Non-contributory pensions and poverty prevention

A comparative study of Brazil and South Africa

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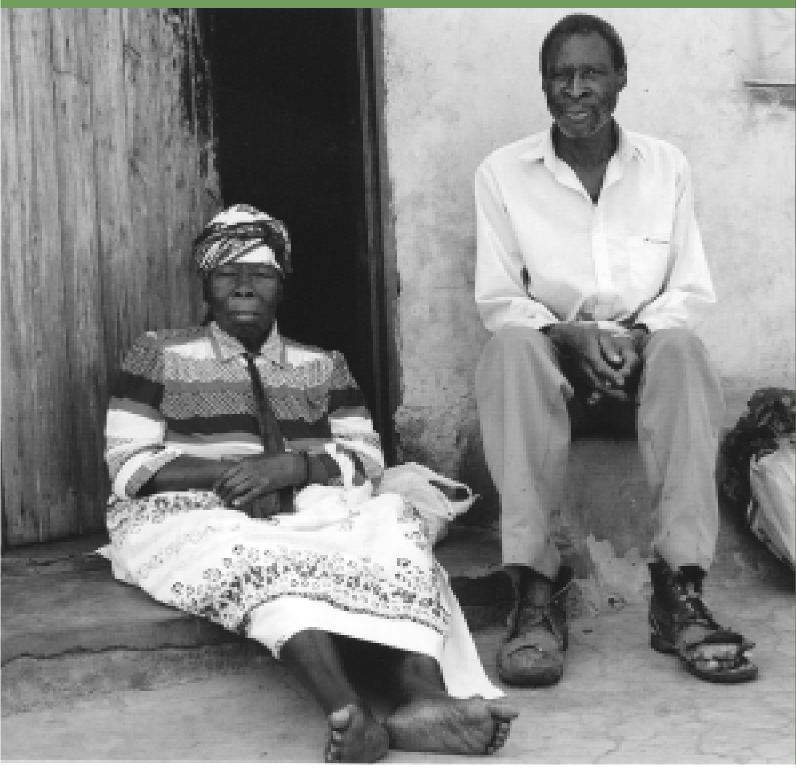

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Non-contributory pensions and poverty prevention: A comparative study of Brazil and South Africa

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Executive summary

The debate on how best to organise old age support in developing countries is growing. Old age poverty is widespread in developing countries, and informal old age support is coming under increasing pressure from adverse economic conditions, migration, HIV/AIDS, and changes in household composition. In the absence of policy interventions, older people and their households will continue to expand the ranks of the poor.

Pensions play a key role in old age support systems, but research and debate on pension policy has so far focused on contributory pension programmes. Non-contributory pension programmes can be found in only a handful of developing countries although these are more likely to have an impact upon poverty and vulnerability and facilitate economic development.

This research project analyses non-contributory pension programmes in Brazil and South Africa, the two developing countries with the largest programmes. The research aims to provide evidence of the impact of these programmes upon the wellbeing, participation and security of older people and their households; and to identify lessons for other developing countries, and low income countries in particular.

The main findings emerging from the research are:

- In Brazil and South Africa, pension benefits are shared within households, and non-contributory pension benefits should be considered more appropriately as household cash transfers tagged on older people.
- Non-contributory pension programmes have a significant impact on poverty. In the absence of non-contributory pension programmes, the poverty headcount and the poverty gap would be appreciably higher for households with older people. The impact on the poverty gap is much larger for the poorer households. The programmes significantly reduce the probability that individuals in households with a pension recipient will be in poverty.
- Non-contributory pension programmes reduce household vulnerability. Households with a non-contributory pension recipient show greater financial stability and lower probability of experiencing a decline in living standards.
- Non-contributory pension programmes promote functionings in older people. Preliminary analysis of a range of deprivation indicators shows that pension recipients have a lower incidence of deprivations, especially in urban areas.
- In Brazil and South Africa, non-contributory pension programmes reach a large number of poor older people (5.3 million in Brazil and 1.9 million in South Africa) at relatively low cost (1 per cent of GDP in Brazil and 1.4 per cent in South Africa). The programmes are financially sustainable and attract a large measure of political support.

The evidence from this study suggests that extending non-contributory pension programmes to other developing countries could have a significant impact on reducing poverty and vulnerability among households with older people. In low income countries, with a limited tax base and a lack of an effective administrative structure, the introduction of non-contributory pension programmes will require international support.

Hein Du Plessis/HelpAge International

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1. Introduction


Helena Legido-Quigley/IDPM

The debate on how best to organise old age support in developing countries is growing. Trends associated with demographic and epidemiological transitions, underway in developing countries, are focusing attention on the issue.[1] According to forecasts from the United Nations Population Division, by the year 2050 there will be 69 Asians, 12 Africans, and 10 Latin Americans aged over 60 for each European in the same age range.[2] Old age poverty is widespread in developing countries,[3] and informal old age support is coming under increasing pressure from adverse economic conditions, migration, women's entry into paid employment, HIV/AIDS, and changes in household composition. In the absence of policy interventions, older people and their households will continue to expand the ranks of the poor.

Pensions play a key role in old age support systems, but research and debate on pension policy has so far focused on contributory pension programmes.[4] In developing countries, the majority of older people are not covered by these programmes because they are restricted to workers in public and formal employment, and exclude workers in informal employment, or in rural areas. Only a handful of developing countries have non-contributory pension programmes,[5] although these are more likely to have an impact upon poverty and vulnerability (see *Appendix C*).[6] In developing countries, pension programmes should also aim to facilitate economic development. Pension policy is also development policy, and focusing on non-contributory pensions highlights the important contribution of older people to their communities and economy.[7]

This research project studies non-contributory pension programmes in Brazil and South Africa, the two developing countries with the largest programmes. The research aims to provide evidence of the impact of these programmes upon the well-being, participation, and security of older people and their households; and to identify lessons for other developing countries, and low income countries in particular.

1.1 Conceptual framework

An objective of the project is to identify and develop a conceptual framework within which old age support in developing countries could be studied. There has been very little discussion about an appropriate framework for studying the implications of population ageing for economic development,[8] and for old age support in developing countries.[9] What is needed is a conceptual framework rooted in theories of economic and social development and tools for the evaluation of whether non-contributory pensions represent an effective and sustainable policy intervention, reducing household poverty and vulnerability, whilst promoting the functionings (that is the beings and doings that people value) of older people.

The vulnerability of older people and their households is often given as a reason for the introduction of non-contributory pension programmes. Individual ageing is often marked by a growing distance from markets, as older people find it harder to get employment and credit, and the assets they have accumulated are used up or decline in value.[10] Vulnerability is here defined as the probability that an individual or household will be poor in the near future. This propensity to poverty depends on the risks faced by older people and their households, the assets they may have and can use as buffers, and the impact of the materialisation of these risks.

1 (Lloyd-Sherlock 2000).

2 (Barrientos and Lloyd-Sherlock 2002).

3 (Barrientos et al. 2003).

4 (World Bank 1994; Diamond 1996; Barrientos 1998).

5 The term non-contributory pension programmes refers to old age cash transfer programmes in which access to benefits is not dependent on a significant contributory record. These include universal old age entitlements, assistential pensions, and pension programmes with token contributory requirements. In most cases, non-contributory pension programmes are publicly financed, either directly or through social insurance programmes.

6 (Barrientos 2003b; Barrientos and Lloyd-Sherlock 2003).

7 (Barrientos 2002; Barrientos et al. 2003).

8 (Treas and Logue 1976).

9 (World Bank 1994; Diamond 1996).

10 (Barrientos 2000; Barrientos et al. 2003).

Vulnerability among older people and their households affects their well-being directly, but also limits their capacity to contribute to social and economic development. This study examines what impact non-contributory pension benefits have on this vulnerability.

1.2 Non-contributory pensions and policy

Pension policy in developing countries received a stimulus with the publication of the 1994 World Bank's report on 'Averting the Old Age Crisis: policies to promote growth and protect the old'. This report accompanied radical pension reform in Chile and Latin America. The World Bank concluded that developing countries should aim to establish three pension pillars. A non-contributory basic pension pillar, a second pillar involving compulsory saving-based pension plans, and a third pillar of voluntary saving. Subsequently, the design features of the second pillar came to dominate policy action and debate. Non-contributory pension programmes scarcely featured, mainly because these were perceived as a safety net against gaps in second pillar pension plans.[11]

More recently, there has been a shift in thinking on pension policy for developing countries (this is supported by the main findings arising from interviews with key informants, see *Appendix G*). An emerging consensus around social protection[12] has focused attention on the need to consider carefully the potential advantages of non-contributory pension programmes.[13] In the context of social protection, non-contributory pension programmes have the potential advantage of reaching vulnerable groups with relatively low administration costs, helping sustain households affected by extreme poverty and vulnerability, and enabling the investment needed for households to overcome their condition.[14] The rights-based approach to development, especially as applied in the context of older people by HelpAge International, enhances this policy perspective.[15] This amounts to a new policy environment within which to evaluate non-contributory pensions.[16]

1.3 Hypotheses and methodology

The main hypothesis of the study is that the implementation of well designed and sustainable non-contributory pension programmes in developing countries can reduce poverty and vulnerability among older people and their households and facilitate their contribution to the development process. This is investigated in the context of Brazil and South Africa, the two developing countries with the largest non-contributory pension programmes.

Specifically, the project considered the following questions:

1. What theoretical perspectives are appropriate when considering the wellbeing of older people, and their overall contribution to development?
2. What lessons can be extracted from the experience of non-contributory pension programmes in South Africa and Brazil that could be valuable to other developing countries?
3. What are the political and economic conditions associated with the introduction, implementation and sustainability of these programmes?
4. What is the role of non-contributory pension programmes in reducing and preventing poverty and vulnerability among older people and their households in developing countries, and in enhancing their contribution to development?

11 It was feared that large non-contributory programmes would generate unsustainable fiscal pressures, reduce incentives to save for later life and crowd out inter-generational support. James suggested that financing such programmes was beyond the means of low income countries, and that resources could be better used in financing other programmes (James 1999).

12 (Holzmann and Jorgensen 1999; United Nations 2000)

13 (Case and Deaton 1998; Willmore 2001; Bertranou, Solorio et al. 2002; Barrientos and Lloyd-Sherlock 2003; Willmore 2003)

14 This flows from the relevant literature (Lund 1993; Ardington and Lund 1995; Le Roux 1995; Case and Deaton 1998; Camarano 1999; Lund 1999; Sagner and Mtati 1999; Carvalho 2000c, b, a; Case and Wilson 2000; Delgado and Cardoso 2000c; Duflo 2000; Schwarzer 2000; Case 2001; Devereux 2001a; Edmonds, Mammen et al. 2001; van der Berg 2001; Jensen 2002; Lund 2002; Schwarzer and Querino 2002; van der Berg 2002).

15 (HAI 2002, 2003).

16 The ILO's Global Social Trust Initiative is a very good example (ILO 2002).

5. What type of non-contributory pension programmes, and what design features, are effective in protecting the old against poverty and facilitating their participation in the development process?

The methodological approach adopted in this study involved three main lines of research:

- A detailed understanding of the structure and operation of non-contributory pension programmes in Brazil and South Africa. This involved collecting and collating country information.
- An investigation of the political and economic conditions in which these programmes were adopted and are implemented. This involved a number of key informant interviews (see *Appendix D*).
- An investigation into the impact of non-contributory pension programmes on the wellbeing of older households, and their contribution to the development process, through a dedicated household survey, supplemented by a small number of follow up in-depth interviews. The survey consisted of a questionnaire administered to a sample of 1,000 households stratified by urban and rural areas in selected localities in each of the two countries (see *Appendix E*). The questionnaire aimed to provide information on the wellbeing, social participation, and economic vulnerability of older persons and their households, and to provide information on the impact and effectiveness of non-contributory pension programmes (see *Appendix F*). It was targeted at households with at least one member of pensionable age or approaching pensionable age, and included a supplement for all household members aged 55 and over. A small number of semi-structured interviews were conducted with households in this category to follow up qualitative issues and to facilitate interpretation (see *Appendix G*).

The analysis of the household survey and qualitative data has initially focused on the research questions identified above. The comparative nature of the data collected has proved to be of considerable value in identifying answers to the questions posed. Team members are undertaking further analysis, and the data collected will be made available to other researchers (details will be posted on the project website – http://idpm.man.ac.uk/ncpps).


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2. Evolution and key features of non-contributory pensions in Brazil and South Africa

As noted, Brazil and South Africa contain the largest non-contributory pension programmes in the developing world. Country reports can be found in *Appendices A* and *B*, but brief descriptions of the programmes follow.

South Africa

A pension benefit of 640 Rand (as of December 2002, US$75.6 at the market exchange rate) is paid to men aged 65 and over and women aged 60 and over. Benefit entitlements are means-tested on the income of the individual beneficiary, and his/her partner if married, but not on the income of other household members. Pensions were first paid in 1928 as a means of providing a basic income in retirement for whites and coloureds who lacked an occupational pension.[17] Subsequently, the programme was extended to include Africans in 1944, but with different conditions for entitlement and benefit levels. In the 1980s and 1990s, there was a gradual move towards parity in benefit level, which was completed in 1996 with the introduction of non-discriminatory regulations. Africans are now the main beneficiaries. In 1993 there were just above 1.5 million old age pensions being paid, with 1.2 million being paid to Africans.[18] The most recent estimate is that there are 1.9 million beneficiaries. The programme is reasonably well administered, and reaches the poorer rural areas. The programme is funded through general taxation, and in 2000 it absorbed 1.4 per cent of GDP. It is widely acknowledged that the old age pension produces a significant redistribution of income in the country.[19]

Brazil

Limited provision of non-contributory pensions for workers in the rural sector dates back to 1963, but entitlements were restricted to the very old. The scheme was gradually upgraded during the 1970s, in response to the mobilisation of rural workers and pressures for land reform.[20] The 1988 Constitution recognised the right to social protection for workers in the rural sector, and especially for those in informal employment. This led to a range of reforms being implemented from 1991 to establish a new rural old age pension, referred to as *Prêvidencia Rural* (PR) below. Firstly, the age of pension eligibility was reduced from 65 years of age to 60 for men and 55 for women. Entitlement to old age, disability and survivor pensions was extended to workers in subsistence activities in agriculture, fishing and mining, and to those in informal employment. Whereas, prior to 1991 only heads of household were entitled to a pension, the reforms extended entitlement to all qualifying workers, thus expanding coverage to female rural workers who were not heads of household. The value of the pension benefits was raised from half to one minimum wage (200 Reais as of December 2002, US$55 at the market exchange rate). A key aspect of the programme is that access to pension entitlements does not require earnings or inactivity tests.

In urban areas, provision of old age assistance pensions is much less developed. A social assistance pension *Renda Mensual Vitalícia* (RMV) was introduced in 1974 paying a flat rate benefit of one-half the minimum wage to older or disabled people who could not provide for themselves. To be entitled to the RMV, individuals needed to be 70 years of age or over and have at least 12 months of contributions to social insurance. After the 1988 Constitution, a new social

17 (Sagner 1998).

18 (van der Berg 2001).

19 (Committe of Inquiry into a Comprehensive System of Social Security for South Africa 2002).

20 (Brumer 2002)

assistance pension, the *Beneficio de Prestação Continuada* (BPC) was introduced in 1993, paying one minimum wage to disabled or older people aged 67 and over living in urban or rural areas with per capita household income below a quarter of the minimum wage. The benefit entitlement, including the means test, is reviewed every two years. The conditions for entitlement under the BPC are tougher than under the PR. In December 2000, there were around 4.6 million beneficiaries of the PR programme, 0.3 million beneficiaries of RMV old age pensions, and 0.4 million beneficiaries of BPC old age pensions.[21] The fiscal cost of the PR programme as a whole has been estimated at 1 per cent of GDP,[22] while the cost of the RMV and BPC programmes should be around 0.2 per cent of GDP given the smaller number of beneficiaries. A reasonable estimate of the cost of old age non-contributory pension programmes in Brazil is 1 per cent of GDP.

21 These figures exclude beneficiaries of disability pensions under the three programmes.

22 This figure includes the cost of over 2 million disability pensions (Schwarzer and Querino 2002).

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3. Main findings

This section provides a brief review of the main findings emerging from the research to date. Other project outputs substantiate these findings in more detail.

3.1 Non-contributory pensions are shared within households

Although non-contributory pensions are aimed at the old, in developing countries these support pensioners and their households. This is to be expected given the absence of formal welfare provision, extensive co-residence, and acute vulnerability which shapes the lives of many in the developing world. Pension benefits play a substantial role in sustaining households in Brazil and South Africa.

We found extensive co-residence in both countries, but particularly in South Africa where households with older people are typically larger (mean household size was 5.5 in the South Africa sample as opposed to 3.2 in Brazil). Older people live alone in only 6.8 per cent of households in South Africa, and 22.3 per cent in Brazil, and co-reside with children in 64.2 per cent of households in the South African sample and 33.4 per cent in Brazil.

We asked non-contributory pension recipients what proportion of their money, including their pension, they keep for themselves. *Table 1* below compares the responses in Brazil and South Africa. The vast majority of non-contributory pensioners share all, or most of their pension benefits with their households, and consequently the pension benefit is effectively a contribution to household income. Among poorer households in the sample, pension income makes up the larger part of household income. At the 20th percentile of equivalised per capita household income, non-contributory pension income is 100 per cent of household income in Brazil, and 50 per cent of household income in South Africa. Responses to a separate question on whether household members pool their income, and from in-depth semi-structured households interviews, confirm that income sharing is the norm in the sampled households.[23]

Table 1. Pension sharing among non-contributory pensioners

How much of your pension and your own money can you keep for yourself?	Percentage	
	Brazil (n=276)	South Africa (n=768)
None	81.9	65.2
A little	15.2	15.9
Some	1.4	7.7
A reasonable amount	0.4	2.5
All	1.1	8.7

23 Some important differences exist across sub-groups for South Africa, where 86.7 per cent of rural black households pool all their income, as opposed to 69 per cent of urban black households, and only 29.4 per cent of coloured households (although 52 per cent of the latter indicate they partially pool their income) (Møller and Ferreira 2003). In Brazil, similar rural-urban differences can be observed, whereas 60 per cent of households in Rio pool their income, the figure is 78.4 among rural households (Saboia 2003).

There is also a measure of pension sharing with household members living elsewhere. Among non-contributory pensioners, 8.2 per cent in South Africa said they regularly give money to household members living elsewhere, while this figure is 6.5 per cent in Brazil. This is important because it indicates that the dissipation of the pension benefit outside the pensioners' household is not significant. In South Africa, the most common motivation for pension sharing is to help with the education costs of relatives living elsewhere.

3.2 Non-contributory pensions have a substantial impact on poverty

Studies have identified the poverty reduction and promotion effects of the 'social pension' in South Africa.[24] Deaton and Case looked at this issue using a 1993 nationwide household dataset and confirmed that the 'social pension' has significant effects on poverty. Their analysis showed that around 35 per cent of blacks survived on less than US$1 a day, and suggested that this 'figure would be 40% if the pension incomes were removed and there was no off-setting change in pre-pension incomes' (Case and Deaton 1998, p.132).[25] In Brazil, researchers at Instituto de Pesquisa Econômica Aplicada (IPEA) have investigated the impact of the rural old age pension and have concluded that the programme has significant effects on poverty.[26] Delgado and Cardoso compared households with a pension beneficiary against households without one, and found that the proportion of households below the poverty line[27] was 38.1 per cent and 51.5 per cent respectively in the Northeast region, and 14.3 per cent and 18.9 per cent respectively in the South region.[28] They concluded that the rural old age pension programme in Brazil has a strong impact on poverty.

With the comparable datasets for Brazil and South Africa collected by our study it is possible to examine this issue in more detail. Using equivalised per capita household income as the standard of living indicator, the pension benefit level as the poverty line, and one half of the pension benefit level as the indigence line,[29] we could identify the impact of non-contributory programmes on the poverty incidence and the poverty gap.[30] The analysis worked at two levels. A first approach was to identify what would be the impact on poverty of taking non-contributory pension income out of household income. *Table 2* below shows the outcome of this exercise.

Table 2. Poverty headcount and gap measures with and without non-contributory pension income (using adult equivalent household income per capita)

	Brazil (n=3523)		South Africa (n=5560)	
	with pension	**without pension**	**with pension**	**without pension**
Poverty headcount	58.5	63.9	43.8	45.7
Poverty gap as % of poverty line	22.3	30.0	20.5	33.8
Indigence headcount	22.0	30.9	19.8	22.1
Indigence gap as % of indigence line	5.1	12.7	8.4	10.1

24 (Lund 1993; Ardington and Lund 1995; Lund 1999).

25 Studies using more recent data find that households with pensioners have a lower probability of being poor (Leibbrandt 2001).

26 (Delgado and Cardoso 2000b; Delgado and Cardoso 2000c; Schwarzer 2000; Schwarzer and Querino 2002).

27 Defined in their study as one-half of the minimum wage.

28 (Delgado and Cardoso 2000a).

29 In poverty studies in Latin America the indigence line is the value of the basket of goods ensuring basic subsistence. This is one-half of a minimum wage in Brazil.

30 (Barrientos 2003c).

The figures show that in the absence of non-contributory pension income, and assuming no off-setting effects, the poverty headcount and gap in the two countries increases. In the absence of non-contributory pension income, the poverty headcount among members of households with older people would be 5.3 percentage points higher in Brazil and 1.9 percentage points higher in South Africa. In the same situation, the indigence headcount would be 8.9 percentage points higher in Brazil, and 2.3 percentage points higher in South Africa. The impact on the poverty gap is much larger. The poverty gap would be a third larger in Brazil, and two-thirds larger for South Africa, if the non-contributory pension income is removed, and the indigence gap would be 1.5 times larger in Brazil and one-fifth larger in South Africa. More detailed analysis showed the impact to be greatest for the poorer households.[31]

A second strategy was to identify the impact of non-contributory pensions on the probability of becoming poor, in a multivariate setting that controlled for other factors.[32] This analysis showed that having a non-contributory pension recipient in the household reduces the probability of poverty among household members by 21 per cent in the Brazilian sample, and by 11 per cent in the South African sample.

3.3 Non-contributory pensions reduce household vulnerability

As noted above, vulnerability is a factor of the risk faced by households, the assets they can use to protect their consumption, and the impact of risk materialisation. We can assess vulnerability outcomes from the responses on households' self-reported financial status, and their change over time. We examined the likely impact of non-contributory pensions on these outcomes across household categories. In the Brazil sample, we compared households without a pensioner, those with a non-contributory pensioner, and those with a contributory pensioner. In the South African sample, we compared households without a pension recipient and those with a non-contributory pensioner.[33] *Table 3* summarises the responses on the financial status of the household.

Table 3. Self-reported financial situation of households in the sample (% of column)

	Brazil (n=1006)			South Africa (n=1111)	
	np	n-cp	cp	np	n-cp
Very bad	18.3	9.0	7.1	23.1	10.5
Bad	32.8	26.2	18.8	32.9	56.2
Average	37.4	49.5	54.4	36.6	25.7
Good	9.9	14.3	18.3	7.1	6.8
Very good	1.5	1.0	1.4	0	0.7

np: no pensioner household; n-cp: non-contributory pensioner household; cp: contributory pensioner household

31 (Barrientos 2003c).

32 (Barrientos 2003c).

33 All households in the sample have at least one person aged 60 and over and are comparable in this respect.

In Brazil, non-contributory pensioner households are placed in an intermediate position with respect to the other two groups. Their financial situation scores are better than households without a pensioner, but worse than contributory pensioner households. The mode is at the average category, and the proportion of households with outcomes below this is just over 50 per cent for non-pensioner households, 35 per cent for non-contributory pensioner households, and 26 per cent for contributory pensioner households. In South Africa, non-contributory pensioner households generally have worse scores than non-pensioner households, but this is mainly because 56.2 per cent of them assessed their situation as bad. Overall, and for the two countries, having a non-contributory pensioner in the household appears to reduce the probability that those households will be in the lowest category of acute vulnerability, and it is apparent that non-contributory pensions act as a safety net.

This is confirmed by analysing changes in their financial situation compared to three years earlier. *Table 4* summarises the responses.

Table 4. Self-reported change in financial situation from three years before (% of column)

	Brazil(n=1006)			South Africa (n=1111)	
	np	n-cp	cp	np	n-cp
Worse	54.2	29.5	35.6	69.0	61.1
The same	37.4	58.1	52.5	22.4	32.5
Better	8.4	12.4	11.9	8.6	6.4

np: no pensioner household; n-cp: non-contributory pensioner household; cp: contributory pensioner household

A comparison of the three groups in Brazil shows that non-contributory pensioner households have a lower probability of a decline in their financial situation. The other two groups show a higher proportion experiencing a worsening of their financial situation, and a lower proportion staying the same. The differences are not so marked in South Africa, but non-contributory pensioner households have marginally lower probabilities of experiencing a worsening situation, and a higher probability of staying the same. The figures suggest non-contributory pensioner households show greater financial stability, and a lower probability of experiencing a decline in their standard of living.

3.4 Non-contributory pensions promote older people's functionings

Non-contributory pension programmes aim to have an impact upon the wellbeing of older people. Increasingly, a consensus is emerging around the need to evaluate poverty and deprivation in the functionings space that is the beings and doings that people value.[34] In the context of our study, we are aiming to develop a methodology for evaluating the effects of non-contributory pension programmes on a range of wellbeing indicators for older people. This is work in progress, but we can provide some preliminary findings.[35] As a first step, we have correlated a range of wellbeing indicators with pension status. These indicators, their construction and deprivation values, are listed in *Table 5* below.

34 (Sen 1983, 1999; Bourguignon and Chakravarty 2002).

35 This abridged section draws on a longer paper (Barrientos 2003a).

Table 5. Deprivation indicators

Label	Description	Values	Deprivation
Education	Schooling reached	1 no schooling, illiterate 2 no schooling, can read and write 3 primary 4 secondary 5 tertiary	1,2
Health	Self-reported health status	1 very poor 2 poor 3. average 4 good 5 very good	1
Life satisfaction	Self-reported assessment 'Taking everything into account, how satisfied is this household with the way it lives these days?'	1 very dissatisfied 2 dissatisfied 3 neither satisfied nor dissatisfied 4 satisfied 5 very satisfied	1,2
Safety	Change in feeling of safety from two years before	1 worse 2 same 3 better	1
Social participation	Number of social organisations the respondent belongs to	0-8 (Brazil) and 0-10 (South Africa)*.	0
Political participation	Number of citizen actions	0-4**	0
Financial control	Self-reported assessment: 'How much of your pension and your own money can you keep for yourself?	1 none 2 a little 3 some 4 a reasonable amount 5 all	0
Debt service	Monthly debt repayments as proportion of total debt	1 if x>0.5; 2 if 0.5<x<0.2; 3 if 0.2<x<0.1;4 if 0.1<x<0.01; 5 if x=0	1,2
Durables	Number of durables in household	0-11***	1-5
Water	Main source of drinking water	1 other (river, dam, rainwater) 2 borehole 3 public tap/ water carrier 4. piped water on site 5 piped water in dwelling	1
Expenditure	Quintile of equivalised per capita household expenditure	1-5	1,2

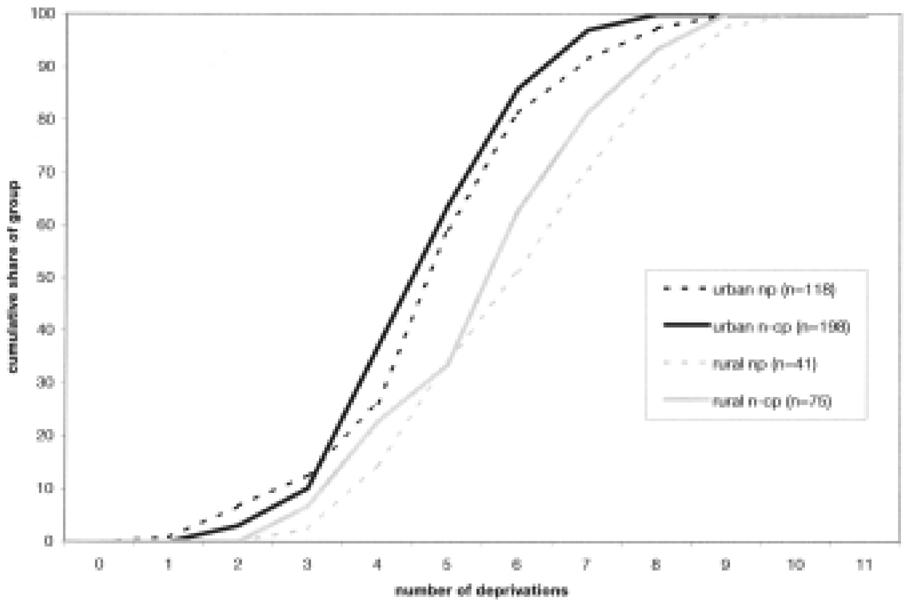
* Brazil: senior centre, church group, community organisation, sports club, school organisation, political party, trade union. South Africa: as Brazil, plus women's club, stokvel, burial society
** participation in community meeting or general meeting, complaints to authorities, work for political candidate
***phone, stove electirc or gas, stove paraffin or wood, electricity, tv, radio or stereo, fridge or freezer, sewing machine, car, bicycle, motorcycle

The indicators selected reflect the theoretical and empirical literature.[36] We are able to include indicators of social and political participation, as well as standard ones covering education, health and life satisfaction. A range of financial indicators is relevant in the context of evaluating the impact of cash transfers. The debt service indicator is constructed to capture access to financial services as well as financial stress.[37] It is expected that deprivation values chosen are non-controversial.

A key issue is the aggregation of the different indicators to obtain a single measure of deprivation for individuals or households.[38] Aggregating the different indicators into a single cardinal measure of deprivation carries the implicit assumption that it is possible to trade off deprivation across different indicators. Measuring deprivation either by requiring that older people are deprived in all, or alternatively, in at least one indicator avoids making this assumption but runs the risk of the deprivation criteria becoming too restrictive, or too loose. In the findings below, we report on the number of deprivations observed for the older individuals in the sample (aged 55 and over).

Only two sets of findings are reported here on the distribution of deprivations by pension status. In the case of Brazil, we distinguish older people by rural–urban status, while for South Africa we distinguish between older people by race and rural–urban status. *Figures 1* and *2* below show the distributions.

Figure 1. Cumulative distribution of deprivations by rural–urban status: Brazil sample



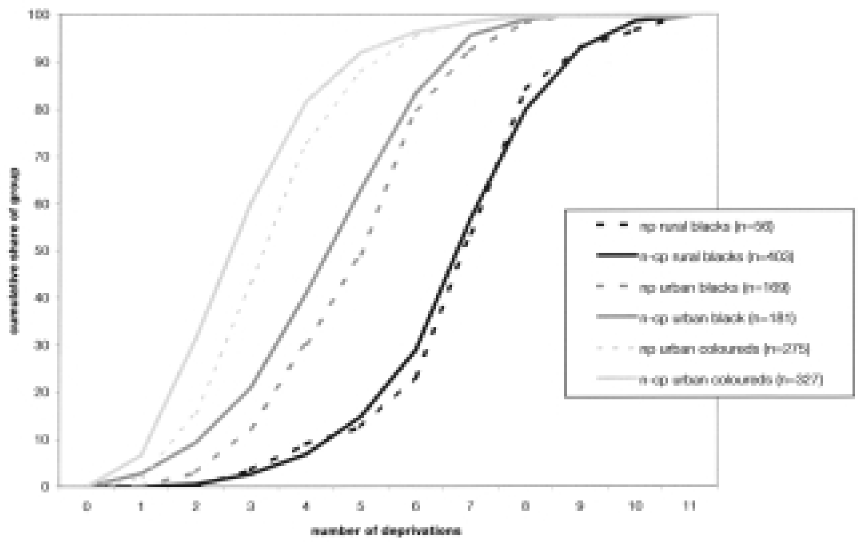
np: no pensioner household; n-cp: non-contributory pensioners

36 Klasen provides a good review in the context of South Africa (Klasen 2000).

37 (Klasen 2000).

38 (Bourguignon and Chakravarty 2002).

Figure 2. Cumulative distribution of deprivations by race and rural–urban status: South Africa sample



np: no pensioner household; n-cp: non-contributory pensioners

Figure 1 compares the cumulative distribution of older people by number of deprivations in Brazil (older people on contributory pensions have been left out of the Figure). Where a distribution is to the left of another, this indicates a lower incidence of deprivations. Focusing first on older people in urban areas, the gaps existing between non-contributory pensioners and non-pensioners indicate fewer deprivations among the former. The Figure is less clear-cut for older people in rural areas. Turning to, *Figure 2,* the distributions for the South Africa sample of older people, the distributions for coloureds, and for urban blacks show distinctly a lower incidence of deprivations among non-contributory pensioners. As in the Brazil sample, the situation is less clear cut for older people in rural areas. Only a handful of the older people in the sample show zero deprivations. Overall, the exercise suggests that, in the context of multi-indicators of deprivation, non-contributory pensioners in urban areas in South Africa and Brazil show a lower incidence of deprivations than non-pensioners. The situation is not, however, as clear-cut among older people in rural areas.

3.5 Non-contributory pensions can be financially and politically sustainable

The 'social pension' in South Africa is financed from tax revenues, and takes up 1.4 per cent of GDP. Projections produced by the Taylor Commission suggest this figure will not rise significantly overtime. In Brazil, the *previdência rural*, including over 2 million disability pensions, takes up 1 per cent of GDP. This is financed through a tax on first sale of agricultural produce (covering one-tenth of benefit expenditure), and subsidies from the social insurance system (nine-tenths of expenditure). The sales tax is difficult to enforce and studies suggest that even if this could be guaranteed, it would at best double current receipts. Experts have noted the lack of transparency in the social security subsidy of the programme, and Schwarzer and Querino argue that transfers from the Treasury to the social insurance system effectively cover the latter's subsidy to *previdência rural*.[39] The urban non-contributory programmes are financed directly from tax revenues,

39 (Barreto de Oliveira and Iwakami Beltrao 2001; Bonturi 2002; Schwarzer and Querino 2002).

mainly from a 3 per cent tax on gross turnover of private firms.[40] The cost of the urban old age pensions should be no greater than 0.2 per cent of GDP. Excluding disability pensions from the rural pension programme, and adding the cost of the urban old age pensions, puts the costs of providing non-contributory old age pensions in Brazil at around 1 per cent of GDP. Overall, these programmes are financially sustainable.

Population ageing does not threaten the financial sustainability of these programmes, at least in the medium term. The take up of non-contributory old age pensions rose in South Africa in the 1980s and 1990s , and in Brazil after the extension of entitlements in 1991, but numbers have stabilised in the last few years. The decline in the rural population, and the tightening of entitlement conditions in Brazil, will be effective in controlling costs. Population ageing cuts both ways in that a rising share of pensioners in the population may require, depending on economic conditions, higher expenditure, while other areas will require lower expenditure. South Africa spends 12 per cent of GDP in education, overwhelmingly targeted on the young.

It is also worth placing non-contributory old age pension programmes in the wider context of public support for the retired population. Compared to the 1.4 per cent of GDP spent on the 'social pension', tax expenditures to private retirement plans in South Africa were estimated by the Katz Commission to cost the Treasury 1.7 per cent of GDP annually.[41] Compared to the 1 per cent of GDP spent on non-contributory old age pensions in Brazil, plugging the deficit in public sector special pensions required 4.1 per cent of GDP in 2001.[42]

Issues of political sustainability are perhaps of greater significance. In both Brazil and South Africa, non-contributory pension programmes are perceived by policy-makers and by a wide range of the population as important, effective, and desirable policy interventions. Interviews with key informants confirmed this (see *Appendix G*). Their political sustainability is not in doubt.

In South Africa, recent debates on social protection have centred on the effectiveness of the social assistance programmes in reducing poverty and vulnerability. The argument is made that changes in the pattern of risk affecting the population makes it necessary to re-focus social assistance. Van den Berg notes that vulnerability is significant among the unemployed and among large families that are excluded from the main social assistance programmes.[43] The Lund Commission examined support for children and successfully argued for its extension through a child grant. The Taylor Commission considered the possibility of implementing a basic income grant. The social pension has been strengthened by these debates.

In Brazil, debates about social security reform have been driven in the main by fiscal considerations. There is general consensus around the view that reform of the contributory part of the social insurance system is urgent, but these debates have not yet challenged the non-contributory pension programmes. One issue is that the minimum non-contributory pension benefit has also become de facto the benefit level for a majority of pensioners under the contributory programmes, ensuring practical disincentives for contribution among current workers. Another is the lack of transparency in the financing of the non-contributory programmes. Neither of these concerns fundamentally challenges the continuation of non-contributory pension programmes.

40 The Contribuição para o Financiamento da Seguridade Social is the most important source of finance for assistential programmes, but it is used for other purposes as well (Werneck Vianna 2003).

41 (Committee of Inquiry into a Comprehensive System of Social Security for South Africa 2002).

42 (Bonturi 2002).

43 (van der Berg 2001).

What has ensured the sustainability of non-contributory pension programmes? In both countries, the recent extension of social security in general, and the strengthening of non-contributory pensions in particular, has been assured by a renewed 'social contract' - the fall of apartheid in South Africa, the end of dictatorship in Brazil. The programmes predate these. The 'social pension' in South Africa has been in place since the early 1900s, with blacks being progressively incorporated in the programme, although at the expense of lower benefits.[44] In Brazil, the *previdência rural* and the social assistance old age pensions for urban poor older people have antecedents in programmes introduced in 1974.[45] It is very important not to confuse the factors leading to the establishment and extension of non-contributory pension programmes, with their current sustainability.[46]

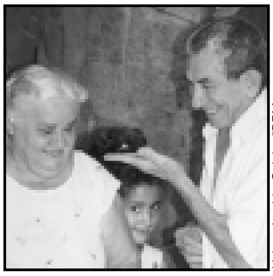
In addition to the stimulus from the new 'social contracts', the current sustainability of non-contributory pension programmes arises to a significant degree from their effectiveness in redistributing income and reducing poverty. The programmes have the advantage that, in the public eye as well as in the view of experts, they tie together redistribution to the poor with intergenerational redistribution. Furthermore, the secondary effects of the programmes in facilitating economic and social change and in addressing rising household vulnerability (e.g. HIV/AIDS in South Africa, informal work in Brazil) are perceived as extremely beneficial.

44 (van der Berg 1997; Devereux 2001b; van der Berg 2001).

45 (Delgado and Cardoso 2000c; Brumer 2002; Schwarzer and Querino 2002).

46 The reasons for the gradual extension of these programmes in the 1970s and 1980s in South Africa, and their introduction in Brazil in 1974 show interesting parallels. In South Africa, the main motivation was to provide support for older and poorer blacks in the homelands, to enhance legitimacy for these, and to stem migration into urban areas. In Brazil, the need to facilitate structural change in agriculture and to stem migration from rural areas were important (van der Berg 1997; Schwarzer 2000).

4. Conclusions



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4.1 Remaining questions and work in progress

This report has presented the main findings of the study based on the analysis to date. We have initially focused on the key questions posed by the research project, but further work is underway on other issues that have emerged during the research. These include further work on:

- analysing the differential impact of non-contributory pension programmes on subgroups of older people (e.g. gender, age, location) to ascertain what factors enhance or detract from the beneficial effects of policy
- evaluating the quality of life of older people
- evaluating the non-wellbeing impact of the programmes on older people, especially in conditions where pension receipt improves the situation of households, but at the expense of the wellbeing of older people themselves[47]
- considering the financial implications of establishing non-contributory pension programmes in low income countries
- examining how non-contributory pensions enables older people to enhance their contribution to development, including further analysis of in-depth households interviews.

4.2 Main findings

The main findings emerging from the research are:

- In Brazil and South Africa, pension benefits are shared within households, with the implication that non-contributory pension benefits should be considered more appropriately as household cash transfers tagged on older people.
- Non-contributory pension programmes have a significant impact on poverty. The analysis of the data collected shows that in the absence of non-contributory pension programmes, the poverty headcount and the poverty gap would be appreciably higher for households with older people. The impact on the poverty gap is much larger for the poorer households in the sample. The analysis also showed that the programmes significantly reduce the probability that individuals in households with a pension recipient will find themselves in poverty.
- Non-contributory pension programmes reduce household vulnerability. Households with a non-contributory pension recipient show greater financial stability and lower probability of experiencing a decline in living standards.
- Non-contributory pension programmes promote functionings in older people. Preliminary analysis of a range of deprivation indicators shows that pension recipients have a lower incidence of deprivations, especially in urban areas.
- In Brazil and South Africa, non-contributory pension programmes reach a large number of poor older people (5.3 million in Brazil and 1.9 million in South Africa) at relatively low cost (1 per cent of GDP in Brazil and 1.4 per cent in South Africa). The programmes are financially sustainable and attract a large measure of political support. They are perceived by policy-makers, experts, and the public as effective because they link redistribution to the poor with intergenerational redistribution, are reasonably well administered, facilitate social and economic change, and are politically sustainable.

47 (Møller and Sotshangaye 1996; Ferreira 1999).

The MDGs cannot be successfully achieved without urgent consideration being given to the extension of non-contributory pension programmes

4.3 Lessons for other countries

The conclusions from this study suggest that establishing, or extending, non-contributory pension programmes in other developing countries could have a significant impact on reducing poverty and vulnerability among households with older people. Brazil and South Africa are the two countries with the largest non-contributory pension programmes, and these are reasonably well administered, have relatively low costs, and are politically and financially sustainable. In low income countries, with a limited tax base and a lack of an effective administrative structure, the introduction of non-contributory pension programmes will require international support. Recent initiatives, such as the International Labour Organisation's Global Social Trust, are beginning to focus attention on the nature and extent of the international support needed. Further work needs to be done to consider more specific issues of programme design, administration and financing in these countries. It is unlikely that the Millennium Development Goals can be successfully achieved without urgent consideration being given to the establishment and extension of non-contributory pension programmes.

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Hein du Plessis/HelpAge International

Pensions play a key role in old age support systems, but research and debate on pension policy has so far focused on contributory pension programmes. This research project analyses non-contributory pension programmes in Brazil and South Africa, the two developing countries with the largest programmes. The research aims to provide evidence of the impact of these programmes upon the wellbeing, participation and security of older people and their households; and to identify lessons for other developing countries.

Non-contributory pensions and poverty prevention: A comparative study of Brazil and South Africa

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