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Poverty in old age – fast-growing problem for many developing countries

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The world's population continues to increase and people are getting older. Currently, approximately 12% of the world population are 60 years or older, with two-thirds of them living in developing countries. By 2050, the proportion of older people may grow globally to around 21%, of which 80% in developing countries.

High demand meets weak structures and scarce resources

The issue of old-age poverty in advanced industrial countries is a highly relevant, current problem and often one that has yet to be solved satisfactorily. Due to demographic change and the disintegration of traditional social networks, the topic is now coming to the fore with alarming speed, and increasingly in developing countries too, which are far worse prepared for this phenomenon. They have to solve the same problems (e.g. basic security, benefits and generational equity), but with much fewer resources and often also limited-efficiency governmental structures and institutions (e.g. clear identification of those entitled to benefits, reliable delivery of transfer payments and the prevention of fraud).

Particular difficulties arise in countries with a particularly poor population, because their capabilities to make contributions to old-age pension systems are naturally very low. And a large proportion of those in need work in the informal sector. Income-related contributions and subsequent reviews of wage-related benefit entitlements are difficult if there is no reliable documentation of employment. Fragmented employment histories with frequent breaks, long-term or seasonal migration phases, underemployment in agriculture and subsistence farming or emergency-related times of self-employment (as a street vendor, rag and bone man or guide) also complicate the records.

The *International Labour Organization* (ILO) reports that almost 40% of the world's working-age population are already entitled to a contributory pension. But this primarily relates to industrialised countries. In Western Europe it is approximately 92%, in Asia nearly half that (47%), but in Africa for example, only 21% – and in these countries there is usually a huge gap between entitlement to benefits and the actual benefit.

Common discussions: funded versus pay-as-you-go principle – contributory versus tax funding – principle of voluntary versus mandatory contributions

To guarantee generational equity and commensurability, capital-based, contributory pension systems are the method of choice. Here, the entitlement amount depends on the sum of paid contributions (contribution rates, length of working life), demographic projections (life expectancy) and earnings expectations (from the invested contributions).

Funded schemes actually require a decades-long build-up phase and encounter serious implementation difficulties due to the starting position outlined above in many developing countries. A major drawback of these systems is that – at least in the purest form – they cannot offer any basic protection for people who, as a result of poverty, illness or other circumstances during their working lives, could not afford to make contributions. Hybrid forms have therefore prevailed in practice, providing a balance of interests between generations through pay-as-you-go systems and between different social groups on various solidarity systems such as minimum and maximum entitlement, and grants from general tax revenue. Here, contributions from today's workers are not only saved, they are partly used to service today's benefit recipients, and those capable of working fund those that are not so capable.

Conclusion

The ageing population in developing countries is growing rapidly. In many countries it is conceivable that without decisive countermeasures the problem of old-age poverty will soon seriously worsen.

The questions that arise from the structure of pension schemes are principally the same as those faced by many industrialised countries. The answers will probably be different though because the starting position in many developing countries is completely different.

Some successful examples such as Nepal (reducing the poverty gap in households with people over 70 years old by 27%, with a basic pension of USD 7 per month) and Brazil (reduction of old-age poverty from 48% to 4% through a combination of general basic pension and defined contribution-based supplementary pension) show that there are appropriate solutions for (almost) nationwide pension systems.

Industrialised countries can support the necessary transformation process with their knowledge and experience. In a number of countries it will also be necessary, at least temporarily, to give massive financial support to get to grips with the problems of old-age poverty and to establish sustainable pension systems. ■

Literature

Kidd, Stephen (2015): *Establishing Comprehensive National Old Age Pension Systems.*