 2008). In 2009, the government issued a policy statement that highlighted the vital role for the social pension and other cash transfer programs in tackling old-age poverty, other vulnerabilities, and social exclusion. The government greatly expanded the scope of the country's system of social cash transfers, indicating that the "programmes will be made available to the senior citizens, widows, endangered ethnic and indigenous groups, Dalits, disabled and fully incapacitated persons" (Government of Nepal 2009, 9). The document explained that these programs "will be implemented for the development of Dalits, oppressed and backward groups, communities and areas. The whole country will be declared free from untouchability" (Government of Nepal 2009, 11).

The policy statement made explicit the long-held views that these programs aimed not only to reduce poverty and vulnerability but also to promote development and social inclusion.

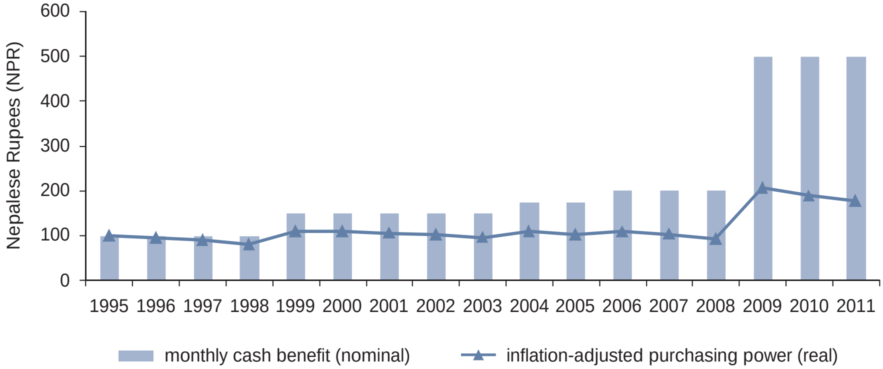
The social pension in Nepal thus aims explicitly to cut across caste and ethnicity—the country has a complex social structure—representing a universal benefit to which all Nepalis will be entitled.

Features

Benefits

The Senior Citizens' Allowance offers a monthly benefit of NRs500 (around $6 at 2011 exchange rates) universally to all people 70 years of age and older, and to all Dalits and residents of the Karnali zone from their 60th birthday. (On reaching their 100th birthday, the benefit increases to NRs1,000.) The base benefit has risen from an initial value of NRs100 in 1995, with periodic but irregular adjustments (Figure 9.1).

Figure 9.1 Senior Citizens' Allowance, 1995–2011



Source: Author's calculations based on data from Ministry of Finance and Ministry of Local Development.

The periodic adjustments between 1999 and 2006 mainly aimed to return the real purchasing power of the social pension benefit level to its 1995 level. The increase in 2008/09 represented a major shift, doubling its real purchasing power from its original level. Inflation since the last increase has subsequently eroded somewhat the purchasing power.

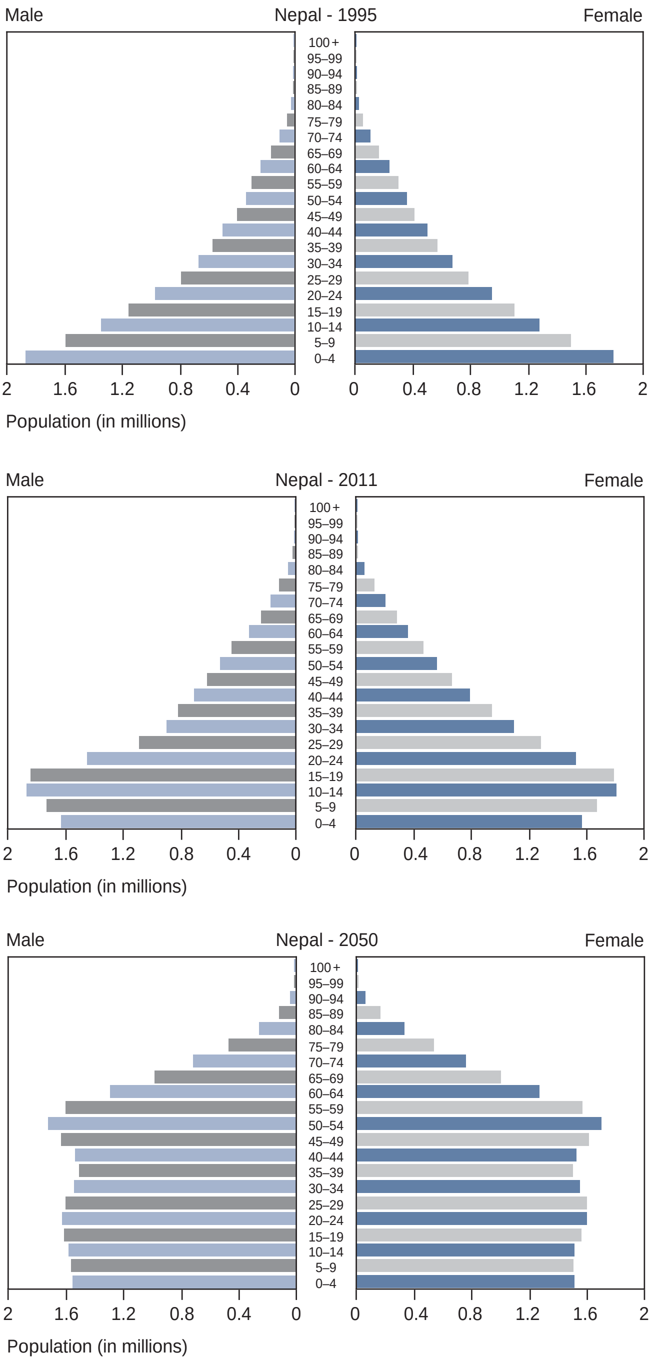
The government increased the benefit despite facing significant budget constraints in recent years. The program has been funded through general taxation, but the government has assigned the program an "A priority" classification, the highest ranking in the fiscal hierarchy.

Coverage

The Senior Citizens' Allowance provides national coverage, with some geographic variability in take-up rates. In most areas, the government aims to pay benefits every 4 months, at NRs2,000 a payment. In remote rural areas with limited access to village development officers, however, the government struggles to make payments once a year, for the full entitlement (NRs6,000 annually). When the government first implemented this program, some 180,000 people were 75 years of age or older, representing an estimated 0.8% of the country's population. By 2011, this group had grown to around 380,000, representing 1.3% of total population. In absolute terms, the older population had more than doubled, and the population share had grown by about 60%.

In 2011, the population aged 70 years or older was about 757,000 people, representing 2.6% of the total population. The decision to lower the eligibility age to 60 years for some of Nepal's most vulnerable groups (Dalits and residents of the Karnali zone) suggests a willingness to progressively realize social security commitments in a manner that further expands both coverage and the government's fiscal burden for the social pension.

Figure 9.2 Nepal's Evolving Population Pyramid



Source: International Population Census (www.census.gov/ipc/www/idb/informationGateway.php).

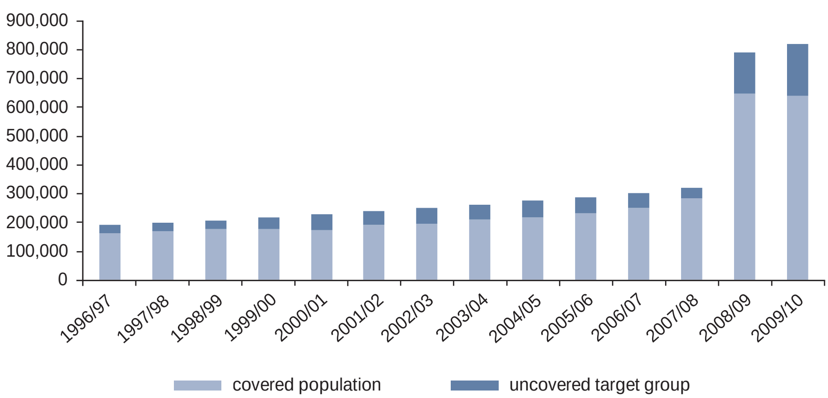
As Figure 9.2 depicts, by 2050, the number of people aged 70 years and older will rise to 3.5 million, representing about 8% of Nepal's population. The number of people aged 60 years and older will rise to about 8 million, representing 18% of the population.

The Senior Citizens' Allowance covered an estimated 640,119 older people in 2010, a small decrease from 646,461 beneficiaries in 2009.

Demographic analysis of household surveys and census estimates document disparate estimates for the age-eligible population. According to International Population Census model projections for 2011, 2.6% of Nepal's population are age-eligible for the base pension (70 years of age or older). About 4.1% of the population are between the ages of 60 and 70 years and about 1% of the population live in the Karnali zone. Dalits make up about 13% of the population.

Figure 9.3 summarizes these evolving eligibility criteria. The jump in fiscal year 2008/09 reflects the lowering of the eligibility age to 70 years for the general population and to 60 years for Dalits and residents of the Karnali zone.

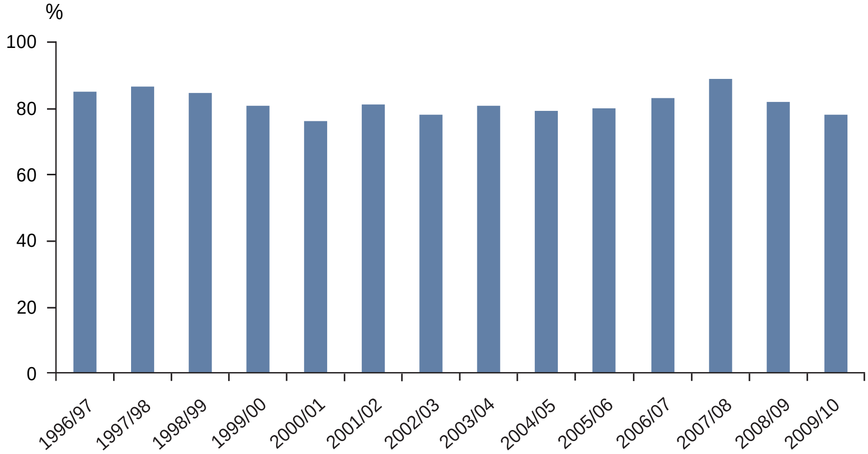
Figure 9.3 Coverage of the Senior Citizens' Allowance, 1996–2010



Source: Author's calculations based on data from Ministry of Finance, Ministry of Local Development, and Irudaya Rajan and Palacios (2008).

Figure 9.4 illustrates the take-up rate for the Senior Citizens' Allowance, calculated by dividing the number of the covered population by the estimated eligible group. The rate has fluctuated at around 80% since inception, reflecting a number of factors—in particular, variations in the government's ability to fully fund the social pension commitments and actively promote the program. Given the more complicated targeting approaches recently adopted, which include geography and ethnicity, estimates of take-up rates from 2008/09 are more approximate.

Figure 9.4 Take-Up Rates of the Senior Citizens' Allowance, 1996–2010



Source: Author's calculations based on data from Ministry of Finance, Ministry of Local Development; Irudaya Rajan, and Palacios (2008).

Impacts on Individual and Household Well-Being

Income Poverty Reduction

The Senior Citizens' Allowance aims mainly to reduce poverty for older people. This study's focus group discussions, previous fieldwork studies, interviews with key government officials, and an analysis of the NLSS all corroborate the significant role that social pension plays in protecting older people from destitution and in reducing poverty. While many of the beneficiaries are not poor, older people above the poverty line remain vulnerable to shocks that affect their savings, livelihoods, and support networks. The social pension strengthens all these protection mechanisms.

The poverty impact includes both direct and indirect components. The direct component involves the immediate reduction in income and expenditure poverty from the cash benefit, which can be roughly quantified using micro-simulation analysis. The indirect components improve human capital development and support a variety of pro-poor growth mechanisms.

The Micro-Simulation Model

The micro-simulation model provides a tool for evidence-based analysis of social policy interventions by modeling the impact of public policies on individuals and households. Rooted in a representative household survey of a country's population (such as the NLSS), this model provides a picture of poverty, inequality, and household conditions throughout the country. It enables the analysis of the impact of existing social policy interventions on income levels and other outcomes. In addition, the model supports the simulation and costing of new social policy interventions. This chapter presents results from several micro-simulation exercises for Nepal.

Micro-simulation models often measure the impact of social protection instruments on poverty and vulnerability. The starting point is the quantification of baseline measures—an estimation of poverty and vulnerability prior to the implementation of any new intervention.

These estimates are calculated assuming the absence of the Senior Citizens' Allowance. The national poverty line adopted here uses adult equivalence scales of 0.5 for children aged 0–17, and yields about the same national poverty rate as the international $1.25 per day poverty line. The poverty rate for households without children under 5 years is 46% and for households without older people aged 60 years and older it is 56%, indicating that both groups are poorer than the general population.

Poverty and vulnerability can be defined and conceptualized in many ways, often using complex approaches that reflect the multiple dimensions of risk and deprivation. This chapter defines the "vulnerability threshold" as twice the poverty line used in the NLSS 2003/04. Of Nepal's households, 87% have a child under the age of 18, and 61% of these households fall below the vulnerability threshold. Of the 48% of Nepal's households that have a child under the age of 5, an estimated 70% fall below the vulnerability threshold. Of the 41% of households that have a person older than 60 years of age, 59% fall below this threshold.

Many of these household categories overlap. For example, 47% of households that have people older than 55 years also have children under the age of 5, and 80% of households with people older than 55 also have children under the age of 18. Similarly, 37% of households that have children under the age of 5 also have people older than 55.

According to the NLSS 2003/04, an estimated 31% of the population fell below the poverty line used in the study. A much larger proportion, however, is vulnerable, with many people clustered right above the poverty line. Given the dynamics of poverty and deprivation, a large number of people are at risk of falling below the poverty line. About 60% of the population fall below a "vulnerability threshold" equal to twice the poverty line.

These average measures mask significant variability across population groups. Households with older people or children (or both) are more likely to be poor or vulnerable than the average. For example, 38% of households have at least one individual older than 55 years of age.

Micro-simulation analysis of eliminating the Senior Citizens' Allowance estimates an increase in the static poverty gap by 1% in 2003/04 when the eligibility age was 75 years. That is, in 2003/04 the social pension reduced Nepal's poverty gap by an estimated 1%. The reduction in the eligibility age in 2008/09 increased coverage and the impact in terms of poverty reduction. Universalizing this approach—providing the Senior Citizens' Allowance to all people 60 years and older—would reach 31% of Nepal's households and reduce the poverty gap in these households by 14% (compared with a baseline without a social pension). The impact on destitution, defined by a threshold equal to half the poverty line, is even greater. The eligibility age reduction would reduce the destitution gap by 39%.

Micro-simulation models can also be used to estimate the "representativity index" of a proposed targeting approach. This model reflects the proportion of a targeted social protection benefit that a group will receive relative to that group's proportional share of the country's population. This can be applied to ethnic or caste or other population groups—or any type of group that can be defined with data from a household survey. In theory, the representativity index would be equal to 100% if a group received a proportional share of the social benefits exactly equivalent to their share of the population. A representativity index equal to 95% implies that the group is receiving fewer benefits than its proportional share (about 5% less), while an index equal to 105% implies the group is receiving more benefits than its proportional share (about 5% more).

For example, targeting a cash transfer to people 70 years or older provides some historically excluded groups—including Dalits (both Hill and Tarai) and the much smaller Muslim population—with significantly less than their proportional share of social pension benefits. This reflects the lower life expectancy of these groups. However, lowering the eligibility age of the pension significantly improves targeting performance in terms of including these groups. For instance, an eligibility age of 70 years provides Tarai Dalits with only 54.2% of their proportional share of benefits (based on population share) and Muslims with only 63.1% of their share. Lowering the eligibility age to 55 years increases the share of Tarai Dalits to 82.5% and that of Muslims to 76.9%.

Results from Household Surveys and Focus Group Discussions

Various studies—including fieldwork conducted in this research—provide findings that strengthen and extend this micro-simulation analysis. According to Uprety (2010), nearly one-third of the sampled respondents who received the social pension owned no land. The more than two-thirds who owned land had an average of only 0.34 hectares, and 80% of these were unable to supply their household food requirements. The overwhelming majority (95%) of pensioners own their homes, and most of the rest live with their relatives (Uprety 2010, 6). Irudaya Rajan (2003) finds nearly the same proportion of own-home ownership, at 96%.

Uprety (2010) finds that 18% of recipients are involved in income-generating activities in addition to agriculture. About 60% contribute to their communities through donations; participation in traditional groups, development works, and other institutions; teaching and mediation; and other activities. Similar studies around the world find comparable impacts of cash transfers in supporting productive activity. Participants in Mexico's Oportunidades social transfer program (formerly Progresa) invest some of their social transfers in productive assets and are more likely to engage in entrepreneurial activities, improving their potential for sustainable self-sufficiency (Gertler, Martinez, and Rubio-Cordina 2005).

This study's focus group discussions with beneficiaries document that the benefit size of NRs500 represents a substantial transfer of resources, although it is insufficient for a beneficiary to meet all his or her spending requirements on basic necessities. Beneficiaries living in higher-income households do not expect the Senior Citizens' Allowance to provide for a greater share of their personal expenditures, and their households do not expect the social pension to support general household consumption. These beneficiaries place a higher priority on the government's commitment to provide free health care.

There is a distinct difference between the perceptions of beneficiaries from lower and higher income households. The latter regard the Senior Citizens' Allowance as a sign of respect by the state for older people, and they appreciate the contribution to their autonomy and self-sufficiency. These beneficiaries are less likely to spend the social pension on necessities or to contribute to general household expenditures. The poorest beneficiaries, in contrast, depend on the Senior Citizens' Allowance to meet their basic consumption requirements and are more likely to contribute their social pension resources to meet the pressing needs of the larger households in which they live.

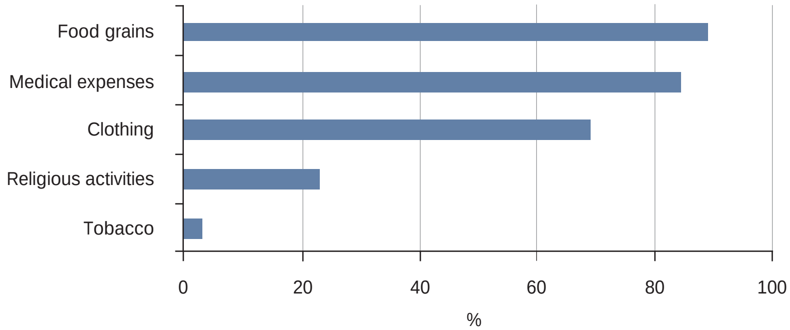
Increasing Access to Basic Services and Health Care

Nepal's social security legislation provides for needy recipients of the Senior Citizens' Allowance to receive free medical care, including treatment in hospitals. The government funds these entitlements with an earmarked block grant to local governments (ADB 2006). In this present study's focus group discussions, older people in upper- and middle-income households generally report that the Senior Citizens' Allowance has little impact on their access to health care, which is already quite secure and funded as part of general household expenditure. Some respondents report occasional use of the social pension to purchase medicine. For poor households, the impact is much greater.

In particular, the Senior Citizens' Allowance enables an older person to finance travel expenses to district government hospitals, which provide better facilities than local health centers. This catalyst role for the social pension multiplies its benefits because it provides the key to accessing government subsidies provided through the health care system.

However, Uprety's research (2010) shows that 93% of older people surveyed are unaware of these provisions for free health care (as well as other benefits such as subsidized transportation). Uprety's qualitative research reports that the social pension frequently supports expenditure on medicine, in addition to foodgrains and clothing (Figure 9.5). These results are consistent with similar studies around the world.

Figure 9.5 Share of Households Reporting Specific Expenditure Categories (%)



Source: Uprety (2010).

The distribution above reflects the spending of those who depend on the social pension to support their basic needs. Older people with higher incomes reported using the social pension to employ agricultural and domestic labor, support their own income-generating activities, or support their incomes. About 99% of women and 96% of men indicate that the social pension has had an immediate impact on their lives, and nearly 90% of both men and women state that they would be unable to meet their basic needs without the social pension.

Supporting Other Household Members

The impact of the Senior Citizens' Allowance on other household members depends on the poverty status of the household. In nonpoor households, the benefits mainly improve the well-being of the recipient. In poor households, they support basic food expenditure, particularly for Dalits and residents of the Karnali zone, for whom poverty rates are higher and the eligibility age is lower. In rural areas, the allowance reportedly increases households' ability to spend on clothing during the festive season, on agricultural inputs (particularly seeds) to support small-scale farming, on the education of young children, and on other basic needs. However, no rigorous quantitative evaluation has measured these impacts or at least credibly attributed impact to the Senior Citizens' Allowance.

Focus group discussants report that family members do not interfere with how older people use their allowance, and generally accept the decisions on expenditure allocations and provide additional support for the pensioners' spending. While it often supports the basic needs expenditure of poor households, this is usually with the consent of the recipients.

Nepal's social protection system has not been comprehensively evaluated, but two largely qualitative assessments (with some descriptive quantitative analysis) provide initial evidence for the Senior Citizens' Allowance. Irudaya Rajan (2003) provides an overview of operational issues and characteristics of the beneficiary population; Uprety (2010) provides a more comprehensive picture of the beneficiary profile.

Based on a small purposive sample, Uprety finds that the average household size of a person receiving a pension is 5.7 people, but that 9.4% of pensioners live alone and without support from their family. Irudaya Rajan's (2003) survey found only 3% of older people living alone and another 3% living only with their spouses. Uprety's (2010) qualitative research shows that people are increasingly using the social pension for basic needs of other household members, particularly buying food and educating grandchildren.

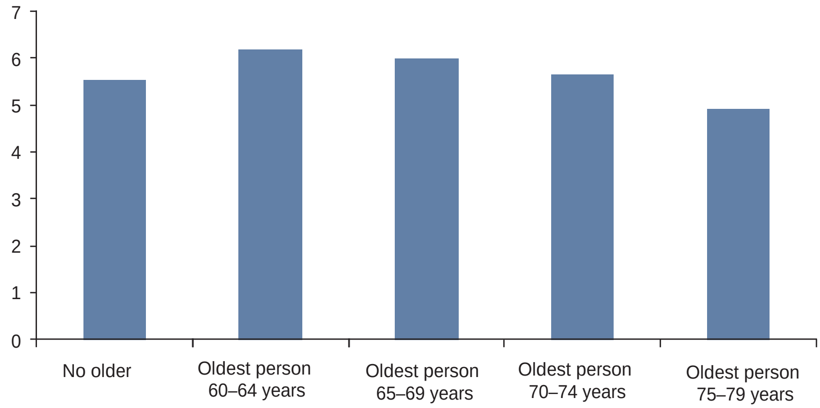
In the absence of baseline information collected prior to the implementation of a social pension program, the typical approach for measuring impact involves nonexperimental approaches such as the "regression discontinuity" methodology. This technique analyzes breaks in outcome indicators at the point of eligibility for the social pension.

Figure 9.6 shows school attainment rates by children in households with older people, based on calculations from the NLSS 2003/04. Children in households with people aged 75 years or older—the group receiving the Senior Citizens' Allowance—have the lowest school attainment index. However, there may be systematic differences between this group and other groups of households that explain this variation in child school attainment, particularly since the difference reflects a pattern of a declining child school attainment index as the age of the oldest household member increases.

A numerical examination of the NLSS suggests no systematic evidence that children in households receiving the social pension are more likely to attend school, for example.

Focus group discussants report that the Senior Citizens' Allowance is generally too low to offer much support to other household members, except in the case of the poorest households that include a social pensioner. In these cases, the social pension may be used for education expenses of grandchildren, livelihood support, and basic needs of the entire household. Usually, though, other family members are supporting the older persons in the household.

Figure 9.6 Child School Attainment Index by Age Category of Oldest Member (%)



Source: Author's calculations from NLSS 2003/04.

However, discussants suggest that migration and urbanization may be slowly changing social relationships between older and younger generations. The high rate of youth labor migration increases the anxiety of older people, who fear they will live alone in their old age and perhaps not benefit from family support, unlike in the past. The attractions of urbanization disproportionately influence younger people, reducing the tendency for return migration to rural areas. Older people are increasingly concerned with the prospect of supporting themselves in their old age.

Uprety's (2010) qualitative research also suggests a shifting cultural norm that is weakening the obligations of children to support their parents in old age, and older people are increasingly using the social pension for basic needs like food, medicine, and clothing, and in some cases for educating grandchildren. The Senior Citizens' Allowance thus provides an important source of security.

Issues Related to "Stigma"

Because of its universal and unconditional character, the Senior Citizens' Allowance does not contribute to stigmatization or create perverse incentives. Older people are usually proud of their eligibility for the social pension and perceive it as a symbol of inclusion in the community and appreciation by the government of their contribution to society. In the absence of means testing, there is no behavioral link that determines eligibility, and hence no artificial incentives created by the program.

However, the broader context of social exclusion within Nepal may undermine the reach of the program. The focus group discussions suggest that older people from indigenous ethnic groups and Dalits perceive a social stigma in their interactions with government officials. The prevalence of higher caste groups such as Brahmin and Chettri in the government bureaucracy and the position of indigenous ethnic groups and Dalits in the lower strata of caste structure create a tension that can undermine the ability of government officials to achieve the social protection objectives of the Senior Citizens' Allowance.

This tension is particularly pronounced among Dalits of the Southern Terai belt, because this group faces dual exclusion: the Terai indigenous group (also called *Madeshi*) residing in the southern belt face spatial dimensions of discrimination, and Dalits within this group face caste-based exclusion. The exclusionary pressures are reinforced by language, since these groups often speak languages other than Nepali, the official language. The recruitment of VDC officials from local communities can address this pressure.

Social benefits of the Senior Citizens' Allowance include improved self-confidence and self-reliance and increased status in households and communities (Uprety 2010). Irudaya Rajan (2003) noted similar impacts even when the benefit size was only 40% of its current nominal level.

Older people receiving the grant are more likely to characterize their motivation for accessing the grant very generally—for example 72% report the reason as "support for old age." Very specific reasons and stigmatizing motivations are mostly rejected—only 8% report "helplessness" as a reason for accessing the grant, another 8% give their motivation as to buy nutritious food, and 4% the need for medical treatment (Uprety 2010, 11).

Opportunities and Challenges in Design and Implementation

The government's provision of the Senior Citizens' Allowance represents a good example of a low-income country providing a rights-based social assistance benefit on a universal basis. This section discusses how key design features and implementation mechanisms affect the effectiveness of the program, and what policy reforms and procedural changes may improve its delivery.

Institutional Arrangements

The administration of the Senior Citizens' Allowance is divided between policy and implementation. The Ministry of Women, Children and Social Welfare assumes responsibility for policy formulation at the national level, and the Ministry of Local Development implements the program at the local level through the local governance system, including rural VDC offices and urban ward commitees.

The Ministry of Women, Children and Social Welfare assumes responsibility for policy, planning, and programming of all government activities related to senior citizens (as well as children, women, and people with disabilities). Policy for the Senior Citizens' Allowance is coordinated through the Ministry's Policy, Planning and Administration Division. The ministry's local field capabilities are limited to a network of 75 District Women Development Offices, so the government relies on the Ministry of Local Development's more extensive network of 3,915 VDCs, as well as 58 municipalities, for implementation.

Identifying Recipients

As a rights-based grant, all older people that meet the age and other eligibility criteria are entitled to the allowance. Each year, the local representative compiles a list of newly eligible older people, based on applications and personal visits to homes. Age is verified using the Nepali citizenship card (or citizenship certificate), although, historically, alternative forms of identification have been permitted when the applicant did not have a citizenship card. Once eligibility is verified, the program provides beneficiaries with a Social Security Program Identity Card.

The key challenge for identifying recipients is awareness, ensuring that those entitled have the necessary information and understanding to claim their right. Irudaya Rajan (2003) found that 28% of recipients learned of the program from print and visual media, 30% from children, and another 27% from neighbors (Irudaya Rajan 2003, 10).

The rural VDC offices and urban ward offices distribute the required application forms for the allowance. Irudaya Rajan and Palacios (2008) report that access to the application form is not a serious constraint, with two out of five older people engaging their children to collect the form, and most of the rest travelling less than a kilometer to get it. The application process involves some nominal costs, usually ranging from NRs50 to NRs150 (Irudaya Rajan and Palacios 2008, 351). Apart from the initial application process, registration formalities are minimal. Irudaya Rajan and Palacios (2008, 352) report that Ministry of Local Development officials generally do not visit applicants to verify information they provide, and only 2% of the applicants in their sample group report being rejected for the benefit.

The more recent study by Uprety (2010), however, found that of 488 beneficiaries in the sample, nearly 13% indicated encountering barriers to accessing their grants, including lack of appropriate citizenship documents, travel difficulties to access the benefit, long waiting times, and difficulty meeting the VDC secretaries.

Paying Benefits

Senior citizens generally must collect the payment personally from VDC or ward offices, unless physically ill or bedridden, in which case payment may be delivered to their home. There is no general provision for assigning a representative to collect the Senior Citizens' Allowance, except during exceptional illness. Payments are usually distributed three times a year—in March, June, and October. However, in remote rural areas the full amount of the pension is paid once a year.[66]

If the beneficiary migrates within Nepal, the local government office at the place of the migrant's origin issues a migration certificate, which needs to be submitted to the local government office at the destination. This allows the migrant beneficiary to collect the allowance there.

The fieldwork for this study found that the implementation systems work relatively well, but with potential for improvement. Older people in the focus discussion groups reported often not receiving their benefits for the full 12 months, which accords with the inconsistent fiscal figures from the Ministry of Finance. In addition, respondents reported delays in the distribution of allowance of more than 6 months in some localities. VDC and ward officials attribute delays and short payments to budget deficits and late disbursements to the Ministry. However, recipients report a range of payment irregularities, suggesting the impacts of fiscal constraints is not affecting all recipients equally.

One pattern identified through the most recent fieldwork is that beneficiaries who live near VDC and ward offices receive payments more regularly. Some VDC and ward officials orally inform recipients about the allowance distribution dates and time, and in some cases schedules are posted on a board. For beneficiaries who live far from VDC and ward offices, however, payment is more irregular and recipients often rely on word-of-mouth reports for updates on payments. Some recipients report that officials rarely visit even those who are too ill to collect the payments themselves. In more remote areas without offices or offices that are rarely open, beneficiaries must coordinate to meet with appropriate officials, often at their residences, in order to access their benefits.

There is evidence that the delay in the approval of the 2010/11 fiscal year budget accounted for some of the challenges in making regular payments that year, but this situation only exacerbated a difficult environment that has persisted for many years.

The prevalence of short payments is greater in rural areas. Some officials reportedly deduct 10%–15% of the benefit, reporting it variously as a "valued-

[66] Consultation with Bishnu Nath Sharma, Division Chief, Ministry of Local Government.

added tax" charge, a donation to political parties, or an administrative fee. The Elderly Pension Allowance Distribution Guideline does not, however, provide for any administrative costs incurred by the VDCs and wards for distributing the Senior Citizens' Allowance, which might compound the challenges of program administration.

Monitoring Progress

The government's main system of monitoring the Senior Citizens' Allowance is through the VDCs, employing the same officials responsible for program delivery. There is no official independent monitoring system, and the social pension has never had a rigorous and independent impact assessment. However, the qualitative evaluations of Irudaya Rajan (2009) and Uprety (2010) have helped to serve as independent monitoring.

Focus group discussants perceived an absence of program monitoring from the national or district levels. In some localities, informants reported no visits by officials outside the VDC structures for program monitoring. Without community representatives in the local government, the VDC secretary takes the main responsibility for administering local government bodies.[67] This creates challenges for the programs and activities of the local government and undermines the structures of accountability intended for the VDC system.

Targeting Effectiveness, and Errors of Inclusion and Exclusion

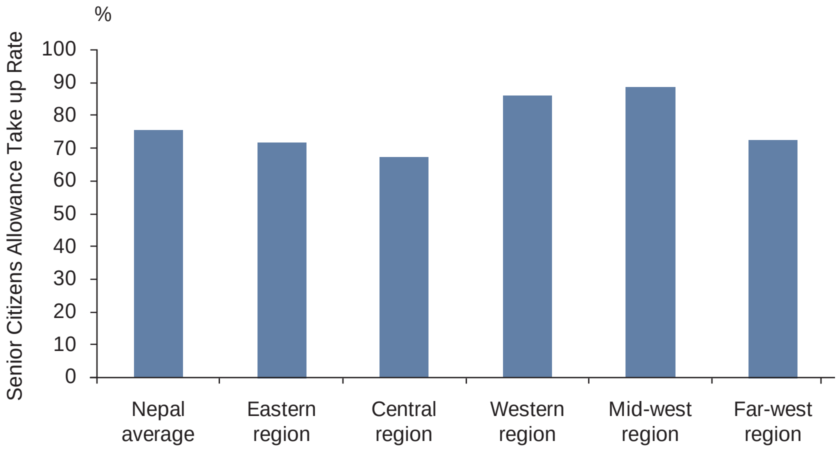
The coverage analysis above documented the high take-up rate of the Senior Citizens' Allowance. However, some evidence suggests that the effectiveness of the categorical targeting approach may vary considerably on a geographic basis. Irudaya Rajan and Palacios (2008) use 2001 Nepal census data and unpublished allowance coverage data from the Ministry of Local Development to estimate take-up rates by region and district, which range from 67% to 89% (Figure 9.7).

Kathmandu lies in the Central region and has a take-up rate of 67%, much lower than the national average of 75% (consultations conducted under this study with stakeholders suggest that the take-up rate in Kathmandu has remained lower than the national average).

Figure 9.8 depicts the relationship between regional poverty rates and take-up rates for the benefit. The correlation coefficient (r) between the two series of 0.39 indicates a weak positive statistical relationship and suggests the social pension is somewhat effectively targeted from a poverty-reducing efficiency

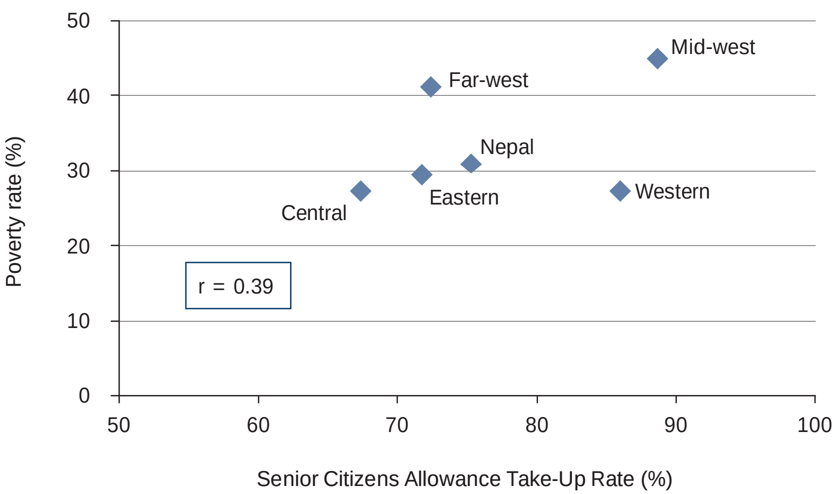
67 The term of community representatives in local government bodies expired in 2002, and there have been no community representatives in local government bodies since then.

Figure 9.7 Senior Citizens' Allowance Take-Up Rates by Region (2003 Estimates)



Source: Irudaya Rajan and Palacios (2008) using 2001 census data and 2003 Government of Nepal Ministry of Local Development data.

Figure 9.8 Relationship Between Take-Up and Poverty Rates



Source: Author's calculations based on NLSS data and Irudaya Rajan and Palacios (2008).

perspective. Take-up rates tend to be higher in the poorer regions (Mid-west region) and lower in the less-poor regions (Central region).

Irudaya Rajan and Palacios (2008) find even greater variability in take-up rates across Nepal's 75 districts, ranging from below 40% to greater than 100%.

While acknowledging that small-sample properties may leave their results sensitive to measurement error, they identify possible explanations for the variation: the role of conflict in constraining access by government officials to certain areas; greater awareness of the social pension in certain areas; varying administrative capacity of VDCs to deliver; and differences in the success of districts to secure the required budget resources to fund the Senior Citizens' Allowance.

Testing these hypotheses with a regression model, they found that the higher proportions of older people in the population were associated with higher take-up rates, perhaps because of the resulting improved awareness of the social pension. Surprisingly, their statistical analysis suggests that insecure areas had higher take-up rates, maybe reflecting a tendency by the government to protect the budget for benefits in conflict-affected areas (Irudaya Rajan and Palacios 2008, 346–347).

More recent studies (such as Uprety 2010 and this study) suggest that the initial findings of Irudaya Rajan and Palacios (2008) still largely hold. The coverage analysis above documented that take-up rates for the Senior Citizens' Allowance are high, even with the substantial expansion of coverage in the past 3 years. High take-up rates leave little room for exclusion error, and Nepal's social pension appears to be about as effectively targeted as other universal pensions around the world.

The study by Uprety (2010, 10) estimates exclusion of eligible beneficiaries at 2%–20%, a figure that varies widely by region.

A research project by the Overseas Development Institute, employing a key stakeholder interview approach, reports that conflict-related factors continue to hamper the effective delivery of the Senior Citizens' Allowance (and other cash transfer programs). Limits to local administrative capacity and poor awareness among older people also significantly hinder its take-up. Holmes and Uphadya (2009) point out that the government does not promote awareness of the Senior Citizens' Allowance nor related cash transfer schemes.

Overall, though, the targeting performance of the program represents a solid achievement by the government, given the institutional and financial constraints and the difficult environment created by conflict and political challenges. The take-up rate for the social pension, for the country as a whole, is close to that of well-run programs in countries with greater resources and administrative capacity. The nature of a universal program will always involve coverage of nonpoor beneficiaries, which cannot be considered inclusion "error" given the diverse objectives of the Senior Citizens' Allowance. Nevertheless, the government can improve targeting performance by addressing the problem of exclusion error. This will require a firmer budget commitment, active programs to raise awareness and protect the rights of participants, and efforts to improve local delivery capacity and accountability—as now discussed.

Accountability and the Extent of Capture and Corruption

Focus group discussions identify cases where beneficiaries did not receive their full entitlement for various reasons, including nonstatutory deductions by VDC officials. Beneficiaries also report difficulties in making contact with government officials, particularly in the more remote rural areas. Uprety (2010) documents similar beneficiary reports. This problem is common in many developing countries, and a previous study in Nepal identified similar difficulties: Irudaya Rajan (2003) found that while older people and people with disabilities received their full benefits in fiscal year 2001/02, widows received on average only 83% of their entitlement. In prior years the amount allocated to the Senior Citizens' Allowance had also fallen short. The extensive reporting of short payments, however, does not provide a prima facie case of corruption. Government budget shortfalls may put VDC officials in a difficult position, allocating an insufficient resource pool to meet the demands of often poor pensioners. There may be a tendency among short-changed older people to attribute the loss to corruption.

Irudaya Rajan and Palacios (2008, 351) indicate no reports of corruption from their survey. Irudaya Rajan (2003, 6) found isolated cases more clearly attributable to corruption, mainly in terms of VDC and ward officials not reporting deaths of beneficiaries and collecting the cash allocated to these "ghost" beneficiaries.

While these reports warrant government attention, the problem appears limited and most of the allocated resources likely reach the intended beneficiaries. The universal nature of the categorical targeting approach makes it easier for beneficiaries to claim their entitlements and limits the potential for corruption. However, more effective accountability mechanisms, including independent monitoring systems and a rights-protection mechanism, will likely reduce corruption.

Administrative Capacity for Outreach, Implementation, and Monitoring

International studies often hold Nepal's example of the Senior Citizens' Allowance as evidence that low-income countries can deliver a universal social pension. The high coverage rates and relatively low levels of corruption suggest largely effective administrative capacity.

However, the focus groups discussions identified important challenges, particularly in remote rural areas. Although most respondents were aware of the Senior Citizens' Allowance, many beneficiaries and their family members were not well informed on changes to procedures and policies for the program. Information on increased benefits had not reached certain poor and remote areas, and beneficiaries were still receiving the old amount. Other discussants reported being unaware of the Single Women's Allowance, the Disability Grant, and associated eligibility requirements. Likewise, some were unfamiliar with citizen charters that aim to ensure that the public has access to services provided by VDCs and ward structures. Perceptions by focus group participants reflect considerable geographic variation in the capacity of VDCs and wards to distribute the Senior Citizens' Allowance.

Nongovernment organizations (NGOs), civil society groups, and activist organizations often play an important intermediary role in channeling information on government decisions to older people. They often have up-to-date information and can assist older people in navigating the bureaucratic hurdles. While official guidelines specify little in terms of formal roles and responsibilities for civil society, in practice NGOs play an important part in expanding government capacity—by promoting awareness, serving as advocates for the poor, and providing independent monitoring and evidence-building functions.

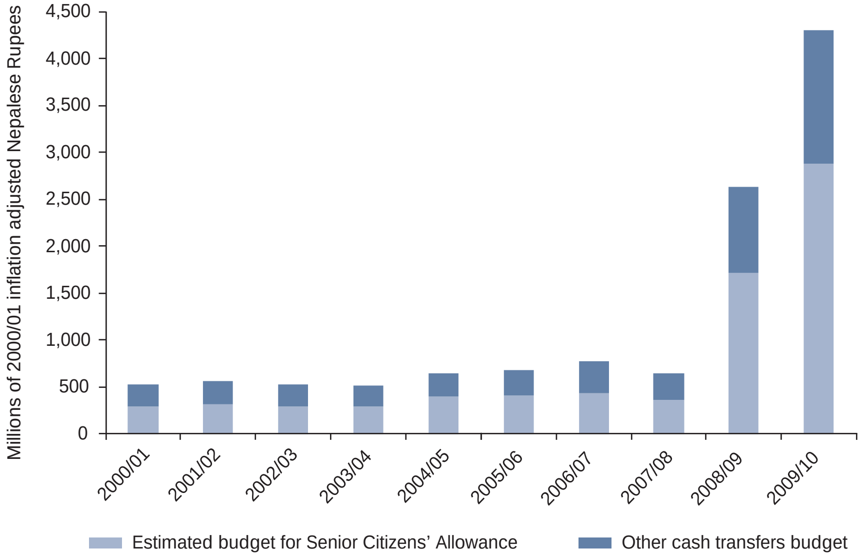
Holmes and Uphadya (2009) arrive at similar results, finding considerable variation across districts in administrative capacity, human resources, and physical facilities. Geography and poor infrastructure create particularly challenging conditions that exacerbate the constraints on the local government's capacity to implement the Senior Citizens' Allowance and other cash transfer schemes. In addition, they note the lack of data and information on poverty and vulnerability that VDCs and wards require to effectively run, monitor, and evaluate these programs, creating challenges for improving them (Holmes and Uphadya 2009, 18).

Financing, Fiscal Cost, and Affordability

The government finances the Senior Citizens' Allowance from general tax revenue. In spite of substantial fiscal challenges over the past several years, it has significantly increased both the benefit level and scope of the program. The aging of Nepal's population and likely further extensions of coverage will increase the fiscal burden of the program.

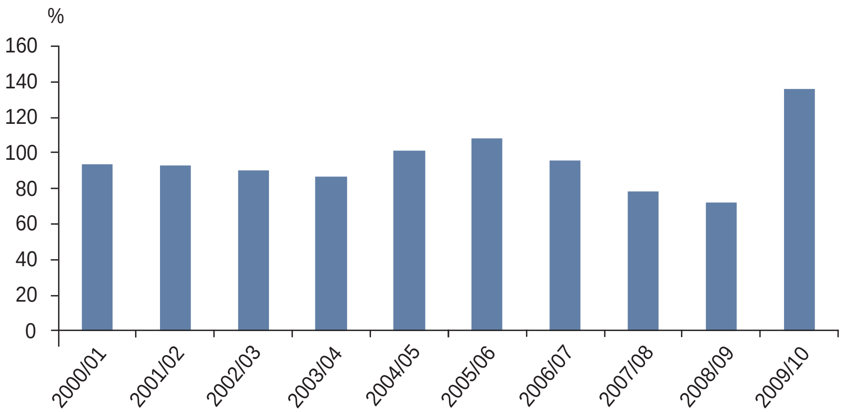
Figure 9.9 illustrates the path of the estimated fiscal cost of the Senior Citizens' Allowance in inflation-adjusted terms and relative to the government's spending on other cash transfer programs, including the Single Women's Allowance (formerly the Widows Allowance), the Disability Grant, and the Endangered Indigenous Groups Allowance. The fiscal costs are deflated to 2000/01 fiscal year purchasing power terms using Nepal's consumer price index.

Figure 9.9 Real Government Spending on the Senior Citizens' Allowance and Other Cash Transfers



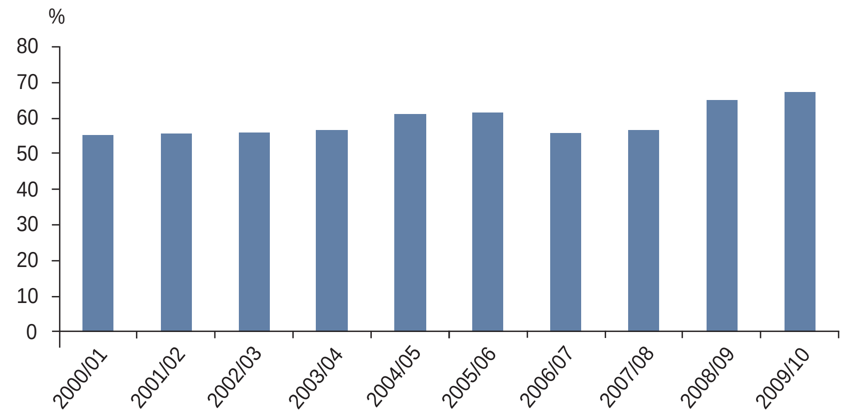
Source: Author's calculations using data from the Ministry of Finance.

Figure 9.10 Nepal's Cash Transfers Fiscal Effort Index, 2000–2010



Source: Author's calculations using data from the Ministry of Finance.

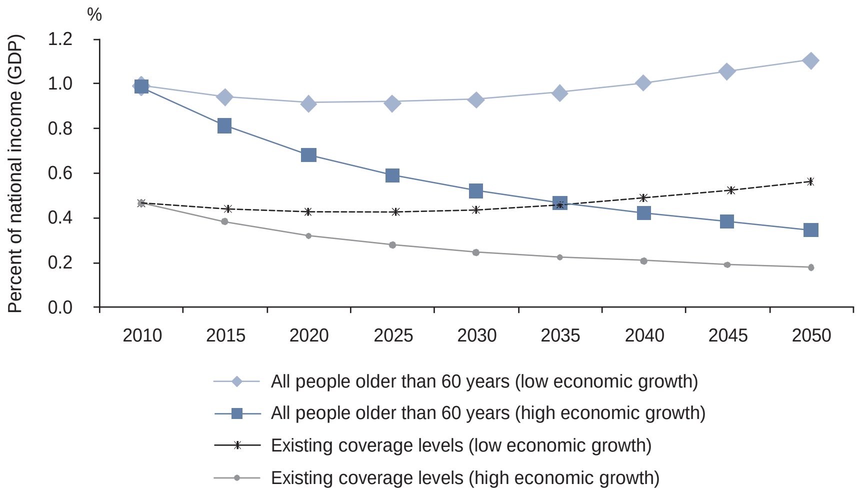
Figure 9.11 Senior Citizens' Allowance as a Share of Total Cash Transfer Spending



Source: Author's calculations based on Ministry of Finance data.

Figure 9.10 maps the government's fiscal effort in financing its commitment to registered beneficiaries. The ratio is calculated by dividing the actual budget allocation for all pension-type cash transfer programs (effort) by the expenditure required if all beneficiaries received their full entitlements (entitlement).

Figure 9.12 Projected Cost of the Senior Citizens' Allowance Until 2050



Source: Author's calculations based on Ministry of Finance data.

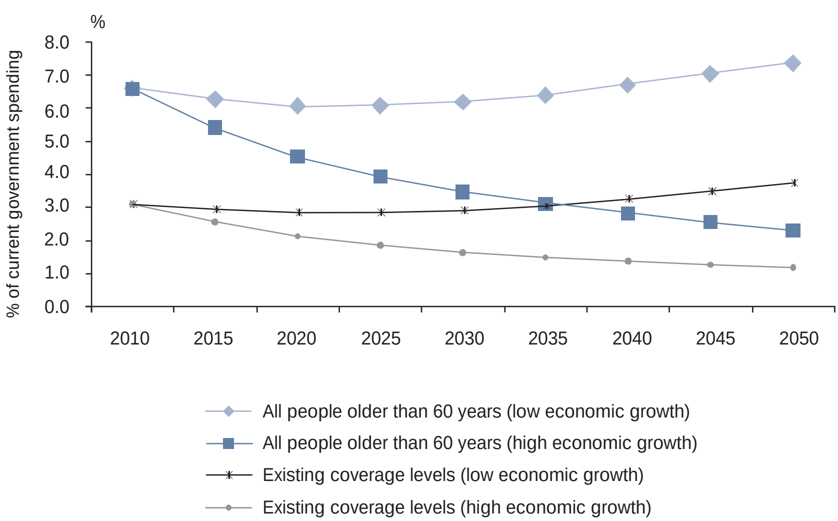
Figure 9.11 illustrates the relative share of the Senior Citizens' Allowance as a share of the government's spending on all pension-type cash transfers.

The reduction in the eligibility age for the social pension to 70 years led to a steady increase in the share of spending on this program.

Figure 9.12 projects the cost of the Senior Citizens' Allowance under four alternative scenarios, depending on coverage levels and assumptions about economic growth rates for 2010–2050. If the government were to expand the allowance to all people 60 years and older, and if the economy were to grow at only 2% a year over the next 40 years, the cost of the program would start at about 1% of national income (as measured by GDP) and fall slightly to 0.9% of GDP by 2020, as economic growth outpaces the aging of the population. Starting in 2025, however, the population ages faster than the economy grows, and the fiscal burden of the program rises to 1.1% by 2050.

However, if the economy grows by 5% a year, the pace of economic growth more than offsets the demographic aging of the population, and the program's fiscal burden only falls over time, going down to not less than 0.4% of GDP by 2050.

Figure 9.13 Projected Cost of the Senior Citizens' Allowance Until 2050



Source: Author's calculations based on Ministry of Finance data.

If the existing coverage criteria are projected forward over the next 40 years, the costs are even lower. In 2010 fully meeting the social pension commitments would have cost about 0.4% of GDP. Under the low growth assumption, this rises to nearly 0.6% of GDP by 2050. However, under the high growth assumption this burden falls to less than 0.2% of GDP by 2050. This exercise demonstrates how critical the assumptions are about economic growth in determining the long-run affordability of the social pension.

Figure 9.13 maps affordability using a different determinant—the cost of the program as a share of the government's total current expenditure. It assumes the government's expenditure share remains constant at 15% of national income (as measured by GDP). The time paths of the four scenarios are similar. With the extension of coverage to all people 60 years and older, and under the low growth scenario (2% a year), the cost of the program would start at about 6.5% of GDP and fall slightly to 6.0% of GDP by 2020, again as economic growth outpaces the aging of the population. Then as with the share of GDP measure, starting in 2025, as the population ages faster than the economy grows, the fiscal burden of the program rises to over 7% of government spending by 2050.

However, if the economy grows by 5% per year, the pace of economic growth more than offsets the demographic aging of the population and supports increased government expenditure. The fiscal burden of the program falls over time to just a little over 2% of government spending by 2050.

Likewise, the existing coverage scenarios tell a similar story. In 2010, fully meeting the social pension commitments would have cost about 3% of government spending. By 2050, under the low growth assumption, this rises to nearly 4% of government spending. However, under the high growth assumption, this burden falls to just over 1%.

Implications for Policy and Practice

This section identifies lessons for Nepal to strengthen and scale up the Senior Citizens' Allowance, as well as for other countries in a similar situation.

Strengthening and Scaling Up the Social Pension Scheme in Nepal

While Nepal continues to face many challenges in delivering a relatively generous social pension, the country's experience demonstrates that a universal model can provide effective social protection for older people; tackle poverty, vulnerability, and social exclusion; and contribute to the nation-building process in a conflict-torn society. While the Senior Citizens' Allowance is working relatively well, the government faces important opportunities in protecting budget priorities, strengthening delivery systems, implementing more effective monitoring and evaluation (including impact assessments), expanding coverage, and increasing benefit levels.

Nepal's main challenge in strengthening the effectiveness of the Senior Citizens' Allowance is ensuring that it is a dependable benefit for the older people who rely on it for social protection. The main problem identified in this study is the risk that the government is unable to fund reliably the payments on which poor and vulnerable older people (and sometimes their whole households) depend. Given the pressing social priorities and limited fiscal capacity, this challenge will likely persist in the foreseeable future. The recent increase in coverage and benefit levels has proven both a worthwhile and ambitious step, intensifying the challenges of financing the program. The government must recognize the important role that the Senior Citizens' Allowance plays in its development strategy and ensure that it retains the high priority required to assure its funding.

The second challenge is to strengthen local government capacity to deliver the program, particularly in the most remote rural locations. This study has identified opportunities to deploy human resources and improved infrastructure to the poorest and most underserved areas of the country, where the government does not post full-time VDC officials, and other vital services are in short supply. The residents of these areas will benefit the most from regular and dependable delivery of the Senior Citizens' Allowance, and these benefits hold the potential to spur a virtuous circle of development opportunities.

The third challenge is to build better systems for independent monitoring and rights protection. Government institutions are usually unable to adequately self-monitor their social protection systems. The most effective approaches provide for an independent monitoring authority—through ombudsmen, functions situated within national planning authorities, interministerial committees, or monitoring processes supported by NGOs. Individuals whose rights have been ignored require an impartial authority to hear their voice, and independent mechanisms for rights protection offer the best chance for tackling the exclusion that characterizes even the most effective social protection instruments.

The fourth challenge is to strengthen the evidence base, particularly through an independent and credible impact assessment. While international experts often highlight Nepal's model of a universal social pension, no independent quantitative assessment has ever identified and attributed the poverty-reducing and developmental impacts of the program. Rigorous impact assessments serve important functions, by demonstrating to policy makers and the public that the program is meeting its strategic objectives, identifying lessons for improving the intervention's effectiveness, contributing to the global evidence base on social protection, and strengthening the political will to expand and sustain the program.

The fifth challenge is to maintain the integrity of the characteristic design of the Senior Citizens' Allowance, particularly its universal rights-based approach. The recent expansions of the social pension have implicitly incorporated targeting methodologies more complex than the simple age test that has proven transparent and successful in the past. Targeting based on ethnicity and geography may be necessary compromises given the social demands and limited resources. Over the longer horizon, the resources exist to provide categorical benefits to all people aged 60 years and older. Moving progressively to this standard will strengthen the protective and developmental potential of the social pension.

The sixth challenge is to gradually improve the social protection impact of the program, by lowering the eligibility age and increasing benefit levels. Given the government's commitment to delivering social pensions to some of the country's most vulnerable groups from the age of 60, reducing the threshold for the rest of the population meets the previous challenge while improving the poverty-reducing efficiency and social inclusiveness of the Senior Citizens' Allowance. With a life expectancy at birth of around 60 years, the poorest in Nepal often do not reach the age of eligibility for the social pension. In particular, the historically most excluded groups have the lowest life expectancies. Expanding social pension coverage by lowering the eligibility age offers the greatest potential impact in terms of reducing poverty and vulnerability and improving social inclusiveness. Even with the recent increase to NRs500 per month, the benefit's purchasing power remains low by international standards. Raising the benefit sustainably remains a second long-term priority.

The seventh challenge is to consolidate the Senior Citizens' Allowance's position in a more comprehensive system of social protection. The social pension constitutes one vital pillar that ideally works with other instruments to provide security and promote developmental impacts for the entire population. A balanced social protection system will provide benefits for all poor, vulnerable, and excluded groups. Building on the experience of expanding coverage more broadly consolidates the role for the social pension while providing the range of benefits required for a sustainable and comprehensive system of social protection.

Drawing Lessons for Other Asian Countries

What can Asia learn from Nepal's experience with the Senior Citizens' Allowance?

The first lesson is that universal noncontributory social pensions can work in low-income countries. Nepal's program has worked effectively and the government has progressively expanded its system of cash transfers to cover a range of vulnerable groups, from widows to people with disabilities to historically excluded groups to children. The evolution of an increasingly comprehensive system of social transfers in Nepal is consistent with global experiences. Developing countries often initiate social protection systems with noncontributory social pensions, and then progressively realize more comprehensive coverage building on the demonstrated success of cash transfers reaching older people. In many countries, the social pension is the best first step toward a comprehensive system of social protection.

The second lesson is that a country can initiate a social pension with limited coverage and low benefits, and then progressively increase the size of the transfer and the number of older people eligible for the program.

The third lesson is that design and implementation matter. A universal rights-based approach facilitates delivery, by lowering administrative costs and empowering older people to claim their entitlements. Nepal continues to face challenges in the secure delivery of older people's rights to social protection. An ongoing effort to ensure accountability and improve delivery systems increases the likelihood of the program's success and sustainability. Moving from manual systems that require physical and sometimes haphazard delivery of benefits to technological solutions that provide low-cost payments mechanisms can multiply the program's impact. Developmental delivery systems can assure timely and dependable benefits while providing access to information, communications, and financial services for the entire household and community. Nepal is grappling now with the associated challenges and trade-offs, and will likely offer a host of future lessons.

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Chapter 10
Social Protection for Older People in Central Asia and the South Caucasus

Jane Falkingham and Athina Vlachantoni[68]

Abstract

The economic dislocation of the early 1990s had significant consequences for the relatively generous pension systems of all countries inherited from the former Soviet Union. Rising unemployment and economic restructuring reduced the contribution base, increasing system dependency rates. In the face of falling public expenditure many countries undertook wide-ranging reforms of the pension system—including tightening eligibility criteria, increasing retirement ages, and moving away from defined benefits toward defined contribution systems. This chapter details the impact of economic and political transition on pension systems during the 1990s, through to the mid-2000s in Central Asia and the South Caucasus. It then focuses on the first wave of pension reforms and the current pension systems in the region today in four case study countries: Armenia, Kazakhstan, the Kyrgyz Republic, and Tajikistan. The analysis focuses in particular on the structure of the benefit system and the role played by minimum social pensions alongside the formal contributory system and informal transfers, including remittances.

Introduction

At independence, all the countries of the former Soviet Union (FSU) inherited an extensive system of social welfare, including a comprehensive pay-as-you-go (PAYG) pension system characterized by low retirement ages (60 for men and 55 for women) and relatively generous opportunities for early retirement for selected groups of workers such as miners, agricultural workers, members of the armed forces, ballerinas, and "hero mothers" among many others. Pensions

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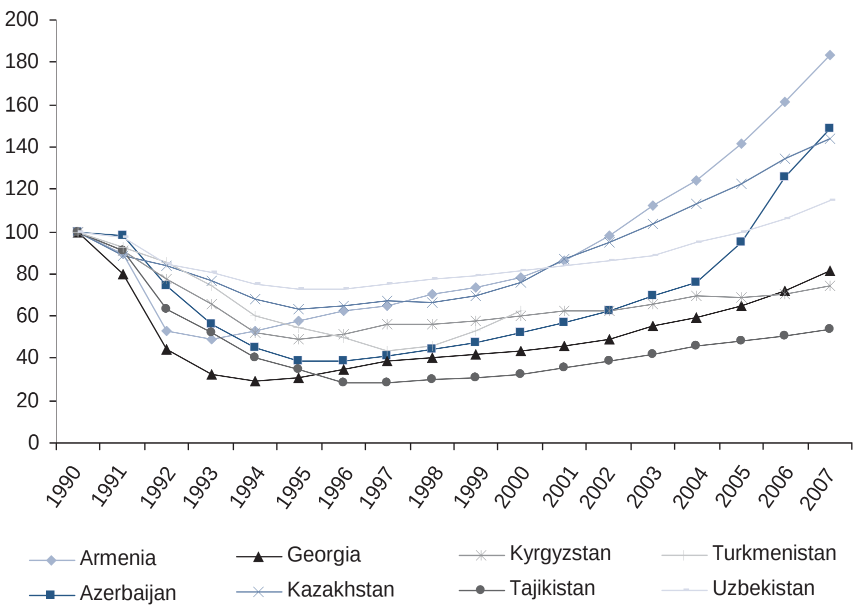
were calculated as a fixed earnings-related component plus an additional component based on years of service, which took into account periods of employment, child care, and numerous other "special circumstances." As most Soviet citizens were employees of the state, either in industry or agriculture, or fell into some other special category, entitlement to the government-financed old-age pension was almost universal. For the minority of those who had not accumulated sufficient years of service to qualify, the social pension provided a safety net around the minimum wage.

In the years immediately following the collapse of the Soviet Union, most of the newly independent countries of the FSU underwent a period of severe economic dislocation. The interruption of traditional trade relations along with the withdrawal of subsidies from Moscow resulted in a dramatic contraction in gross domestic product (GDP). Between 1990 and 1995, GDP per capita fell by more than half in all the countries of Central Asia and the South Caucasus, except for Uzbekistan (Figure 10.1).[69] Since the mid-1990s, there has been a

Figure 10.1 Trends in Real Gross Domestic Product per capita, 1990–2007
(1990 = 100; constant $ in 2000 prices)



Source: UNICEF TransMONEE database 2009.

[69] Central Asia comprises Kazakhstan, the Kyrgyz Republic, Tajikistan, Turkmenistan, and Uzbekistan; the South Caucasus comprises Armenia, Azerbaijan, and Georgia.

slow return to positive economic growth (Alam et al. 2005; Falkingham 2005). However, a decade after independence, only Armenia and Kazakhstan were back at pre-independence levels. Even by 2007, GDP per capita in Georgia and the Kyrgyz Republic was still at around four-fifths of that before independence, while in Tajikistan it remained at just over half (54%).

The relatively generous Soviet pension system combined with a rapidly contracting contributions base (due to falling tax revenues as state-run enterprises contracted, unemployment rose, and the informal sector expanded) to render most pension systems in the region rapidly unsustainable. The growing private sector quickly learned how to evade mandatory pension contributions (Seitenova and Becker 2004). With declining revenues, pension funds in most countries of the FSU quickly fell into deficit and benefit payments fell into arrears. Rapid inflation eroded the value of benefits. For example, in 1992, consumer price inflation exceeded 3,000% in Kazakhstan, reducing the value of pensions and other welfare benefits to below the minimum necessary for subsistence (Seitenova and Becker 2004). This impact was exacerbated by the contraction of noncash subsidies in areas such as health care, heating, and sanatoria. During this period in some countries, some state enterprises offered to pay their contributions in kind, resulting in pensioners then receiving their benefits in kind. This was less of a problem where the in-kind payments could easily be converted into cash or consumed (such as flour), but there were significant welfare implications when pensions and other benefits were paid in vodka, as was reported in an *oblast* (region) in the Russian Federation in the early 1990s (Falkingham 1999a).

With problems of both fiscal sustainability and benefit adequacy, most of the newly independent states of the FSU considered or undertook radical changes to their pension systems. As early as 1992, the Kyrgyz Republic—often considered an early adopter of reform—began a process of reducing the scope of special privileges such as additional years of service for particular occupations. By the mid-1990s many countries in the region had introduced reforms, with common themes including a shift away from pensions based on a defined benefit toward those based on defined contributions; a move from a PAYG to a funded system; and a move from a system where the pension "risk" was based on the collective, to one where risk was increasingly individualized. Most countries also attempted to raise the age of retirement, with mixed success.

Both the Kyrgyz Republic and Kazakhstan introduced far-reaching pension legislation in 1996 and 1997, with the Kyrgyz Republic bringing in a notional defined benefit pension and Kazakhstan initiating more ambitious reform, moving toward a fully funded, mandatory, and individually based defined-contribution scheme along the lines introduced in Chile in the 1980s. Other countries in the region were slower to reform. For example, the first wave of pension reform in Armenia was legislated in 2002 and implemented in 2003, while in others, such as Tajikistan and Uzbekistan, the reform process was beginning after 2010.

The Inheritance: Soviet Old-Age Pensions in Brief

The Soviet Union provided its citizens with a comprehensive system of social protection that included a range of cash and noncash benefits. Social insurance benefits provided workers with coverage for maternity, sickness, disability, survivorship, and old age, while social assistance benefits were available for those with inadequate employment records to qualify for insurance-based benefits. The system was in effect universal as the vast majority of the population were employed in either the military, a government department (such as education and health), a state enterprise, or a state-owned (*sovkhoz*) or collective (*kolkhoz*) farm. Full employment was guaranteed by the state and unemployment was virtually unknown, a fact reflected in the absence of formal unemployment benefits in the Soviet system of social protection.[70]

The cash benefit system was supported by an extensive system of noncash benefits, including subsidies for heating and many foodstuffs (notably bread), as well as universal education and health care, supposedly free at the point of delivery.[71] In addition, many workers received subsidized housing, kindergarten places, and annual holidays in sanatoria owned by their enterprise. Entitlement to a subsidized annual holiday extended into retirement.

Under the Soviet system, both social insurance and social assistance benefits were in effect noncontributory as no contributions were payable by employees, although contributions were paid by the enterprise. Eligibility for benefits was based on the citizen's employment record. This included credits for years as a university student, years of service in the armed forces, time out for child care, as well as years of employment. Moreover, in some occupations, more than one year of service was credited for each year of employment. Thus, in these occupations it was possible to accelerate the accumulation of "contribution years."

Normal retirement ages in the Soviet system were low, at 55 years for women (with 20 years of service) and 60 years for men (with 25 years of service).

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[70] Underemployment was, however, widespread, reflecting excess labor capacity within many enterprises. See Kaufman and Hardt (1993) for discussion.

[71] Although people accessing health care during the Soviet period incurred significant out-of-pocket costs (both cash and in kind), costs that rose substantially after independence (see for example Falkingham, Akkazieva, and Baschieri [2010]).

Moreover, there were numerous exceptions allowing people to retire earlier. People working in occupations classified as arduous (such as milk-maids or goat herders) or hazardous (such as mining), or who had engaged in work associated with the Chernobyl disaster could retire 5–10 years earlier because these occupations attracted additional credits. An early pension was also available at age 50 for mothers who had raised more than three children or who had cared for a disabled child, and a woman awarded the title Hero Mother of the Soviet Union (for having 10 or more children) could retire at any age after receiving her award.

As well as a relatively low retirement age, the normal pension formula was extremely generous, set at 60% of the highest past wages averaged over 12 months for workers with a full employment record. Above that threshold, the base pension was then increased by 1% for each year of service above the minimum. Given the relatively modest number of years required for a full employment record and the extensive system of credits, most people retired with a state old-age pension providing a replacement rate in excess of two-thirds of their previous highest wages.

Although the eligibility criteria for an old-age pension were low by most pension system standards, a minority of the population still failed to qualify. Where individuals were ineligible for an old-age pension, a social pension was payable. This was set at the minimum wage level, which in turn was set in reference to the "social minimum," calculated by the State Statistical Agency (Goskomstat) using a basket of goods and services that were thought to reflect the socially acceptable minimum for the community. This basket allowed for generous consumption of both food and nonfood items and contained relatively high proportions of high-cost foods such as animal fat and meat, reflecting the fact that the social minimum was based on the idea of social solidarity rather than simply meeting basic needs (Falkingham 1999b). Poverty did not officially exist under the Soviet system, although it was recognized there were *maloobespechenny* (or "underprovisioned") families. The system distinguished between underprovisioned older people who were entitled to the social pension, and underprovisioned families with children who were entitled to social assistance–based family allowances.[72]

[72] In summary, the main features of the Soviet pension system were: (i) virtually universal coverage; (ii) noncontributory for employees (contribution paid by employers); (iii) low retirement age (60 for men and 55 for women), plus generous opportunities for early retirement, and low eligibility requirements (minimum service record of 25 years for men and 20 years for women); (iv) extensive and generous system of credits (university education, military service, child birth, arduous and hazardous employment); (v) generous earning-related benefit (60% of highest average earning for minimum service record plus 1% for each additional year above the minimum); (vi) high average replacement rate; and (vii) noncontributory social pension for those who were not eligible for an old-age pension, providing a minimum income guarantee.

The generosity of the Soviet pension system meant that even before the breakup of the Soviet Union, the system was coming under pressure. In August 1990, in response to the economic problems of the 1980s, the Soviet government took the first steps in moving away from a PAYG system toward a funded system by establishing a national pension fund. The fund was established as an independent "financial banking system," separate from the state budget and funded by contributions from all types of enterprises and organizations. In this way, the Soviet government was signaling its desire to ultimately create a funded pension system (Seitenova and Becker 2004). However, before this could happen, the Soviet Union was dissolved, and in 1991 each of the newly independent states inherited their own national pension fund based on the 1990 Soviet law.

Demographic and Socioeconomic Trends

Demographic Trends

Declining Fertility

The republics of Central Asia and the South Caucasus exhibited the highest rates of fertility in the Soviet Union and had relatively youthful populations. In 1989, the total fertility rate (TFR) of 5.1 children per woman in Tajikistan was the highest in the Soviet Union, followed by Turkmenistan (4.3) and Uzbekistan (4.1). Fertility rates were lower in the South Caucasus than in Central Asia, but remained above the replacement rate (of 2.1 children per woman) in both Armenia and Azerbaijan (Table 10.1).

Table 10.1 Trends in Fertility and Life Expectancy, 1989–2009

	Total fertility rate		Male Life Expectancy at Birth (years)		Female Life Expectancy at Birth (years)		Life Expectancy at Age 60, Both Sexes (years)
Economy	1989	2009	1989	2009	1998	2009	2005–2010
Armenia	2.6	1.7	69.0	70.6	74.7	77.1	19.5
Azerbaijan	2.8	2.2	66.6	68.2	74.2	72.8	18.9
Georgia	2.1	1.6	67.3	68.3	75.0	75.2	18.7
Kazakhstan	2.8	2.3	63.9	59.2	73.1	71.5	15.5
Kyrgyz Republic	3.8	2.5	64.3	64.5	72.4	71.9	17.1
Tajikistan	5.1	3.4	66.7	64.5	71.8	69.7	18.6
Turkmenistan	4.3	2.4	61.8	61.1	68.4	69.2	16.7
Uzbekistan	4.1	2.2	66.0	62.8	72.1	71.2	18.3

Sources: Data for 1989 from UNICEF TransMONEE database 2009; data for 2009 from ILO (2010); data for life expectancy at age 60 from ILO (2010).

Over the following 2 decades, the TFR fell in all countries in the region. In part, this was the continuation of an already established downward trend. However, the decline in TFR was steeper than a pure trend-based explanation would suggest, pointing to couples adjusting their family formation plans in response to the economic uncertainty and political unrest (Agadjanian and Makarova 2003; Clifford, Falkingham, and Hinde 2010). Today in most countries in the region, fertility levels are around or below the replacement rate, with only Tajikistan above three children per woman.

Stable or Rising Mortality

The most fundamental measure of the well-being of a population is how long its members can expect to live on average. The transition's negative impact on the population's well-being is reflected in the decline in life expectancy at birth for both women and men in around half the countries. Apart from Tajikistan, where the country was affected by armed conflict for much of 1992–1997, the deterioration in life expectancy was most marked in Kazakhstan, where male life expectancy fell by a staggering 5.9 years, from 63.9 in 1989 to a low of 58.0 in 1996 (Falkingham 1999b). Similar patterns were also observed in the Russian Federation and parts of Central and Eastern Europe (McKee, Figueras, and Chenet 1998). Since then, there has been some recovery in Kazakhstan, but even in 2009 it was relatively low at under 60.

Life expectancy at birth is significantly higher for both men and women in the South Caucasus than in Central Asia, with the best performer Armenia (70.6 years for men and 77.1 years for women in 2009). Life expectancy at birth is lowest for women in Turkmenistan (69.2 years), and Kazakhstan remains the worst performer for men.

Life expectancy at birth is influenced by mortality rates across all ages. Table 10.1 also shows the latest estimates of life expectancy at age 60 for the countries in the region. This is of central relevance for pension systems as it illustrates how long a person who starts drawing a pension at age 60 may be expected, on average, to receive pension benefits. The ranking of countries on this measure is somewhat different from that using life expectancy at birth as it excludes the effect of both infant and maternal mortality. Someone who has survived to 60 in Tajikistan will be expected to live, on average, a further 18.6 years, and a 60-year-old in Armenia may expect to live a further 19.5 years.

Outward Migration

The early 1990s were marked by heavy out-migration from Central Asia and the South Caucasus as well as movement between the countries of the region (Table 10.2). During 1990–2000, Kazakhstan, for example, saw estimated net out-migration of over 1.5 million people, including nearly 1 million in net migration to the Russian Federation and 850,000 to outside the FSU. During the same period, Kazakhstan experienced a net inflow from other republics in the FSU, notably from the other Central Asian republics. Many of the first wave of migrants were ethnic Russians who "returned" to the Russian Federation in the early 1990s, but since the mid-1990s there has been a considerable flow of migrant workers (Mansoor and Quillin 2007).

Table 10.2 Net Migration by Destination, 1990s (thousands)

Economy	Total	Russian Federation	Other FSU	Non FSU
Armenia 1990–2001	-60.4	-125.6	97.5	-32.3
Azerbaijan 1990–2003	-284.6	-252.9	1.3	-33
Georgia 1990–1992	N/A	-85.2	-24.4	N/A
Kazakhstan 1990–2000	-1,581.1	-957.6	227.6	-851.1
Kyrgyz Republic 1990–1996	-392.1	-278.8	-8.2	-105.1
Tajikistan 1990–1995	-357.1	-258.3	-64	-34.8
Turkmenistan 1990–1995	-52.4	-51.2	0.1	-1.3
Uzbekistan 1990–1998	-728.3	-542.8	-46	-139.5

FSU= former Soviet Union.
Source: Mansoor and Quillin (2007).

For all the countries in the region, the Russian Federation has been the dominant destination, and the majority of migratory moves have been within the countries of the FSU. In the early 1990s, there were large migrations of ethnic Germans from both Kazakhstan and the Kyrgyz Republic to Germany, whose presence in the region was the result of both voluntary and forced migrations of Germans to Central Asia during the Soviet period. Over 800,000 Germans left Kazakhstan and nearly 100,000 left the Kyrgyz Republic in 1992–1995, as the German government granted citizenship to anyone with proof of German ancestry.[73] The United States was the primary destination outside the FSU for migrants from Armenia, with most of these joining the already large diaspora there, and Israel was a top Azerbaijani destination (Mansoor and Quillin 2007).

These figures provide a lower estimate than the true migratory flows in the region, capturing only a fraction of a much larger undocumented and circular migration from all the countries to the Russian Federation. Neither do they reflect the significant number of internally displaced persons in some countries because of past or ongoing conflicts.

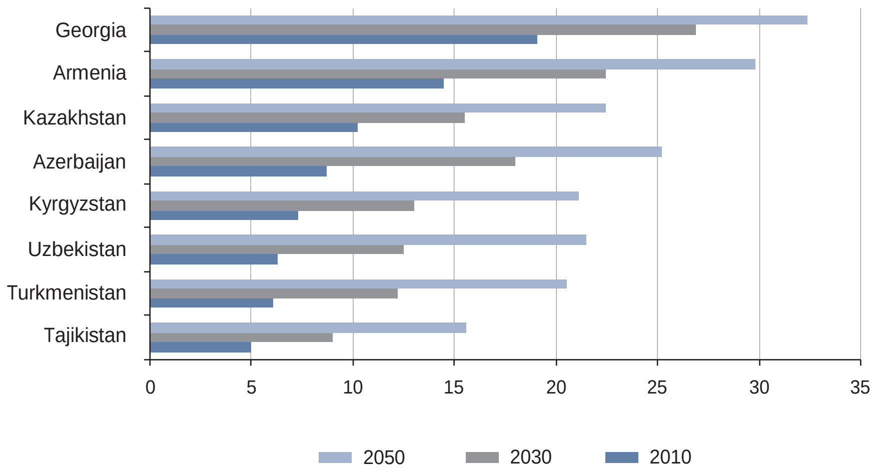
[73] This liberal policy has since been reformed with tighter immigration criteria, following the difficulties of integrating relatively large numbers of Russian-speaking Germans in the early 1990s.

One consequence of the high levels of migration has been the growth in remittances as a share of GDP in the region. In 2004, such remittances represented over 10% of GDP in Armenia and Tajikistan. By 2008, Tajikistan topped the global legal table with remittances estimated to contribute a huge 45.5% of GDP, with Moldova second at 38.3% (Ratha, Mohapatra, and Silwal 2010).

An Aging Population

The decline in fertility alongside the relatively high levels of survivorship will lead to a significant shift in the age composition of the population over the next 3 decades (Figure 10.2). In low-fertility Georgia, the proportion of the population aged 60 and over was already 19% in 2010; by 2030, this share is projected to rise to 27% and by 2050 to very nearly a third (32%). This contrasts with the situation in high-fertility Tajikistan, where in 2010 just 5% of the population were over 60. However, even there it is projected that individuals aged 60 and over will account for nearly 16% of the population by 2050.

Figure 10.2 Share of the Population Aged 60 and over, Central Asia and the South Caucasus, 2010–2050 (%)



Source: UN (2009).

Socioeconomic Trends

At independence, all the newly formed republics of Central Asia and the South Caucasus inherited high levels of human capital. Education and health care were free and social services and transfers were extensive. The republics also inherited economic structures that were heavily dependent on Soviet supply and trade networks. The Russian Federation was the main source of inputs and the main market for outputs. Transport and other infrastructure were designed to meet these needs and not necessarily those of the local economy. High social spending was supported by large budgetary transfers from Moscow. It is estimated that in the late 1980s to early 1990s, such transfers were worth from 12% of GDP in Kazakhstan to 40% of GDP in Tajikistan.

As illustrated in Figure 10.1, the transition to independence was accompanied by a severe economic dislocation in all countries in the region as the complex interdependent production and trade networks of the Soviet Union were dismantled. Real wages fell, joblessness increased, school enrollment declined, and general health deteriorated (Falkingham 1999b, 2005). The dramatic declines in GDP affected all sections of the population and the proportion of the population living in poverty rose sharply.

Rising Poverty

Even before independence, the Soviet republics of Central Asia and the South Caucasus were among the poorest of the Soviet Union. Atkinson and Micklewright (1992), using a threshold of 75 rubles as the national poverty line, estimated that around 31 million people, or 11% of the total population of the Soviet Union, were poor. The proportion living in poverty varied considerably among the country's republics, with over half those living in Tajikistan having a per capita income of less than 75 rubles compared with just 2% in Estonia. Since households in Central Asia tend to be bigger than in Europe, per capita income may tend to exaggerate differences in living standards between the republics. At the same time, differences in prices across the republics are ignored by the single cutoff measure of 75 rubles and prices were higher, on average, in Central Asia than in many of the other republics, which would imply that living standards were overestimated in the region (Atkinson and Micklewright 1992). Whatever the case, Table 10.3 suggests that one cannot say that poverty was unknown in Central Asia and the South Caucasus before the transition.

The transition to a market economy may not have led to the emergence of poverty in the region, but it certainly exacerbated the existing disadvantage of the old poor (pensioners, families with large numbers of children, and single-parent families), and gave rise to groups of new poor, such as the families of workers on leave without pay, the long-term unemployed, agricultural workers, young people in search of their first job, and a growing number of refugees, both economic and those displaced by civil conflict (Falkingham 1999b). By the mid- to late 1990s, over half the population of Armenia (58%) and three-quarters of the population of the Kyrgyz Republic (78%) were estimated to be living on less than \$2.15 purchasing power parity (PPP), while in Tajikistan 91% of people were poor by this standard (Table 10.3). The return of economic growth in the late 1990s helped cut poverty rates, but they remain an issue in many countries. The data for the latest year available show that in 2004 over half the population

Table 10.3 Share of the Population Living in Poverty, 1989 to mid-2000s (%)

	(1) Population with Per Capita Monthly Income Below 75 Rubles, 1989	(2) Population Living on Less than \$2.15 PPP, mid- to late 1990s		(3) Population Living on Less than \$2.15 PPP, Latest Year	
		Year		Year	
Armenia	14.3	1998	58	2003	43.3
Azerbaijan	33.6			2005	2.0
Georgia	13.0	1997	45	2005	30.4
Kazakhstan	15.5	2001	31	2003	17.2
Kyrgyz Republic	32.9	2000	78	2004	51.9
Tajikistan	51.2	1999	91	2004	50.8
Turkmenistan	35.0			1998	49.6
Uzbekistan	43.6			2003	76.7

PPP = purchasing power parity.

Note: Blank cells denote lack of available data.

Sources: Column (1) from Table 8.4, Atkinson and Micklewright (1992); Column (2) from Table 1, Alam et al. (2005); Column (3) from ILO (2010).

of the Kyrgyz Republic and Tajikistan were in poverty, with rates the lowest in oil-rich Azerbaijan (just 2%) and highest in slow-reforming Uzbekistan (77%).

Widening Inequality

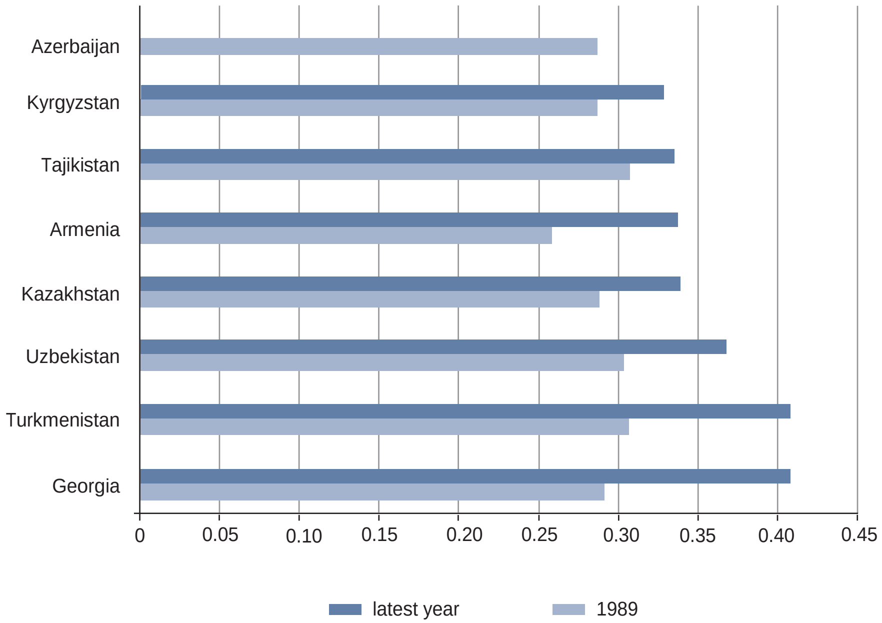
The rise in poverty was accompanied by widening inequality in both wages and income. In the Soviet Union the overall distribution of income was much more egalitarian than in most market economies (Atkinson and Micklewright 1992; Milanovic 1998). This was due to both the higher level of social expenditure—social transfers made up 14% of total gross income (authors' calculation of the USSR, 1988 Family Budget Survey)—and to lower wage differentials. Over 96% of the workforce were employed by state-owned enterprises (including sovkhozy and kolkhozy). Thus, virtually all income, either transfers or wages, was received through the intermediation of the state.

The restructuring of economic activity and greater private sector income, along with the privatization of state assets and redistribution of wealth and the growth of open unemployment, resulted in a growing gap between the income of the rich and poor (Falkingham 2005). Figure 10.3 highlights the rapid growth in income inequality in all countries in the region. To put these figures into context, the Gini coefficient for India in 2005 was estimated to be 0.325.

Falling Labor Force Participation and Growing Unemployment

The Soviet Union officially had full employment, and open unemployment was unknown. Economic restructuring and the transition from public to private ownership of many enterprises led to many firms laying off formerly

Figure 10.3 Gini Coefficient 1989-mid 2000s, Central Asia and the South Caucasus



Sources: Data for 1989 from Table UI3, Atkinson and Micklewright (1992). Data for latest year (see Table 3 for year) from ILO (2010).

underemployed workers, as keeping an artificially inflated workforce became too expensive. Consistent data on unemployment remain hard to find as official data on registered unemployment undercount the true extent of unemployment; only those workers who qualify for unemployment benefit have an incentive to register, and in many countries the qualifying criteria are so tight as to exclude the vast majority of individuals.

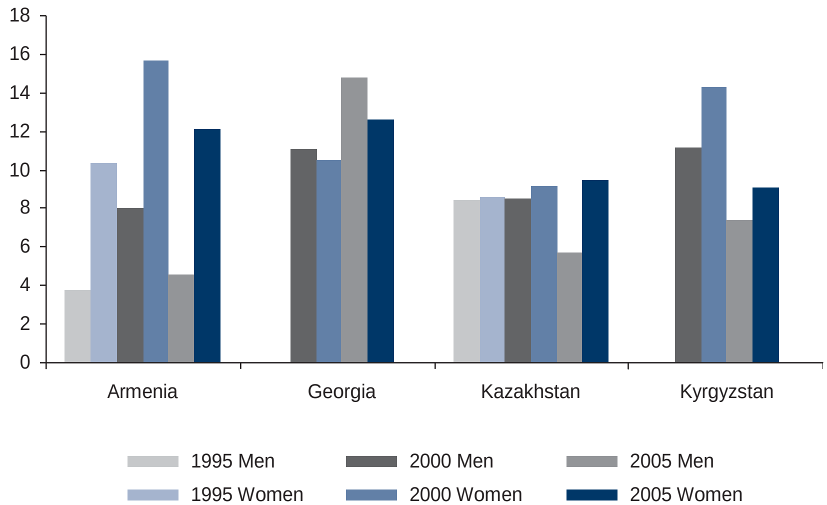
Table 10.4 shows unemployment as a share of the labor force for both men and women over 1995–2005. During this time, unemployment rates were highest in Georgia, which has had several ILO-sponsored labor force surveys (and thus more reliable data), and lowest in Uzbekistan, where the data rely on official estimates. In most countries, unemployment rose significantly during the early to mid-1990s, reaching a peak in the late 1990s following the Russian fiscal crisis, and contracted somewhat after then as countries moved back into growth. For those countries with reliable survey data (Armenia, Georgia, Kazakhstan, and the Kyrgyz Republic), unemployment rates remained high at 7%–14%. In three of the four countries (not Georgia), unemployment rates were higher among women than men (Figure 10.4). In part, this reflects the gendered nature of employment during the Soviet period, with women concentrated in the government sector, particularly health and education, both of which suffered large job losses.

Table 10.4 Unemployment as a Share of the Labor Force (both sexes), 1995–2005 (%)

	1995	2000	2005
Armenia	6.7	11.7	8.2
Azerbaijan	0.8	1.2	1.4
Georgia	N/A	10.8	13.8
Kazakhstan	10.4	8.1	6.6
Kyrgyz Republic	N/A	12.5	8.1
Tajikistan	2.0	2.7	2.0
Uzbekistan	0.4	0.4	0.3

Note: Data for Turkmenistan are not available.
Source: Table 10, ILO (2010).

Figure 10.4 Unemployed as a Share of the Labor Force, by Sex, 1995–2005 (%)



Source: Table 10, ILO (2010).

Historically, labor force participation rates for women in the countries of Central Asia and the South Caucasus were very high, especially in comparison with other Asian societies (Chapter 4). The Soviet system provided for free child care at most enterprises and an extensive network of subsidized kindergartens. Women were expected to work and gender differentials were relatively narrow. Over time, labor force participation rates among both men and women have fallen, but the decline has been sharper for women, with the result that there are significant differences between men and women in all countries, with male labor force participation rates 10%–20% higher (Table 10.5).

Table 10.5 Projected Labor Force Participation Rates, 2010

	15–64 years		65 years and over	
Economy	Male	Female	Male	Female
Armenia	82.8	69.2	15.6	8.5
Azerbaijan	71.2	65.1	10.8	9.4
Georgia	78.0	59.4	50.9	37.7
Kazakhstan	80.7	73.3	13.9	9.7
Kyrgyz Republic	83.3	59.2	18.8	7.1
Tajikistan	81.6	60.6	15.9	5.8
Turkmenistan	77.6	66.9	8.2	5.0
Uzbekistan	74.5	62.4	18.9	10.9

Source: ILO (2009).

The ILO (2009) projected that in 2010, labor force participation rates for men aged 15–64 varied from a low of 71% in Azerbaijan to a high of 83% in the Kyrgyz Republic, while for women of the same age group they ranged from 59% in the Kyrgyz Republic to 73% in neighboring Kazakhstan. Interestingly, participation rates remained relatively high among both men and women aged 65 and over, especially in Georgia (51% of men and 38% of women).

Trends in Pension Provision, 1990s to 2000s

As well as increasing the demands on the social protection system through rising poverty, the economic restructuring of the 1990s also had significant consequences for pension systems, as now discussed.

Declining Coverage and Shrinking Contribution Base

From near-universal pension coverage during the Soviet period, the economic restructuring of the 1990s caused a dramatic decline in both the number of contributors and the level of contributions collected. Combined together, Tables 4 and 5 above have highlighted the drop in labor force participation rates and the rise in unemployment, and both these trends reduced the number of contributors. These falls have been exacerbated by significant out-migration of younger workers in some countries, further reducing the domestic labor force.

The change in the structure of employment, with a move away from large state enterprises to small private firms, as well as increasing levels of self-employment and employment in the informal sector, has been accompanied by widespread tax evasion (IMF 2001; World Bank 2001), affecting both contributors and contributions. Although the majority of Central Asian states still have relatively youthful populations, because of historically high fertility rates, pension system dependency rates are relatively high, reflecting the low proportion of the working-age population currently contributing to the state pension fund.

Table 10.6 shows the share of the working-age population who are active contributors to the state pension system along with the share of the population above the legal retirement age who are receiving a pension. Even by the mid-1990s coverage had fallen sharply, with rates of just 42% in the Kyrgyz Republic, 44% in Kazakhstan, and 49% in Armenia. Only in Georgia was coverage of the working-age population reasonably high (72%). By the middle of the last decade, coverage had fallen even further to under a quarter of the working-age population in Armenia, Azerbaijan, and Georgia and under a third in the Kyrgyz Republic. However, coverage rates improved between the mid-1900s and 2000s in Kazakhstan (the reasons are discussed in *Case Studies* below).

Table 10.6 Active Contributors and Older People Receiving State Pensions, mid-1990s to mid-2000s

	% Working-Age Population who are Active Contributors				% of Pop above Legal Retirement Age Receiving a Pension	
Economy	Year		Year		Year	
Armenia	1995	49.4	2004	24.5	2006	93.1
Azerbaijan	1996	46.0	2003	23.0	2003	97.9
Georgia	1996	72.0	2004	22.7		
Kazakhstan	1997	44.0	2003	61.8	2004	76.0
Kyrgyz Republic	1997	42.0	2006	28.9	2005	100.0
Tajikistan					2004	89.6
Uzbekistan	1995	15.0			2005	100.0

Note: Blank cells denote lack of available data.

Source: Data for 1990s from Table 4.15 Palacios and Pallarès-Miralles (2000); data for mid-2000s from Table 21 ILO (2010).

Despite a contraction in the contributory base, the proportion of the population over the legal retirement age receiving a pension remained high. In the mid-2000s, over 9 in 10 potentially eligible older people were receiving a state pension in Armenia and Azerbaijan and 100% in the Kyrgyz Republic and Uzbekistan. Only in Kazakhstan were old-age benefit recipient rates relatively low (76%) and even there they were high relative to other countries in Asia.

Falling Public Pension Expenditure

During the first years of independence, with increasing numbers of beneficiaries and falling contributors, the system dependency ratios in the region reached very high levels by international standards. To cope with the increasing financial pressure, countries introduced steps to contain the rise in spending in a number of different ways. Georgia was one of the first countries to raise the statutory retirement age, introducing legislation in 1995. The Kyrgyz Republic's government introduced measures to lower the number of special privileges to try and reduce early retirement. In Kazakhstan and elsewhere, pension benefits were not uprated in line with prices. Incomplete indexation led to a fall in the real value of benefits, keeping the growth rate of average pensions below the rate of growth in nominal GDP. Finally, growth in pension expenditure was constrained by the accumulation of significant arrears.

In the mid-1990s, as shown in Table 10.7, spending on public pensions as a share of GDP ranged from just 1.7% in Georgia in 1996 (reflecting in part the rise in retirement age which came into effect the year before) to 6.4% in the Kyrgyz Republic. These levels are significantly lower than those seen in parts of Central and Eastern Europe during the same time period, where spending on public pensions reached 14.4% of GDP in Poland in 1995, 13.6% in Slovenia, and 10.2% in Latvia, primarily as a result of governments trying to maintain replacement rates (Palacios and Pallarès-Miralles 2000).

Table 10.7 Public Pension Spending as a Share of Gross Domestic Product, Mid-1990s to Mid-2000s (%)

Economy	Year	% of GDP	Year	% of GDP
Armenia	1996	3.1	2004	2.4
Azerbaijan	1996	2.5	2003	2.7
Georgia	1996	1.7		
Kazakhstan	1997	5.0	2004	2.9
Kyrgyz Republic	1997	6.4	2005	4.8
Tajikistan	1996	3.0		
Turkmenistan	1996	2.3		
Uzbekistan	1995	5.3	2005	6.2

Note: Blank cells denote lack of available data.

Sources: Data for 1990s from Table 4.16 Palacios and Pallarès-Miralles (2000); data for mid-2000s from Table 26 ILO (2010).

The reforms introduced since the mid-1990s have acted to further constrain public spending. In 2004/05, public pension spending as a share of GDP had actually fallen even further in Armenia, Kazakhstan, and the Kyrgyz Republic, while in Uzbekistan, where reform was slow, spending rose to account for 6.2% of GDP.

Rising Contribution Rates

One response to high system dependency ratios was to increase contribution rates. In the initial stages, the cost was largely borne by employers, with employee contributions remaining low or nonexistent. By the mid-1990s, employer contributions were around a third of the gross wage bill in Armenia, Georgia, and the Kyrgyz Republic (Table 10.8). In the countries where pension reform was most advanced, employer and employee contributions rebalanced somewhat. In the Kyrgyz Republic, employee contributions increased to 8%, while Kazakhstan went further and abolished employer contributions altogether—relying on a 10% employee contribution to an individually based fund (see below).

Table 10.8 Pension Contribution Rates as a Share of Gross Wage, Mid-1990s to Mid-2000s (%)

Economy	Mid-1990s		Mid-2000s	
	Employer	Employee	Employer	Employee
Armenia	35.0	1.0	Flat rate	3.0
Azerbaijan			22.0	3.0
Georgia	37.0	1.0		
Kazakhstan			–	10.0
Kyrgyz Republic	33.0	2.5	21.0	8.0
Turkmenistan			20.0	1.0
Uzbekistan			31.0	2.5

Note: Blank cells denote lack of available data.

Sources: Data for 1990s from Table 4.18 Palacios and Pallarès-Miralles (2000); data for mid-2000s from Table 16 ILO (2010).

Increasing Retirement Ages

Since 1991, all the countries in the region, apart from Uzbekistan, have raised the age at which people are entitled to a public pension and have tightened the circumstances that allow exceptions. Some countries have gone further than others. For example, in Georgia the retirement age has been raised by 5 years to 65 for men and 60 for women and there are no special circumstances allowing early retirement. Moreover, pensioners above retirement age who are in gainful employment must satisfy an earnings test. However, in Azerbaijan, extensive elements of the old Soviet system remain.[74]

After the dissolution of the Soviet Union, most countries withdrew the award of Hero Mother, although there have been campaigns to bring it back in some states. In Kazakhstan, mothers of 10 or more children have, since 1995, been awarded the Altyn Alka (Golden Pendant) and mothers of 8 or 9 children have received the Kumis Alka (Silver Pendant).

[74] An early pension is payable at age 57 for men (52 for women) with at least 25 years work (20 for women), including at least 12.6 years work (10 for women) in unhealthy or arduous conditions. An early pension is provided to mothers who have raised at least three children, or one disabled child from birth to age 8.

In all the countries of the South Caucasus (Armenia, Azerbaijan, and Georgia), the qualifying age for the social pension is several years higher than that for the old-age pension, while in Central Asia there is no distinction in the qualifying age (Table 10.9). The conditions for a social pension vary. In Armenia, social pensions are paid to men and women at age 65 with fewer than 5 years covered employment. In Azerbaijan, the social pension is payable to nonworking citizens who are ineligible for the old-age pension. Although there is a work test, there is no means test, while in Georgia the social pension is paid to an individual "without other means of support," implying that the benefit is means-tested. In contrast, in the Kyrgyz Republic, the social pension is paid to all those ineligible for an old-age pension, and there is no work or income test.

Table 10.9 Qualifying Age for Public Old-Age and Social Pensions, 2008

	Old-age Pension		Social Pension	
Economy	Men	Women	Men	Women
Armenia	63	61.5[a]	65	65
Azerbaijan	62	57	67	62
Georgia	65	60	70	65
Kazakhstan	63	58	63	58
Kyrgyz Republic	63	58	63	58
Tajikistan				
Turkmenistan	62	57	62	57
Uzbekistan	60	55	60	55

[a] Raised to 63 years in 2011.

Note: Blank cells denote lack of available data.

Source: SSA and ISSA (2009).

Declining Replacement Rates and Falling Benefits

Benefit replacement rates were an early casualty of the declining tax base immediately after independence. Limited comparative historical information is available, but as Table 10.10 shows, for those countries where there are data for the mid-1990s, the average values of old-age pensions were around a quarter to a third of the average wage.

Table 10.10 Replacement Rates of Public Pensions in the Mid-1990s
(average pension as a share of average wage)

Economy	Year	Average Replacement Rate (%)
Armenia	1996	24.0
Azerbaijan	1996	29.0
Georgia	1996	36.0
Kazakhstan	1996	31.0

Source: Table 4.19a in Palacios and Pallarès-Miralles (2000).

The level of public pensions is still a matter of concern, with newspaper articles frequently highlighting that pensions on their own do not provide older people with an adequate standard of living. In Azerbaijan, Kazakhstan, and the Kyrgyz Republic, the social pension is below the minimum old-age pension, meaning that the most vulnerable older people are exposed to the risk of poverty (Table 10.11).

Table 10.11 Value of Old-Age and Social Pensions, 2008

Economy	Minimum (or Base) Old-Age Pension	Social Pension	Monthly Minimum Wage
Armenia	6,800 dram	6,800 dram	
Azerbaijan	75 Azerbaijan manats	45 Azerbaijan manats	60 Azerbaijan manats
Georgia	70 lari	70 lari	
Kazakhstan	7,900 tenge		13,183 tenge
Kyrgyz Republic	530 som	200 som	
Tajikistan			
Turkmenistan	550,000 Turkmen manats	550,000 Turkmen manats	
Uzbekistan	50% min wage		18,630 sum

Note: Blank cells denote lack of available data.
Source: SSA and ISSA (2009).

Reforming Pension Systems: Moving from Pay-as-You-Go

Given falling contributions and constrained government expenditure, several countries have reformed the funding basis of their pension system (Box 10.1). The majority of countries continue to provide retirees with some proportion of their former salary per year of contribution. In Georgia and Tajikistan, where pension fund revenues are very low, benefits are the same for the majority of people and show very little diversity by past salary. The Kyrgyz Republic adopted in 1997 a variant of a PAYG system called "notional accounts" in which contributions made by workers are tracked in an individual account with hypothetical interest credits to contributions. At retirement, the balance in this notional account is converted into a pension. However, benefits are still paid out of current contributions and hence the system retains its PAYG element.

At present, only Kazakhstan has moved away from a PAYG funding basis. Workers' contributions are credited to individual savings accounts and invested in a range of financial assets rather than being used to fund current pension obligations. The contributions plus interest earned on each account will be used to provide a pension when the first wave of contributors retires.

Box 10.1 Types of Pension Schemes in Central Asia and the South Caucasus

Conventional pay-as-you-go

Today's contributions fund today's benefits. Pension based on a defined benefit: Armenia (to 2011), Azerbaijan, Georgia, Tajikistan, Turkmenistan, Uzbekistan

Notional accounts

Today's contributions fund today's benefits. Pension based on a defined contribution: Kyrgyz Republic

Fully funded

Individual's contribution fund individual's benefits. Pension based on a defined contribution: Kazakhstan, Armenia (from 2011)

Source: Authors.

Case Studies

All the countries in the region have either undertaken or are planning pension reform. This section uses four case studies to examine the impact of the reforms, drawing out the implications of moving away from the Soviet old-age pension system for the well-being of older people. The four case studies represent differences in both the timing and extent of reforms. The discussion pays particular attention to issues of universality and minimum income guarantee and their effects on people's well-being.

Kazakhstan reformed its system in the mid-1990s, abandoning the old PAYG Soviet system with defined benefits and switching to a fully funded defined-contribution system. The Kyrgyz Republic was an early reformer and less radical than Kazakhstan, adopting notional accounts in 1997. Although in theory the reform looked radical in setting up individual accounts, in practice the reforms were quite modest and a minimum contributory pension still linked to employment remains.

The first wave of reforms in Armenia took place somewhat later, but the country is now adopting a second wave of legislation, with a proposed move to a fully funded model from 2011. In Tajikistan, pension reform is only now being discussed. The system remains largely unchanged except for some minor changes to eligibility for special privileges. Benefits have only been uprated periodically with the result that the real value of benefits has fallen, raising the question of whether the system now provides adequate income security, and bringing to the fore the role of family/community support networks versus the state in maintaining well-being in later life.

Kazakhstan

When Kazakhstan declared independence from the Soviet Union in 1991, with others in the subregion, it saw deteriorating economic conditions that directly affected living conditions for the best part of the 1990s (Becker and Urzhumova 1998). For example, in 1992, consumer price inflation exceeded 3,000% and the country's GDP fell by 11.3% (Seitenova and Becker 2004). Between 1994 and 1997, the pension fund deficit increased from 12% to 53% of GDP, while the rapid increase of unemployment meant that by 1998 there were 83 pensioners and other benefit recipients for every 100 contributors (Seitenova and Becker 2004, Figures 1 and 4).

The declining performance of the pension system led, in June 1997, to the emergency introduction of the Law on Pension Provision in the Republic of Kazakhstan, which transformed the PAYG system to a fully funded, defined-contribution system. All accruals under the old system were frozen, and workers of all ages were moved immediately into a new system of mandatory individual accounts. Retirement ages were raised from their Soviet-era levels, from 60 to 63 for men and from 55 to 58 for women. During a transitional period, a residual PAYG pillar remains, paying benefits to existing pensioners and people with accrued rights under the pre-reform system entering retirement up to around 2038 (40 years from the reform). This is funded through a tax on employers. This was initially set at 15% with the expectation that it would be gradually reduced as existing obligations decreased.

For future pensioners, from 1998, a new mandatory, defined-contribution scheme was introduced, funded through 10% of the employees' wages. During the transition period, retirees will receive benefits from the old PAYG pillar based on the number of years of contributions and also receive benefits from the new funded pillar for the relatively small share of their working career during which they contributed to the new funded scheme.

The transition to a fully funded, defined-contribution pension system aimed to provide social protection to the majority of the working population through a sustainable mechanism, and to facilitate the growth of the capital market through management of pension investments. On the latter, the World Bank, for example, projected that between 2004 and 2025, the country's pension expenditure would increase from 5% to 6% of GDP (Chawla, Betcherman, and Banerji 2007, Figure 4.6).

Up until 2010, the reforms showed some encouraging signs. Unlike other countries in the region (Table 10.6), the share of the working-age population contributing to the state pension scheme increased, from 44% in 1997 to 62%

in 2003. However, the picture for the proportion of older people receiving a benefit was less optimistic. Only three-quarters of the population aged above pension age were receiving a pension in 2004, but the introduction of a "citizen's pension" in 2005 may have boosted this number.

The initial reforms enacted in 1998 included no minimum guarantee or floor for the level of retirement income a worker could expect from their new individual account (unlike Chile, which built into the system return guarantees and minimum annuity levels from the start). In June 2005, however, the country's president signed into law a number of revisions, including provision for a citizen's pension to be provided to all persons reaching retirement age regardless of work history or contributions to the pension system. When introduced, the level of the new basic pension was set at 3,000 tenge ($20.46) per month, equivalent to around 40% of the subsistence minimum, with a target of 75% of the subsistence minimum in the future (Hinz, Zviniene, and Vilamovska 2005), although as of March 2010, the citizen's pension remained at 40% of the subsistence minimum (Seitenova and O'Brien 2010).

Although there is little doubt that the PAYG system was unsustainable before the late 1990s' reforms, the transition to a fully funded defined-contribution system should be regarded with caution, and long-term sustainability remains an issue. In particular, it was far from clear that the 10% contribution rate will yield sufficient funds to buy a pension that will provide an adequate standard of living or maintain replacement rates. According to estimates by the World Bank, additional voluntary contributions and intrafamily transfers will be required to reach the aspiration of a replacement rate of 60% of prior earnings, the government's initial target with the reforms (Andrews 2001).

The move from a defined-benefit to a defined contribution system means that workers with interrupted employment histories or low lifetime earnings, many of whom are women, risk facing vulnerability in later life because the insurance element of the pension system has been removed. In addition, the 5-year gap in retirement ages can further exacerbate women's disadvantageous position well into later life. Although the new citizens pension introduced in 2005 should provide a safety net, its adequacy is at issue and people with an entitlement to a low defined-contribution pension risk finding themselves excluded—the so-called private pensions trap.

Ultimately, pension returns will be determined by the rate of return to pension assets, and the new pension system in theory allows for additional voluntary contributions on top of basic pension protection. The implications for gender inequity should not be underestimated.

The Kyrgyz Republic

Following independence, the Kyrgyz Republic experienced similar budgetary problems to its neighboring states. Discussions on reforming the pension system began in 1994. In 1996 and 1997, the government adopted two major laws reforming the pension system, raising the retirement age and introducing notional accounts, while maintaining a minimum contributory pension.

Under the new system, the individual pension is divided into two parts: a base pension and an insured pension. The base pension is a flat-rate benefit paid to all retirees with complete contribution histories (25 years for men, 20 years for women), with the level guaranteed and set by the government. The insured pension is paid on top of the base pension and in theory is calculated as the amount accumulated in the individual's notional account multiplied by an actuarial coefficient. This coefficient is set annually by the government and reflects the age of retirement and average life expectancy at that age. Notional accounts, however, require individual record keeping, a system that presents administrative challenges. Before the introduction of individual records of financial contributions, the insured part of the pension was calculated as 1% times the number of years of service multiplied by the monthly wage, with a cap of 15 times the minimum wage. Such a change represents a shift toward a more individualized calculation of pensions.

The reforms have had limited success in reducing the pension fund deficit. Unlike in Kazakhstan, in 2004 the contribution rate to the state pension fund was 29%, with 21% paid by the employer (3% to the base and 18% to the notional account) and 8% by the employee (3% and 5%, similarly) (Becker, Seitenova, and Urzhumova 2005). The high burden on employers has exacerbated already pervasive tax evasion, and as a result coverage has fallen. In 1997, 42% of the working-age population were estimated to be contributing; by 2006, this had fallen to just 29% (Table 10.6).

The first pillar which guaranteed a contributory minimum pension is supported by a "zero pillar" social pension. Together these mean that, according to the ILO estimates in Table 10.6, all older people are receiving a pension—either an old-age or a social pension. This finding is supported by the authors' own recent analysis of the 2008 Kyrgyz Republic Household Budget Survey (Table 10.12). Three-quarters of all Kyrgyz households do not contain a person over retirement age, yet nearly a quarter of such households report receiving income from an old-age pension—reflecting the continuing persistence of early retirement of some categories of workers. All households containing a person of normal pension age report receiving income from a pension, and the average income from this source rises according to the number of pensioners. Overall, the average per capita pension per household with a pensioner was 16,597 som ($356.71) per year. In 2008, the $2.15 PPP was equivalent to 1,036 som

Table 10.12 Share of Households with Persons of Normal Pension Age Receiving a Pension, and Average Monthly Pension, Kyrgyz Republic, 2008 (%)

Households with	% of Total Households	% Receiving a Pension	Average Amount of Pension (som/month)
No pensioner	75.0	23.0	11,713
1 pensioner	18.7	100.0	16,945
2 pensioners	5.3	100.0	30,603
3 pensioners	0.0	100.0	54,989
Total	100		

Note: Total number of households = 4,995; per capita average pension per household with a pensioner = 16,597 som.
Source: Authors' own analysis of the Kyrgyz Republic Household Budget Survey, 2008.

($22.45) a month or 12,604 som ($273.17) a year. Thus, the average pension in 2008 was just sufficient to lift an older person out of poverty.

Armenia

Armenia has been slower to implement reform than its two Central Asian counterparts. Although it has increased the pension age to 63, the system remains PAYG funded, with the pension formula based on length of service but not salary levels. Benefits have been adjusted ad hoc according to available resources. Recognizing their low value, the government increased all pensions by 60% on 1 January 2008 and introduced an annual schedule of increases such that the average pension would reach the level of the minimum consumption basket by 2012 (USAID 2009).

As elsewhere, the pension system was under pressure from a declining revenue base. According to ILO estimates, in 1995 just under half (49%) the working-age population was contributing to the pension scheme. By 2004, this had fallen to under a quarter (24.5%) (Table 10.6).

Research carried out by the government with the United States Agency for International Development estimated in 2009 that only 32% of the economically active population makes social contributions (USAID 2009). Three groups are excluded. First, workers in agriculture, which accounts for around half the economically active population, are not required by law to contribute to the social security system. Hence, many workers are no longer accruing service, and an increasing number will receive only a social pension. Second is a growing informal sector whose workers are not covered, reflecting a policy challenge with wide gender dimensions (Chapter 4). Third, migrant workers are not accruing service: an estimated one-fifth of all Armenian households have at least one member involved in migrant labor (USAID 2009).

This low contribution rate presents a challenge both for the current pension system's revenues and the retirement welfare of these workers.

The government recognizes that the current pension system is unsustainable and has legislated reforms to switch to a fully-funded model from 2014. Those with at least 10 years of social tax payments as of 2009 will be able to access the first pillar of the employment pension, comprising two parts: a flat-rate basic (or minimum) pension, and an additional element reflecting years of contributions prior to the reform.

The employment pension will be financed by a 26% contribution, split between employer and employee.

The second pillar will consist of individual funded pension accounts, financed by a 10% contribution (5% worker and 5% state, up to a ceiling after which the contribution from workers is tapered, so that high-income workers pay the full 10%). A zero pillar social pension for those without 10 years of social tax payments will be set at 80% of the basic pension. Thus, the system will contain elements of the Kazakh and Kyrgyz reforms, and combine PAYG and funded elements as well as a social safety net.

What are the implications for older people? The ILO estimates that 93% of current older people in Armenia were receiving a pension in the mid-1990s. These estimates are confirmed by our analysis of the 2008 Armenia Integrated Survey of Living Standards (Table 10.13). Overall, the average per capita pension per household with a pensioner was 26,212 dram ($70.37) per month in 2008. The same year, the $2.15 (PPP) international severe poverty line was equivalent to 12,250 dram ($32.89) a month. Thus, the average pension was just sufficient to lift an older person out of severe poverty. The minimum social pension, set at 6,800 dram ($18.26) per month in 2008, was not.

Table 10.13 Share of Households With Persons of Normal Pension Age Receiving a Pension, and Average Monthly Pension, Armenia, 2008 (%)

Households with	% of Total Households	% Receiving a Pension	Average Amount of Pension (dram/ month)
No pensioner	61.0	20.8	21,204.0
1 pensioner	27.9	97.5	26,734.8
2 pensioners	11.0	99.2	49,612.5
3 pensioners	0.1	100.0	70,310.5
Total	100.0		

Note: The total number of households was 7,872.

Source: Authors' own analysis of Armenia Integrated Survey of Living Standards 2008.

The reforms may have the effect of reducing the fiscal burden and improving the sustainability of the system. They will not, however, affect the significant proportion of the population who are excluded from making social contributions, such as agricultural and informal workers, who will be increasingly reliant on the social pension. Thus, the value at which this is paid will be critical in ensuring their welfare. Furthermore, strengthening the link between work history and pensions could have an adverse gender effect.

Finally, participants in focus group discussions carried out as part of the reforms' preparations (Dallakyan, Hakobyan, and Danielian 2008) showed little understanding of how the current system operates, and most were unaware of the upcoming reforms. They had mixed views on the underlying reasons for expanding jobs without formal labor contracts. Employers thought that people did not want to work in the formal sector in order to have higher take-home pay, while employees believed that employers did not want to give them contracts in order to avoid paying pension contributions.

Some people voiced concerns against individual accounts because many people had lost their savings after the collapse of the Soviet Union. People also questioned whether the government had the financial aptitude necessary to administer pension savings efficiently, and the participants identified their own lack of trust in the government as a major barrier to implementing the reforms efficiently (Dallakyan, Hakobyan, and Danielian 2008).

Tajikistan: Public versus Private Transfers

Between independence and 2010, although the social protection system has come under increasing fiscal pressure, entitlement to a social insurance old-age pension remains largely unchanged,[75] and depends on average earnings over a specified number of years and length of service. In 2004, men with a full employment record of 25 years and women with 20 years are entitled to receive a full pension, equivalent to 55% of average earnings over the 2 years before retirement, or of the average of any continuous period of 5 years during working life (Gassmann 2004). There has been a gradual increase in the age at which older people can draw their pension, and from July 2001 this was raised to 63 for men and 58 for women, up from 60 and 55 respectively during the Soviet period.

Entitlement is however only half of the story, with indexation and the value of benefits the other. The law requires pensions to be regularly adjusted to overall price increases, but in practice, such adjustments have been rarely made due to limited funds. The value of social insurance pensions has therefore fallen

[75] Since 2009, there has been some rationalization of the number of exceptions and special categories for pensions.

Table 10.14 Share of Older People Living in a Household Receiving Support from Various Sources and Average Amount Among Those who Receive It, Tajikistan, 2007 (%)

	% of People of Pension Age	Mean Monthly Amount, among Those who Receive It (households with pensioners only) (somoni)
Public transfers		
Old age pension	84.9	56.0
Disability pension	14.8	25.6
Survivor pension	1.1	17.2
Private transfers		
Money from family in Tajikistan	7.5	165.1
Money from family abroad	5.1	160.5
Money from nongovernment organization, churches	1.4	291.8
Remittances		
Money from household members abroad	21.1	783.1

Note: Total number of observations = 1,901.

Source: Falkingham et al. (forthcoming) analysis of Tajikistan Living Standards Survey 2007.

considerably, leaving many older people dependent on other benefits or on private transfers from relatives, neighbors, and community groups.

Two main points stand out in Table 10.14. First, the majority (85%) of older people are receiving an old-age pension, but its average value is just 56 somoni (equivalent to around $30 PPP a month). On its own, this would be insufficient to provide for a subsistence standard of living. Second, around a fifth of pensioners live in households receiving remittances from household members living abroad, and around one in ten receive money from other family members living in Tajikistan or abroad. Although a minority of older people receive private transfers and remittances, where they do, these can make a significant difference to household income as the average value of remittances from household members abroad is 783 somoni (around $420 PPP) per month.

Since the mid-1990s, labor migration has grown rapidly. In 2003, 26% of all households had at least one household member working abroad, the vast majority men in the Russian Federation (Olimova and Bosc 2003). In the mid-2000s, Tajikistan was thought to have one of the highest rates of per capita labor emigration in the world (Erlich 2006). As the World Bank estimated in 2005, remittances are therefore an important part of the social safety net in Tajikistan (World Bank 2005). Mughal (2007) estimates that remittances sent by absent international migrants represented over a quarter of Tajikistan's GDP

Table 10.15 Share of Pensioners Living in Income Poverty (poverty line 39 somoni, theta = 0.75), Before and After Transfers, Tajikistan, 2007 (%)

Households with	A (before all transfers)	B (A + remittances)	C (B + private transfers)	D (C + public transfers)
Lone pensioner	67.5	60.5	53.9	34.2
Two-person pensioner household	68.7	63.9	52.5	43.7
Pensioner + working-age adult	68.8	57.6	48.7	43.5
Pensioner + 2 or more WAA	46.9	35.7	31.5	26.6
Pensioner + WAA + 1–2 children	51.5	41.3	40.8	35.9
Pensioner + WAA + 3-4 children	56.4	48.7	48.1	43.5
Pensioner + WAA + 5+ children	52.4	38.7	38.1	35.7
Pensioner + children	83.6	35.3	32.7	26.4
All individuals (whole pop)	55.6	44.1	42.5	37.3

WAA = working-age adult.

Source: Falkingham et al. (forthcoming). Analysis of Tajikistan Living Standards Survey 2007.

in 2004, and more recent data suggest a figure of half of GDP in 2008 (Ratha, Mohapatra, and Silwal 2010), the highest rate in the world.

Falkingham et al. (forthcoming) have explored the relative role of public and private transfers in keeping older people out of poverty in Tajikistan. Table 10.15 distinguishes between older people living in different household types. Strikingly, before transfers 83.6% of households with pensioners and children but no working-age adult would be poor (Column A). Over two-thirds of lone pensioners and pensioner couple households would be living in income poverty compared with just over a half of the population in general.

Column B shows the impact on poverty rates of receiving remittances. There is a significant drop in poverty for all groups, with the reduction being greatest for households containing pensioners and children only, and least marked for households of lone pensioners and of pensioner couples. This serves to highlight the fact that remittances from household members working abroad tend to flow to households containing the migrants' children; if grandparents are co-resident with these children they also benefit, but if they live in a separate household (alone or in a couple only) they are less likely to benefit.

Column C illustrates the impact of other private transfers. Again, poverty rates fall for all groups. Here however, it is the lone and couple pensioner households who benefit most, with a 7–11-percentage-point reduction in poverty rates. Column D shows the impact of public transfers, and this is most marked for lone pensioners.

The magnitude of the reduction in headcount poverty rate is summarized in Table 10.16. In virtually all cases, receipt of private transfers—especially remittances—leads to a greater reduction in poverty than that from receipt of public transfers, reflecting the lower average value of the latter. For lone pensioners and couple pensioners, however, it is the combination of both public and private transfers that results in marked falls in poverty, highlighting the fact that many of these households rely on both types of transfers, and the loss of one or the other would tip pensioners back into poverty.

Table 10.16 Absolute Change in Poverty Rate of Older People after Receipt of Transfers, Tajikistan, 2007 (%)

	B–A After Remittances	C–B After Private Transfers	D–C After Public Transfers
Lone pensioner	–7.0	–6.6	–19.7
Two-person pensioner household	–4.8	–11.4	–8.8
Pensioner + working-age adult	–11.2	–8.9	–5.2
Pensioner + 2 or more WAA	–11.2	–4.2	–4.9
Pensioner + WAA + 1–2 children	–10.2	–0.5	–4.9
Pensioner + WAA + 3–4 children	–7.7	–0.6	–4.6
Pensioner + WAA + 5+ children	–13.7	–0.6	–2.4
Pensioner + children	–48.3	–2.6	–6.3
All individuals (whole pop.)	–11.5	–1.6	–5.2

WAA = working-age adult.

Source: Falkingham et al. (forthcoming). Analysis of Tajikistan Living Standards Survey 2007.

Policy Implications and Conclusions

Since 1991, the system of social protection for older people in the countries of Central Asia and the South Caucasus has been transformed in all countries. Even with no reform of the pension system, the change in the real value of benefits has meant that the system has moved from one where replacement rates were high and the standard of living in old age was guaranteed, to one where many older people are living on or below the subsistence minimum.

Key trends in the last 2 decades include:

- declining coverage and a shrinking contribution base,
- falling public pension expenditure,
- rising contribution rates,
- increasing retirement ages,

- declining replacement rates and falling benefit rates, and
- a move away from defined-benefit PAYG systems to defined-contribution systems.

The reduction in coverage, as some groups such as agricultural and informal workers are excluded from the formal pension system as a result of high associated payroll taxes, marks a move from the universal principles of the Soviet system. Accompanying this is the risk of increasing exclusion in later life, with greater reliance on minimum pensions and targeted social assistance, or on the family. Remittances now form a growing part of household income in many countries, but their long-term sustainability is questionable (Ratha, Mohapatra, and Silwal 2010).

One of the most pressing concerns for the future remains the issue of adequacy for current and future pensioners. In contrast to many countries in developing countries with similar levels of per capita GDP, most countries in this region have a zero pillar social pension, and the first pillar often also incorporates a base or minimum pension. The critical question is the ***level*** at which these are set. The analysis shows that for those who qualify for a contributory pension, the average level of benefits is just above the subsistence minimum. For those on a social pension, however, benefits are insufficient to lift them above this level. Thus, although there are well-developed social protection systems, it is important not to be complacent.

Rather, the analysis suggests that more research is needed—both to understand the reasons behind the widening coverage gap in this region (at a time when coverage is expanding elsewhere) and to assess the role played by social pensions and how they interact with the contributory system. Unlike elsewhere in Asia, the need for social pensions in this region has grown out of the contraction of the formal contributory system. Many people have accrued contributions, but whether these will be sufficient to provide an adequate income in old age is questionable.

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Chapter 11

Social Transfers for Older Persons: Implications for Policy, Practice, and Research

Babken Babajanian[76]

Introduction

This volume has brought together evidence on the origin, relevance, and effectiveness of noncontributory social transfers for older persons—social pensions—in Asia. Social pensions are a relatively new instrument and have received little attention in the policy literature. Despite their growing recognition, as Barrientos (2009) suggests, there are large gaps in our knowledge about the incidence and impact of these schemes, as well as their institutional and contextual replicability. More specifically, for Asian countries, descriptive information about their impacts, institutional design, and delivery has become available in the past 3 years; however, it has not been sufficiently analyzed and adequately framed to inform development policy and practice. It is not clear what institutional arrangements work best and under what circumstances.

This chapter highlights some of the important findings of the contributions to this volume and discusses their implications for development policy, practice, and research. The evidence gathered through the contributions in this volume indicates that social pensions have been useful for improving older people's well-being. At the same time, there are knowledge gaps and questions that need to be addressed through future research to inform the design and implementation of social pensions.

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Establishing Social Entitlements for Older Persons

Broadly, social protection in most low- and middle-income countries in Asia can be described as dualistic. In de Haan's categorization (2007, 104–105), the "dualism" of social protection is manifested in the strong bias for urban areas and the formal sector. The main formal insurance or contributory schemes cover employees in larger enterprises in the public and private sectors, which are often concentrated in urban centers. As a result, the existing contributory schemes provide income support to only a small segment of the population, leaving out the majority employed in the informal sector.

All the chapters in this volume note the limited coverage of the existing contributory pension schemes in the region. As Hagemejer and Schmitt suggest, effective coverage rates in Asia vary roughly between 20% and 40% of the working-age population. The picture is even more worrying at a disaggregated level: contributory pensions cover only 10% of the working-age population in Indonesia and Viet Nam, and 15% in the People's Republic of China (PRC), the Philippines, and Thailand (Park 2010). The inadequacy of the existing social protection systems in the region heightens the vulnerability of older women especially. As Vlachantoni and Falkingham note (Chapter 4), women generally live longer than men and are more likely to experience widowhood in later life. As the majority of women in Asia tend to work in the informal labor market, or perform unpaid domestic and caring work, they are less likely to be eligible for formal pensions and to have adequate resources to finance old-age needs.

The majority of older persons not covered by contributory pensions are almost entirely reliant on the support of their family and social networks for their livelihood. There are indications that the existing family and informal support mechanisms might be changing in the face of urbanization, industrialization, and sociocultural changes in the region (Park 2010). As the younger cohorts migrate and leave their families in search of better livelihood opportunities, older persons are often left without regular care. Giang and Wesumperuma (Chapter 7) state that the proportion of older people living with children in Viet Nam decreased from 80% in 1992 to 63% in 2008, while the proportion of older people living alone, and living only with grandchildren, rose. They assert, however, that these changes in living arrangements have not resulted in the weakening of familial support (such as through remittances).

Vlachantoni and Falkingham (Chapter 4) maintain that Asia has the lowest incidence of older people living alone and that the majority of older people live with their families. This suggests that the family still acts as the main provider of social support for older people in the region. More research is necessary to establish the specific nature and patterns of change in intergenerational coresidence and family support structures in various country contexts.

Meanwhile, demographic and social trends affecting families in Asia clearly expose the vulnerability of older people who rely on informal relationships for social protection.

In recent years, there have been a number of innovative initiatives aimed at expanding the existing social protection schemes in Asia. Many countries in the region, including the PRC, India, Indonesia, and Viet Nam, have developed programs to extend contributory pensions to the informal sector. The International Labour Organization (ILO) has estimated that contributory insurance schemes can be effectively extended to up to 10% of uncovered individuals in developing countries (van Ginneken 2000). Contributory schemes will not, however, be sufficient to provide social protection to the majority of older persons. This is due to the inability of most poor individuals to pay adequate pension contributions as well as the difficulty in designing and administering schemes for informal sector workers (Holzmann, Robalino, and Takayama 2009). In addition, contributory schemes mostly benefit individuals who contribute toward insurance throughout their working life, and only provide low retirement annuities to the large number of people who are well into middle age when the scheme is initiated.

To bridge the coverage gap and extend pension protection to those outside the contributory system, many governments in Latin America and Africa, as well as Asia, have introduced noncontributory social pension schemes. Some of the most prominent and innovative social pension schemes are in Asia. Most of them are specifically targeted at older people in poverty (Bangladesh, India, and Viet Nam). A few are universal and provide benefits to persons who have reached a certain age threshold regardless of income (Nepal and Thailand). The social pension schemes in Asia have enormous significance for two reasons. First, they provide income security to millions of older persons, and help reduce poverty and vulnerability to social risk. Second, they represent a "state–society contract" that recognizes the needs of older people, establishes their social entitlements, and institutes administrative and financial arrangements for offering them societal support.

All the social pension programs discussed in this volume have country-wide coverage and do not limit their benefits to select geographic areas within country. In particular, the Old-Age Allowance in Thailand offers universal benefits to all individuals aged 60 years and above, and the Senior Citizens' Allowance in Nepal covers all individuals aged 70 years and above, as well as minority Dalits and residents of the remote and poor Karnali region aged 60 and above. In Viet Nam, the Social Pensions Programme has a universal component, covering all individuals aged 80 years and above, and a poverty-targeted component to support poor individuals 60–79 years. The Old Age Allowance in Bangladesh is targeted at poor older persons and covers women aged 62 and above and men aged 65 and above. In other words, all four programs, including the poverty-targeted programs in Bangladesh and Viet Nam, offer assistance to the eligible population of the entire country.

National programs represent an important step in developing consolidated national social protection systems. The existing social protection systems in many countries in the region have historically been fragmented, both institutionally and spatially. This implies that various programs administered by different agencies support multiple groups of individuals, often within the same social demographic category in various geographic locations. For example, the government in Bangladesh administers more than 70 different programs supporting various population groups in different parts of the country. Fragmentation of social protection generally translates into administrative inefficiency and inadequate coordination between various agencies and programs. It often results in disparities in the types and levels of benefits and population welfare outcomes. The introduction of national schemes is thus important for strengthening the institutional framework for delivering social protection and ensuring more equitable and coherent support to vulnerable persons.

The extent of inclusiveness of social pension programs has immediate repercussions for achieving broad-based poverty reduction among older persons. Current programs allow varying degrees of inclusiveness depending on how the formal eligibility age has been set in relation to the life expectancy of the beneficiary population. In Thailand, the system is generally inclusive as the eligibility age is 60 and above, while life expectancy at birth is 71 for men and 76 for women. In Nepal, with its varying eligibility ages, the system is fairly inclusive, considering that the average life expectancy of the "upper" caste groups is 61 and that of the "low" caste Dalits is 51 (World Bank/DFID 2006). The Old Age Allowance in Bangladesh has been set at 62 years for women and 65 years for men. It is more open to women as female life expectancy (71 years) is higher than that of men (67 years). The eligibility age of 80 years under the universal component of the Social Pensions Programme in Viet Nam is significantly higher than the life expectancy rates of 69 for men and 74 for women. The poverty-targeted component of the program is more inclusive as it has been set at 60 and above.

Reducing Poverty and Vulnerability

The case studies in this volume demonstrate that social pensions contribute significantly to basic needs expenditures of older persons, including the cost of food, health care, and expenses associated with social and ceremonial activities. Focus group discussions conducted for this volume in Thailand indicate that the allowance was spent on food, medicine, and clothing. The respondents reported that it helped them make donations for religious festivities, marriages, and funerals. More than two-thirds of respondents reported that the allowance was their main source of income.

In Viet Nam, focus group discussions conducted for this volume revealed that beneficiaries spent their pension on food, health care, and medicine. The cost of health care is especially burdensome for older people in that country, even though the proportion of older persons with free social health insurance has increased since 2004. Social pensions were used by respondents to complement the health insurance and cover some of the out-of-pocket expenses for health treatment and medicine. Small-scale surveys and qualitative studies in Bangladesh show that the allowance was spent on food and health services. The allowance increased health care utilization, especially among women. The receipt of the allowance was associated with beneficiaries' improved well-being and self-esteem. Results of small-scale surveys and focus group discussions in Nepal indicate that poor beneficiaries spent their allowance on basic necessities, including food, travel to health facilities, medicine, clothing, and religious activities.

There are indications that social pensions were used for investments in small-scale productive activities. In particular, some respondents in Bangladesh and Thailand used their pensions for acquisition of productive assets, such as farm animals and poultry. In Nepal, the allowance enabled some recipients to buy seeds for small-scale farming.

The benefit size of social pensions in these four countries is not large enough to meet all the basic needs of the recipients. Social pensions alone are insufficient to enable older persons to meet all their immediate needs. In Bangladesh, the monthly allowance of Tk300 ($3.60) is one-fifth of the country's poverty line. In Thailand, the value of the benefit is B500 per month, less than one-third of the poverty line of B1,586 ($51) per month per person. In Viet Nam, the monthly benefit of D180,000 ($9.50) constitutes only 60% of the national minimum living standard. The monthly benefit of NRs500 ($6) in Nepal is less than half of the monthy individual subsistence minimum of NRs1,200 ($14). Despite the positive contribution of social pensions to people's livelihoods, most poor older people must undoubtedly continue to rely on support from their households and communities. And as evidence from Viet Nam suggests, many older people are often compelled to work in agriculture to supplement their pensions.

There is a need to strengthen the empirical knowledge base on the impacts of social pensions. To date, there have not been any large-scale rigorous impact evaluations of social pension schemes in Asia. The existing information about the impacts of social pensions is based on small-scale surveys and qualitative assessments. Rigorous impact evaluations can help reveal generalizable impacts on consumption and livelihoods outcomes and help establish credible attribution.

Supporting Other Household Members

Social pensions are thought to be shared by older persons with other members in their households and hence can be used as a policy tool for supporting poor households, particularly those with children.[77] There is some evidence about the usage of social pensions for supporting other members of pensioners' households in various countries. Samson (Chapter 9) asserts that old-age pensions in Brazil, Namibia, and South Africa tend to increase school enrollment, especially for girls. There is a strong theoretical case for intra-household sharing in Asia considering the existing cultural and social norms that prescribe older persons to support their families. For example, Begum and Wesumperuma (Chapter 8) suggest that most beneficiaries of the Old Age Allowance in Bangladesh have dependents and have obligations for supporting more than two household members. Vlachantoni and Falkingham (Chapter 4) argue that economic migration in Asia often places critical importance on grandparents, especially women, in the care of grandchildren left behind by their parents.

The contributors to this volume suggest that social pensions indeed support not only older persons but also other members of their households. Studies in Bangladesh show that some beneficiaries spent part of their allowance on their grandchildren's education expenses. Similarly, some respondents in Thailand reported buying candies or snacks for their grandchildren, whose parents separated or who were left behind by migrating parents. In Viet Nam, some participants of focus groups reported that they occasionally bought food, medicine, or gifts for their children or grandchildren. The allowance in Nepal was used for paying education expenses of children and supporting the basic needs expenditures of poor households. Yet, the social pension transfers in all of the case studies were too low to offer substantial support to other household members. More research is necessary to allow definitive inferences about the nature and magnitude of social pensions' contribution to household well-being in different country contexts in Asia.

In order to understand the actual impact of transfers on individual well-being of older persons, it is important to identify how the provision of social pensions affects intra-household income redistribution. In situations when there is a substantial redistribution from older people to their households, the question is whether social pensions reduce older persons' vulnerability, or whether they become an instrument for supporting older persons' households. Another issue is how the receipt of social pension transfers affects family support for older persons. In particular, as the value of the transfer is limited, older persons continue to be reliant on other household members to sustain their livelihoods. One hypothesis that needs to be tested is whether social transfers may result in a reduction and crowding out of family support, in which case they would

[77] See for example HelpAge International (2004, 2006, 2007).

have little effect on improving individual well-being of older persons. Generally, intra-household income redistribution is methodologically difficult to measure and currently there is a significant knowledge gap in this area.

One way to generate greater understanding of intra-household welfare dynamics is to explore how the existing cultural and social norms affect decisions about intra-household resource allocation in various settings in Asia. There are significant variations in household arrangements in different countries as well as localities in the region. It is especially important to identify how the changing patterns of intra-generational coresidence and familial relations affect mutual obligations and relations of reciprocity. In addition, one needs to explore the broader social, economic, and political factors that determine individual and household decisions to share resources.

Tackling Social Exclusion

In Nepal, social pensions have an important role in tackling social exclusion. The government is explicitly committed to building an inclusive society, and as part of this agenda has introduced a variety of social protection programs. There are at least five cash transfer programs that support socially excluded individuals by using caste and ethnicity-based as well as geographic targeting (as noted, Dalits and residents of the Karnali zone are entitled to a social pension at 60, rather than 70).

More research is needed to establish the potential of social protection for reducing social exclusion and discrimination. The question is whether the existing social transfers in Nepal can contribute to social inclusion, provided they offer limited protection in terms of the value of the benefits. Another question is whether and in which circumstances social protection can challenge the institutional barriers that generate social exclusion within the formal and informal domains. For instance, according to the findings of the focus groups conducted for this volume, the respondents from “lower” castes felt stigmatized in their interaction with government officials from “upper” castes.

Social exclusion is produced and reproduced by the existing formal and informal institutional norms and practices and it is manifested in various aspects of people’s lives, including access to economic resources and opportunities, public services, social networks, and political rights. Social pensions or other social transfers alone may not be sufficient to uproot social exclusion. The multidimensional nature of social exclusion necessitates the need to link social protection with other policy and sectoral areas and to ensure that economic, social, and political initiatives complement each other. There is also a critical need for further research to establish the potential limits and advantages of social protection in tackling social exclusion.

Poverty-Targeted or Universal Provision?

The debate about poverty-targeted or universal provision is rather polarized and reflects divergent views of different institutional actors. The ILO seeks to promote universal social rights, including the rights of older people to social security. Reflecting that position, Hagemejer and Schmitt (Chapter 5) suggest that basic old-age social protection must be guaranteed to all individuals on a universal basis, as part of the "social protection floor," which represents a package of basic social security guarantees to ensure income security and access to basic health care for all. HelpAge International—a global network of not-for-profit organizations with a mission to support older people—is another advocate of universal social pensions as an instrument for the realization of older people's rights to social security. In addition to the rights-based arguments, there are also economic considerations for the universal provision of social pensions. For instance, based on a micro-simulation analysis, Giang and Wesumperuma (Chapter 7) maintain that providing low benefits to a large number of individuals in Viet Nam would be more effective for reducing the poverty gap and poverty severity for older people than providing higher benefits to a lower number of beneficiaries. Therefore, they suggest that universal eligibility can help achieve greater poverty reduction than the current poverty-targeted entitlement.

The arguments about social rights of older persons are of course important, but there are concerns about the financial affordability of universal social pensions. The practical reality of many low- and middle-income countries often imposes the need to prioritize public spending. Poverty or means-tested targeting arguably allows reaching out to the poorest individuals in a situation where governments experience severe budget constraints and cannot afford to support the entire population of poor and vulnerable. At the same time, as Slater and Farrington (2010) point out, effective targeting requires financial and administrative capacity that can enable government agencies to successfully carry out means tests and monitor program implementation. They argue that decisions about targeting must be based on thorough assessment of whether effective and accountable targeting is feasible to achieve given financial, infrastructure, and human resource constraints in specific country contexts.

Let us now consider some of the challenges and opportunities associated with different targeting approaches and implementation experiences in the country case studies of this volume.

Identifying and Including the Poor

It has generally been recognized that poverty targeting poses a number of technical difficulties, including decisions to determine and justify eligible categories and accurately identify eligible beneficiaries. This is especially pertinent in contexts where large numbers of the population are poor. Ellis (2008) maintains that poverty targeting tends to be socially divisive as a result of the difficulty in identifying and separating a subgroup of poor ("eligible poor") who are considerably different in their material consumption patterns from the rest of the poor population. In this connection, Suwanrada and Wesumperuma (Chapter 6) describe the challenges of the poverty-targeted system in Thailand before the transition to universalism in 2009. Local government officials in Thailand found it extremely difficult to define and identify the "poor" as the share of poor people in the local communities was high. They often applied discretionary rules to determine eligibility, which resulted in a regional variation in targeting processes and outcomes. Further, the selective nature of the targeting system left nearly half the poor older individuals without support and was therefore perceived by the population to be unfair.

Giang and Wesumperuma (Chapter 7) argue that the means-tested approach in Viet Nam does not allow for accurate estimation of poverty and identification of beneficiaries. In particular, the poverty line used in targeting has been set at a low level and results in the exclusion of many poor older persons. Furthermore, the assessment of the poverty status of prospective beneficiaries is often subjective and does not guarantee an accurate distinction between the poor and nonpoor. For example, there is a significant degree of subjectivity in determining whether potential beneficiaries receive family support—a condition that can automatically disqualify the applicant. Determining the health status of individuals requires medical certificates, and older persons may be unable to prove their eligibility in cases where they cannot travel to the appropriate health centers to obtain these certificates.

As Asher points out, exclusion of potential beneficiaries may also result from a low take-up as a consequence of information constraints, fear of social stigma, and anticipatory high transaction costs in accessing the benefits. This also holds true for universal programs, which do not exclude individuals based on their poverty status, but which need to be effectively implemented to allow high take-up rates. Samson (Chapter 9) suggests that the regional variation in the take-up rate in Nepal can be attributed to the extent of information dissemination and awareness of the program. He argues that the take-up rate can be improved through more active information campaigns and enhancement of local capacity to reach out to all prospective beneficiaries. Suwanrada and Wesumperuma (Chapter 6) explain that the take-up rate in Thailand suffers because many eligible persons who live outside the local authority area cannot register to claim their benefits. They also observe that take-up in the better-off areas of the country is lower than in the poorer areas, which indicates that well-to-do individuals are less likely to claim their pensions.

Accountability in Beneficiary Selection

The selective nature of targeting allows a significant scope for favoritism and corruption in settings with poor governance. Thus, relatively well-off individuals who are related to those in the selection committees, social services, or administrative units may be advanced as eligible for social entitlements, while other, poorer individuals may be ignored. Further, eligible poor candidates may be asked to pay a facilitation fee or a gift to be endorsed as beneficiary. Suwanrada and Wesumperuma (Chapter 6) suggest that universalism has reduced the potential for mismanagement and corruption in Thailand. As the universal system does not require selection of a small subset of poor individuals, it leaves little room for unlawful practices. It also makes it administratively easier for local government officials to appoint beneficiaries and ensures that citizens do not suspect or accuse local government officials of corruption and favoritism. As a result, the universal system in Thailand has contributed to the sense of social justice and improved relations between local officials and citizens. Similarly, the universal system in Nepal makes it easier for beneficiaries to claim their entitlements and limits the potential for corruption.

The selective nature of the means-tested Old Age Allowance in Bangladesh allows substantial exclusion and leakages. As Begum and Wesumperuma (Chapter 8) assert, the process of beneficiary selection under the program is perceived by people as unfair and nontransparent. Studies suggest that a quarter of beneficiary respondents either were not poor or did not comply with the age threshold. Many poor older people who met the eligibility criteria were found not to be included in the program. Such leakages occur mostly as a result of the interference of the local authorities, particularly, the *Union Parishad* chairmen, who often dominate local decisions and unilaterally identify beneficiaries.

Achieving Effective and Accountable Targeting

As the sections above argue, poverty targeting can be problematic in contexts with massive poverty and poor governance. Effective targeting design and implementation can be crucial for offsetting the inherent limitations of the targeting approach and generating support of local community members. It is important that the targeting process be held in an accountable and transparent manner. This includes clear and simple criteria and procedures for beneficiary selection. For example, the Old-Age Allowance system in Thailand incorporates mechanisms for ensuring transparency in beneficiary selection. In particular, information about the program is disseminated ahead of registration and the approved lists of beneficiaries are publicly announced. This ensures that local residents can scrutinize the lists and have an opportunity to challenge decisions they disagree with.

One way to reduce the potential for leakage is to specify precise criteria for beneficiary selection. Selection criteria that are not clear, uniform, and easy to understand tend to leave room for mismanagement and interference. For example, the targeting criteria in Bangladesh do not clearly define how many of the specified requirements, such as income, living arrangements, and disability status must apply to beneficiaries. Not only does this make it difficult to determine eligibility, but it also enhances the discretionary power of the *Union Parishad* chairmen.

Community members must be able to monitor program implementation and be able to contest and challenge decisions they regard as unfair and biased. It is important that the process of appeals and grievance redress be held in an open, fair, and accessible manner. Most schemes in this volume have set up grievance mechanisms, which in theory allow beneficiaries to launch complaints. The case study of Viet Nam demonstrates that participation of older people can significantly reduce the incidence of corruption and mismanagement. In particular, the involvement of the grassroots Communal Older People's Association helps local representatives to monitor the targeting process and ensure that beneficiary rights are protected. Similarly, the involvement of the community-based Older People's Groups in monitoring the implementation of the National Old Age Pension Scheme in India helped increase awareness of the program and facilitated the application process (HelpAge International 2009).

Strong government capacity can significantly enhance the effectiveness of poverty targeting. It can allow the design and successful implementation of programs that incorporate institutional mechanisms for grievance redress and appeal, information dissemination, and community outreach. Further, it is crucial that relevant line agencies have the capacity to undertake strict systematic supervision of beneficiary selection as well as regular monitoring and evaluation (M&E) of program implementation. For example, the weak government capacity in Bangladesh results in insufficient supervision and monitoring at the local level, which often allows mismanagement and favoritism in beneficiary selection. Samson (Chapter 9) stresses the importance of management information systems (MISs) as an integrated tool for effective M&E of program implementation. He suggests that governments with weak administrative capacity can introduce "basic" frameworks for MISs and M&E, and gradually scale them up to establish more robust and sophisticated systems. Finally, to generate community participation and beneficiary empowerment, there must be continuous outreach and facilitation by program staff.

Benefit Delivery

The administrative capacity of relevant government agencies can significantly affect the effectiveness of program outreach and benefit delivery. The Department of Social Services of the Ministry of Social Welfare in Bangladesh is overstretched as it manages a number of social safety net programs and is often unable to ensure enough social workers locally. This means that social services are unable to establish effective outreach and personal contact with many beneficiaries who are most often illiterate and rely on the social services for resolving problems and handling grievances. In Viet Nam, the staff of the Ministry of Labour – Invalids and Social Affairs, in charge of the Social Pensions Programme, are underpaid and often have inadequate professional qualifications. This tends to result in weaknesses in the supervision and implementation of the program. In Nepal, the limited capacity of local governments translates into payment delays and irregularities.

The choice of institutional arrangements for benefit payments can also affect beneficiary experiences and program impacts. The use of the existing banking system in Bangladesh has been crucial for minimizing the corruption and mismanagement that are likely to occur at the point of benefit delivery. It has, however, generated other shortcomings. Thus, the limited capacity of local banks to efficiently distribute benefits to a large number of beneficiaries results in delays and significant physical costs for beneficiaries associated with long queuing and waiting. The transport and food required for travelling to the banks also impose monetary costs.

The Old-Age Allowance in Thailand is delivered in cash or through banks. The majority of people, however, prefer to receive it in cash, which means that the designated officers travel to every village and distribute payments directly to beneficiaries. This spares the villagers from the extra costs associated with travelling to banks and long hours of waiting, as is the case in Bangladesh. In Viet Nam, the benefits are delivered in cash through the Communal People's Committee offices. The delivery system is fairly efficient, partly due to the involvement of the Communal Older People's Association, which helps older people in completing the paperwork and ensures that the benefits are delivered on time.

Expanding Social Pensions

An important aspect of all the social pension programs addressed in this volume is that they are all funded through national budgets. This is remarkable given that many low- and middle-income countries rely on loans or technical assistance from international donors for funding social protection activities.

National ownership is crucial for ensuring the future financial and institutional sustainability of these programs. At the same time, the limited financial capacity severely constrains the ability of many governments to deliver a high value of benefits and to universalize coverage of poverty-targeted schemes. In addition, financing difficulties affect the institutional capacity for effective outreach, targeting design and implementation, and benefit delivery. Rapid population aging is likely to put pressure on the available economic and fiscal space and make it difficult to scale up or expand social pensions.

The authors of the country case studies on Bangladesh and Viet Nam recommend scaling up social pensions from targeted to universal in order to cover the majority of older persons, and these case studies, and those on Nepal and Thailand, point to the need to increase the benefit size to ensure that beneficiaries can exit poverty and meet their immediate needs. Furthermore, Samson (Chapter 9) recommends lowering the retirement age in Nepal from 70 to 60 years to include a greater number of vulnerable older persons.

How costly would it be to expand the existing social pension schemes? Begum and Wesumperuma (Chapter 8), for example, suggest that scaling up the Old Age Allowance in Bangladesh at the rate of Tk300 ($3.60) to all 6.45 million older people aged 65 and above would require a 0.2% increase in gross domestic product (GDP) spending from 0.13% to 0.34%. To double the benefit amount to Tk600 ($7.30), the government would require spending 0.26% of GDP for the current means-tested provision, and in case of universal provision this would require an increase in spending to 0.68% of GDP. Begum and Wesumperuma assert that in any event the scheme would take up less than 1% of GDP and that the main precondition to scaling up is political will rather than high fiscal cost. This cost, however, will go much higher with the projected increase in the number of older people from 6% of total population in 2001 to 17% in 2050. In Viet Nam, the projected cost of introducing a universal scheme to cover all persons aged 64 and above with a benefit level set at 55% of the poverty line would require an increase from the current 0.05% of GDP to 3.5% by 2050.

Increasing the size of transfers in Thailand and lowering the eligibility age from 70 to 60 in Nepal is likely to double government expenditure. The spending on the current scheme at B500 ($15.80) per month takes up 2% of the national budget in Thailand. If the government increases the monthly allowance to B1,000 ($32), the share of social pension expenditure in the national budget will go up to 4% by 2025. With the existing coverage levels in Nepal, the government spends 3% of the total budget on social pensions and by 2050 this is likely to go up to 4%. Extending coverage to all persons aged 60 and above would cost 7% of total government expenditure in 2050.

Answering the question of whether these projected costs are affordable is not easy. First, as Asher suggests, the assessment of fiscal space must take into account not only the cost of social transfers, but also the administrative and compliance costs, which are often underestimated in the literature. He cites evidence that administrative costs can take up to 5% of the total benefits paid. Second, it is difficult to determine what constitutes "low" cost as budgets are limited and governments have multiple priorities. As Asher notes, the feasibility of expanding the current schemes will need to be assessed in light of other priorities of government spending. He reminds us that social pensions are only one of many available government programs and that decisions to finance them have implications for other public expenditures.

This point is empirically illustrated in the analytical work by Hagen-Zanker and McCord (2010), who compared target levels for public spending set in international agreements to actual government expenditure in social protection, health, education, water and sanitation, agriculture, and infrastructure sectors in six African countries. They found that most targets were not met and only 7% of social protection expenditure was reached. They conclude that meeting any of these targets requires significant trade-offs, and while sectoral targets may be individually affordable, they may not be affordable jointly. Ultimately, decisions about financing of social transfers depend not only on fiscal space but also on the actual and perceived urgency of population needs and political preferences.

Adopting an Incremental Approach

Hagemejer and Schmitt (Chapter 5) suggest that it is unrealistic to expect that countries at different income levels can achieve similar level of social protection. The strength of social protection is eventually contingent upon the available fiscal space. Based on ILO costing studies, they argue that introducing basic social security to all citizens requires an increase in social spending, but that low-income countries can be successful in achieving it. They believe that universal provision should serve as an objective rather than immediate policy prerogative. Countries must adopt a "progressive" approach to developing social protection, in which they address priority needs first and increase the level of social security as economic development progresses. This will require efforts by national governments to reallocate existing resources and raise new resources (through insurance contributions and taxes, for example). It will also benefit from the support of international donors in strengthening the administrative and delivery capacity of national social protection institutions.

The importance of progressive or incremental approaches to establishing and strengthening social pension programs also arises from the country case studies in this volume. Policy experience from Nepal, Thailand, and Viet Nam shows that social protection interventions in low- and middle-income countries need not necessarily be designed so as to immediately provide generous benefits or cover the majority of the population in the relevant social demographic category. By establishing modest schemes with small amounts of benefit, policy makers can build an institutional foundation that can be used for subsequent expansion and strengthening of social pension schemes. For example, despite its small value and limited coverage, the means-tested scheme in Thailand served as an important prerequisite for the current universal system. In Nepal, Samson (Chapter 9) demonstrates that the existing limited public finance base did not preclude the government from setting up a system of universal transfers for older persons. Since its establishment, the government has repeatedly increased the benefit size and lowered the eligibility age to expand coverage.

The analysis of the pension systems in post-Soviet countries of the South Caucasus and Central Asia by Falkingham and Vlachantoni (Chapter 10) shows that the Soviet universal old-age security system has been significantly weakened as a result of the shrinking contribution base, falling government expenditure, and limited administrative capacity of public agencies. At the same time, the institutional basis of the old system is still in place. The key distinguishing feature of the existing system of old-age social protection is that it incorporates both contributory and noncontributory schemes. Therefore, in nearly all countries of the region, they in principle offer support to older persons on a universal basis. In particular, individuals who do not qualify for a contributory or old-age pension can be eligible for social or noncontributory pensions. Social pensions, however, are rather low in value, which exposes older people to the risk of poverty.

The existing systems of old-age social protection in post-Soviet countries are important for several reasons. First, they signify societal acceptance of the rights of older persons for social protection. Second, they represent an important institutional foundation that can be expanded and strengthened with further economic growth and greater fiscal potential. Last, noncontributory pensions are integrated with the existing contributory insurance schemes into a unified system. This allows greater administrative efficiency and effective benefit delivery.

Origin and Trajectories of Social Pensions

The analysis of the origin and trajectory of the development of social pensions can help contextualize policy and distill factors and circumstances that affect design, implementation, and outcomes of different programs. Based on the evidence presented in this volume, we may observe different stages in the development of social pension policy. The first stage includes initiatives to introduce social pensions for older people. The second reflects the expansion of existing schemes, which can be manifested in a variety of policy arrangements. One example is the introduction of universal coverage to replace the means-tested Old-Age Allowance in Thailand. Other initiatives to expand the existing system include the lowering of the eligibility age in Bangladesh and Nepal, which allowed greater inclusion of older people. Finally, the third stage can be conceptualized as a process of reform and adjustment. In particular, governments in many post-Soviet countries deal with the challenge of restructuring, sustaining, and strengthening the existing universal systems, which have integrated contributory and noncontributory elements.

Hujo and Cook (Chapter 1) construct a useful analytical framework for assessing the origin and pathways of social pension reform. They maintain that policy choices in Asia have been shaped by the following contextual factors:

- global processes (such as the Asian economic crisis of 1997-1998) and international policy discourse;
- variation in domestic economic systems (as in the transition economies of Mongolia, Viet Nam, and the former Soviet Union; the market-oriented economies of Japan and the Republic of Korea; and the low-income economies with high poverty of Bangladesh and Nepal); and
- political regime and governance capacities (such as welfare developmentalism in the PRC and Viet Nam, the influence of populist and electoral politics in Nepal and Thailand, and varying financial and administrative capacities to manage complex programs).

Policy choices are also affected by the analysis of welfare needs and demands of population groups; and the role of internal and external actors in pushing or influencing a specific policy reform. Hujo and Cook note that there is a gap in studies of actors and processes of social pension reform in Asia and more research is needed to identify specific variables that affect policy development and outcomes.

An important factor that drives the initiation and expansion of social pensions is government commitment and determination to address the needs of older persons. This comes out consistently from all the case studies. Begum and Wesumperuma (Chapter 8) argue that the government of Bangladesh introduced the Old Age Allowance in 1998 guided by the commitment to address the needs of older people who received little social protection. The Social Pension Programme in Viet Nam was initiated by the government in 2000 in the attempt to enhance living conditions of older people. In preparation for the reform, the Ministry of Labour – Invalids and Social Affairs commissioned studies to learn from international experience and to better understand the situation in the country. Samson (Chapter 9) links the introduction of the Senior Citizens' Allowance in Nepal in 1994 with the government's responsibility toward older people and commitment to poverty reduction.

The case of Thailand illustrates the roles of various actors in promoting the social pension reform. The means-tested old-age allowance system was first introduced in 1993 to offload the burden from operating public shelters for older people. Suwanrada and Wesumperuma (Chapter 6) place emphasis on the beliefs and commitment of the government, and particularly former Prime Minister Abhisit Vejjajiva, in the subsequent expansion of the system from means-tested to universal. The switch to universalism in 2009 was motivated by the government's respect for the rights of older people and the willingness to offer "gratitude" for serving their societies. The extension to universalism in Thailand was also driven by pragmatic assessment of the weaknesses of the means-tested system and reflected an attempt to improve efficiency and responsiveness of the system. The specific direction and technical content of the reform was also influenced by broad public debates held by local researchers and civil society groups. Finally, the involvement of international organizations such as HelpAge International, the International Labour Organization, and the United Nations Population Fund was instrumental in stimulating informed discussion and analysis.

Of course, it is important to be aware of the highly political nature of all redistributive programs and the fact that they can inevitably be used by political leaders for gaining electoral support from the population. The pursuit of political goals, however, may not necessarily undermine the wider societal goals and outcomes of social protection programs as long as political leaders undertake actions to improve people's well-being.[78]

Conclusions

Social pensions represent an important policy tool for addressing the needs of older persons. In circumstances when contributory pension schemes cannot reach out to the majority of informal sector workers, social pensions provide an important policy alternative.

The effectiveness of social pensions largely depends on three sets of factors. First, the extent of coverage and the size of pensions determine the degree to which they can reach out to the majority of the poor and vulnerable and provide effective income support. Second, the choice of eligibility criteria, such as rights-based, universal, or means-tested entitlement, affects the potential for outreach and inclusion. In particular, the selective nature of poverty targeting makes it difficult to identify eligible beneficiaries and leaves significant scope for mismanagement and favoritism. This is especially true in contexts with a high degree of poverty and poor governance. Third, the design and implementation arrangements can be crucial in ensuring the effectiveness and accountability of beneficiary selection and benefit delivery. Strong government capacity is fundamental in determining the quality of the design and implementation of

[78] See for example Hagen-Zanker, Morgan, and Holmes (2011).

social pension schemes. But there are questions about the affordability of tax-funded social pensions, especially as governments in low- and middle-income countries have overstretched budgets and multiple priorities.

This volume has shown that policy development requires an incremental, gradual approach. Social pensions represent an important step for establishing an institutional foundation for old-age social protection. Ultimately, economic and social progress can allow governments to expand existing programs, enhance their design and implementation, and establish consolidated national systems that can incorporate contributory and noncontributory pensions.

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Social Protection for Older Persons
Social Pensions in Asia

The rising number of older persons in Asia has accentuated the importance of strengthening the systems of social protection in the region. This book examines the effectiveness and relevance of noncontributory or social pensions in supporting older persons in Asia.

It discusses the political economy and financial sustainability of social pension reform, implications for gender equity and social rights, and design and implementation challenges. Case studies from Bangladesh, Nepal, Thailand, Viet Nam, and South Caucasus and Central Asia provide key lessons for informing development policy and practice in Asia and the Pacific.

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