EVALUATION OF RETIREMENT SYSTEMS OF COUNTRIES WITHIN THE SOUTHERN AFRICAN DEVELOPMENT COMMUNITY

Synthesis Document

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Abbreviations

CPR	Caisse de Prévoyance et de Retraites
CRCM	Caisse de Retraites Civiles et Militaires
CCT	Conditional Cash Transfer
CnaPS	Caisse Nationale de Prévoyance Sociale
DB	Defined Benefit
DC	Defined Contribution
DRC	Democratic Republic of the Congo
GDP	Gross Domestic Product
GEPF	Government Employees Pension Fund
GNI	Gross National Income
NBFI	Non-Bank Financial Institution
NGO	Non-Governmental Organisation
NPF	National Pensions Fund
NPS	National Pension Service
NSSF	National Social Security Fund
ODA	Official Development Assistance
OPM	Oxford Policy Management
PAYG	Pay-As-You-Go
POSB	Peoples Own Savings Bank
PSA	Programa Subsidio de Alimentos (Mozambican cash grant scheme)
PSPF	Public Service Pensions Fund
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
SADC	Southern African Development Community
SACU	Southern African Customs Union (with member states being Botswana, Lesotho, Namibia, South Africa and Swaziland)

SASSA	South African Social Security Agency
SCTS	Social Cash Transfer Scheme
SOAP	State Old Age Pension
SPF	Seychelles Pensions Fund
UN	United Nations

1 Introduction

1.1 The study

Oxford Policy Management (OPM) was contracted by FinMark Trust and its partners (the Department of Social Development and the International Social Security Association) to undertake an evaluation of retirement systems of the 15 countries within the Southern African Development Community (SADC). In accordance with the terms of reference, we have set out to develop 'a comprehensive review of the retirement systems and informal mechanisms of all SADC countries' and, in doing so, have focused on 'describing the retirement systems of each country with a view to understanding the effectiveness and coverage in different systems and the importance of informal approaches to long-term provision'.

The overall aims of the study were to compile and systematise the information available on retirement systems in the region, including informal mechanisms and mechanisms used by informal sector workers. This intention has been to provide comparative information that can be set against the more extensive information that is available for corresponding systems in other parts of the world, and form the basis for further development of retirement systems in these countries.

The study took place in four phases:

1. development of the conceptual approach and research strategy, including research tools and templates;
2. a review of published and electronically available literature, and a review of available data sources relating to retirement provision and income for older people (i.e. those aged 60 and over);
3. country visits to selected countries where there were significant information and data gaps following the literature review and survey of data available;[1]
4. development of a description for each country, and an integrated 'synthesis' report providing key conclusions and recommendations with regard to coverage and effectiveness (assessment).

This document is the Synthesis Report, which accompanies 15 individual country profile documents. It summarises the main comparative findings, drawing out the key themes that recur across the various country profiles and setting out the critical conclusions and recommendations.

For all 15 countries, the documentary sources were generally adequate to provide a broad description of country systems. In several cases the literature review identified gaps, which were followed up through further enquiries and also by the country visits. However, it should be noted that unearthing the required sources and then translating this raw data into systematic country descriptions and assessments was an extremely time-consuming task. A number of specific challenges were encountered:

- There is little standardisation across the sub-continent with regard to retirement information and data. It is therefore not possible to present comparative retirement

[1] Country visits were made in February 2010 to Lesotho, Madagascar, Malawi, Mozambique, Swaziland, Tanzania and Zimbabwe.

descriptions for all countries at a specific point in time, and the depth of information differs significantly between countries.

- It was more of a challenge than had been anticipated to put together a basic background dataset of demographic, socio-economic, labour market and economic data for each of the countries. Country sources on these topics are irregular and often difficult to find, and there is little standardisation between countries. It was also often difficult to access reliable supplementary information in cases where the published data were inadequate or where different sources provide conflicting data.
- As expected, information on informal systems was limited. This could relate partly to the absence of a generally accepted conceptual framework and categorisation of informal mechanisms but, also, informal systems are of a smaller scale and, by definition, not codified and regulated through written rules and legislation.

1.2 Conceptual clarification

This study was intended to review the retirement systems in SADC countries, focusing both on formal and informal mechanisms. The focus is therefore on formal and informal **mechanisms and support networks**, and not specifically on the formal and informal (labour market) sectors. Indeed, formal sector workers do utilise informal mechanisms and vice versa.

The study attempted to be sensitive to the fact that the concepts related to retirement systems often reflect the Western context, where formal retirement systems first developed and are, today, extensive. However, socio-economic conditions and labour market realities in Southern Africa are very different from the current Western context (although they may be closer to the context prevailing when pensions were introduced) and this has implications for the description of systems in Southern Africa, as well as for assessment of systems. Specifically:

- Formal **retirement** from the labour market at a specific age or in a specific age range (set in terms of employment or pension rules) is a much less common concept and event in a large part of the developing world and, in particular, in sub-Saharan Africa. People in this region are much less likely to come to a specific age where they can withdraw completely from the labour market. There are various reasons for this:
  - the informality of many jobs in general, and especially of many jobs in the agricultural sector (on which a majority of the population in many of these countries depend for their livelihoods);
  - lower penetration of collective bargaining and labour standards;
  - regular interruptions of formal sector jobs (affecting contributions to formal retirement mechanisms); and
  - low incomes during their work lives.

  Elderly people will often remain active, both in the labour market and also in household and community production, for long periods after what is often the formal retirement age in richer, more regulated economies. Hence, as specified in the terms of reference, the study explicitly examined informal savings and redistributive mechanisms that may contribute to ensuring income security in old age by supplementing or replacing formal retirement mechanisms.
- While the terms of reference speak of ‘retirement **systems**’, it is evident that in Southern Africa, at least, a retirement system in the dictionary sense of a ‘systematically arranged and designed system’ leading to a ‘condition of harmonious and orderly interaction’ does

not exist. In other words, the notion of a system may imply a degree of formality and rationality that is seldom the case with the different vehicles providing income security to the elderly in most Southern African countries. The 'system' to be described will consist of a set of mechanisms that provide income to the elderly. While the different mechanisms do interact and affect each other, there can be no presumption of optimal design and the appropriateness of the different components, nor of the effective integration of the different mechanisms.

1.3 Classification of savings and redistributive mechanisms providing income to the elderly

We define **formal** retirement mechanisms as mechanisms that are established in terms of legislation or regulated through legislation. These can be transfer (or redistributive) mechanisms and long-term savings mechanisms aimed at securing a minimum income for elderly people, or aimed at consumption smoothing over the life cycle (deferring consumption from working age to retirement age). Some private provision of retirement instruments that will be included under the 'formal' category may not be formally regulated, but are governed by formal policies or agreements/contract with private sector firms.

Formal retirement mechanisms, broadly in line with the most common 'typologies' (see Whitehouse, 2007; World Bank, 2008), are classified into four types: social assistance, social insurance, occupational schemes and voluntary insurance.

- **Social assistance** refers to non-contributory (tax or donor-financed) retirement schemes that can be available universally (to all the elderly) or be means- or resource-tested. These are redistributive schemes aimed at ensuring a minimum income level for all the elderly. Entitlement to these benefits is normally spelt out in government legislation and regulations. Some social assistance or social protection schemes may be targeted at the poor in general and may therefore reach a significant number of poor elderly benficiaries. Where such general social assistance is in place and covers a large share of the elderly the country profiles identify and describe those schemes but no attempt has been made to encompass all social protection measures that may include the elderly (such as food relief and public works).[2]
- **National social insurance** refers to contributory schemes to which workers are obligated to contribute through a national legislative mandate. Benefits typically relate to the extent of contributions, but there may be some minimum guarantee for low-income workers, implying a redistributive component. The key objective of these schemes is to provide earnings-related benefits ('minimum income-related benefits') after retirement, and these schemes are focused more on income-smoothing than simply a minimum income (poverty relief). While such schemes are often administered through a public sector agency and fund, the mandate can also be to contribute to private sector managed funds. Such funds can be 'defined benefit' (DB) or 'defined contribution' (DC).
- **Occupational schemes** are those set up for employees of a specific organisation or groups of organisations (such as industry-wide schemes set up in terms of collective agreements) and include schemes specifically set up for civil servants.

[2] Holzmann *et al.* (eds) (2009) argue that, if the elderly do not face a higher risk of poverty than the general population, 'the rationale for retirement income transfers would be weakened—the elderly poor could simply become part of the general social assistance system that targets all the poor (if, of course, such a system exists)'. The authors also refer to mixed evidence on the vulnerability of the elderly to poverty. Kidd and Whitehouse in Holzmann *et al.*, however, conclude on the limited available evidence that 'the most likely conclusion is that in sub-Saharan African households with older people tend to be poorer than the general population'.

- **Voluntary private insurance** schemes refer to individual contributory schemes allowing for top-up income-related benefits. These are entered into voluntarily by individuals. Such schemes are not established through legislation but are mostly (or should be) regulated by specific legislation.

Insurance mechanisms apply mostly to formal sector workers, we may find some examples where insurance mechanisms have been adjusted to incorporate informal sector workers, as has happened in some countries.

Informal mechanisms for providing income in old age refer to mechanisms that are not established through legislation or formally regulated. Although these informal mechanisms may be the only vehicles that can be accessed by people outside the formal sector of the economy, evidence (such as various Finscope country studies) shows that formal sector workers (and sometimes high income groups, in particular)[3], are often the main users of informal mechanisms (e.g. such as buying cattle from wage income).

Such informal mechanisms are more difficult to identify and to classify because of the smaller scale and also the absence of clear and documented rules for their operation. While social protection for the informal sector and less formal mechanisms has been getting increasing attention, a standardised typology or framework for the classification of informal schemes has not yet been developed. This study distinguished between three informal avenues of support for the elderly: longer-term savings vehicles, accumulation of assets and other informal forms of support.

- Longer-term savings vehicles, focusing on savings instruments or relationships that last for longer than one year. These include rotating savings and credit associations, micro savings and insurance schemes and long-term voluntary contractual saving schemes not specifically focused on retirement. This includes mechanisms such as 'endowment policies' or 'guaranteed funds' within the banking sector[4] which have formal characteristics (such as written contracts and being supervised by a regulator in terms of legislation).
- Accumulation of assets which can generate non-employment income (including during old age), such as cattle, land, housing and hardwood tree plantations.
- Other informal forms of support of the elderly:
  - continued household production after retirement or in old age (such as child care or household management) 'remunerated' through income sharing or remittances;
  - redistribution within households (intra-household transfers); and

[3] For example, a member of the team noted that many formal employees in Botswana use part of their wages to expand their cattle herds.

[4] Endowment policy: 'A contractual saving policy with a fixed term paying a lump sum benefit at maturity in return for regular premiums. For purposes of tax definition, the term may be no shorter than 5 years. It may be extended indefinitely from the original maturity date. Premiums are usually payable monthly throughout the term of the contract. *Surrenders* are possible after an initial minimum term. Some contracts also permit partial *withdrawals* prior to maturity, giving a degree of flexibility to savers.' Guaranteed fund: 'An insured investment fund providing some form of investment guarantees and year-to-year performance smoothing. The most common form of guaranteed fund today provides annual bonus declarations, never less than zero, which bear some reference to the return on underlying assets, normally invested consistently with those of a balanced fund but aim to hold back returns in periods of high performance and give it back in periods of poor. The overall profile of returns is smoother, but policyholders are charged, not always explicitly, for the risk to shareholder capital resulting from the guarantee and this charge reduces overall performance by between 0.5% and 1% annually.' (Roth, Rusconi and Shand, 2007)

- support from communities or social networks.

These informal mechanisms may contribute to saving or providing an income for retirement or old age but, in many cases, their focus will be on other objectives, such as education provision and more general management of risks. The study therefore attempted an inventory of such savings and redistributive mechanisms, and an assessment of their relevance as a mechanism for providing income to the elderly or as a foundation to develop appropriate products.

1.4 Research framework

A common framework of assessment was applied to the various formal and informal schemes that were identified and reviewed. This framework is a reworking of the 'key information' categories in the terms of reference, and forms the basis for the description and assessment of the mechanisms covered by this study.

The main categories are:

- legal and institutional set-up (terms of establishment, ownership, governance and administration);
- coverage of the population and the elderly;
- financing or source of funds;
- quality 'indicators' that include the range of contingencies covered, when benefits are accessible (retirement age, in the case of formal systems), benefits levels (or replacement rates or relative pension levels, as are applicable), preservation and withdrawal benefits, administrative cost and asset management (where applicable), and financial and social sustainability. It will be necessary to consider the main risks to which the different types of schemes are vulnerable (e.g. demographic, political, fiscal security of unfunded schemes, investment performance of funded schemes).

The information gathered in this systematic framework allows for comparisons between the different mechanisms and between countries for an assessment of the different mechanisms.

1.5 Coverage and adequacy of retirement systems

The study has found a large array of mechanisms, and combinations thereof, across the counties of the SADC region aimed at providing support to the elderly. The countries studied are diverse in terms of their demographics, economies, labour markets, fiscal situations and financial systems, all of which are key factors in determining the demand for and supply of social security provision. In many countries, the coverage of formal schemes (social assistance, social insurance, and occupational and private pension schemes) is limited because formal employment is not the dominant employment relationship.

South Africa and Mauritius have the largest and, arguably, the most developed pensions industries in the region. In South Africa, a large proportion of the labour force is uncovered (formal sector employment is estimated at about 70% of the labour force) and the essentially voluntary system leads to low average replacement rates. Mauritius has a higher coverage rate (formal sector employment is about 85% of the labour force) and after 2000 corrective measures (adjustment of the maximum insurable wage and pension points in line with change in earnings) were put in place to ensure that target replacement rates can be delivered.

Six countries in the SADC operate universal or means-tested **social assistance** schemes. These are Botswana, Lesotho, Namibia, South Africa and Swaziland (all member states of the Southern Africa Customs Union – SACU) and Mauritius. Data on the number of beneficiaries confirm that these schemes all ensure high coverage of the population over the target age (60–70+, depending on the specific country) and, therefore, provide a guaranteed income that is broadly adequate to sustain beneficiaries above the national poverty line.

Ten countries operate national **social insurance** schemes. These are Angola, the Democratic Republic of the Congo (DRC), Madagascar, Mauritius, Mozambique, the Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe. Of these, two (Mauritius and Swaziland) also have social assistance schemes. Of the five countries that do not have social insurance schemes (Botswana, Lesotho, Malawi, Namibia, South Africa), four have social assistance schemes, leaving Malawi as the only country without either social assistance or social insurance.

The coverage of social insurance in the relevant countries is by no means universal and the degree of social protection provided by the schemes in these 10 countries varies considerably. This is because the membership is usually restricted to formal employment (frequently only in the private sector) and, except in the Seychelles and Mauritius, the participation rates of formal employees in the labour force is quite limited. Some schemes allow self-employed and voluntary membership but uptake is generally very low. In most countries, the high dependence on informal activities and subsistence agriculture as the primary sources of economic activity result in these schemes typically reaching less than 10% of the labour force. The overall package of benefits that can be provided by most of these schemes appears unlikely to ensure that the beneficiaries receive an income that will keep them above the poverty line after retirement (typical replacement rates are 30–50%). This is because contribution rates are fairly low (around 10% of salary), administrative costs appear relatively high (frequently around 20% of annual contributions), asset management policies result in low returns on funds, and many countries provide most benefits as a lump sum on retirement rather than as monthly income.

Occupational schemes are in operation for the public sector in all SADC countries (except the Seychelles, where the national social insurance scheme applies to both public and private sector employees) and for many private companies (and public enterprises that are not part of public sector schemes). Occupational schemes impose a substantial additional cost on employment (usually 15-25% of basic salary) and this may have an adverse impact on the amount of investment and on the balance between capital and labour intensity (with negative outcomes on employment creation).

A number of countries run unfunded pay-as-you-go (PAYG) public sector schemes (Malawi, Mauritius, Mozambique, Zimbabwe). Most public sector schemes are still DB in nature, although Botswana and Lesotho have converted to DC schemes. Public defined benefit schemes tend to be very generous, with replacement rates of 50-100%. The high cost of providing defined benefits (through current employer contributions and any unfunded obligations arising when assets are less than liabilities) is a major threat to the sustainability of occupational schemes and a cause of fiscal pressure in a number of countries.

Private occupational schemes are funded. At present, there are both DB and DC schemes but it seems likely that companies in SADC countries will follow the international trend and gradually close the remaining defined benefit schemes. There is, as yet, limited actual experience with pension benefits but it seems probable that defined contribution schemes will deliver a significantly lower level of benefits on retirement as they typically have lower employer contribution rates and their returns may be adversely affected by poor performance

of assets. Total contribution rates are typically 15–25% of salary (employers are usually responsible for a higher share) and this impacts on employment costs. Coverage of occupational schemes is restricted to formal sector employees, and is often further limited to those with permanent and pensionable status (typically middle management and technical staff) – providing substantial benefits to a group that is already relatively well-advantaged.

South Africa is the only SADC country that has a significant voluntary private pension sector. This reflects both the large absolute number of employees who wish to smooth their life-cycle income and the highly developed financial sector, which allows savers to seek out the most suitable instrument for their personal circumstances.

Whereas there is a general assumption that **informal systems** – specifically kinship relationships and a variety of networks at the community level – provide support to the elderly once they cannot work, there is almost no systematic, quantitative evidence on the extent and adequacy of support. Some studies are starting to point to the complementarity of formal and informal schemes, with the injection of money from social assistance schemes supporting participation in and the effectiveness of informal networks. The study could not find evidence of other longer-term savings mechanisms that function on a significant scale to provide income security to the elderly. Investment in housing by households has, however, been mentioned in a number of studies as worthy of more policy attention in the context of provision for retirement.

1.6 Challenges and range of reforms

The countries of the Southern African Customs Union (SACU) and Mauritius have implemented social assistance schemes that provide a basic income guarantee for the elderly at arguably affordable levels (albeit vulnerable to fiscal stress). In addition, the high level of formal sector employment means that the Seychelles successfully provides extensive coverage through its mandatory social insurance scheme. However, most other SADC countries face huge challenges in providing a guaranteed safety net for the elderly. It is difficult to envisage many of those countries installing what could be recognised as strong and sustainable “retirement systems” in the foreseeable future. This problem is compounded by the general observation that informal systems are under substantial stress due to demographic, socio-economic and epidemiological trends.

The case of Zimbabwe (with much reduced payments through the social insurance system and some pension assets becoming worthless after the hyperinflation) demonstrates that political and economic developments can result in the failure of an apparently adequate legal and institutional framework to deliver the intended outputs and outcomes. Although not as extreme, a number of other countries have experienced this failure to deliver on pension promises while others face problems that threaten to undermine the credibility of their formal retirement systems.

Countries without social insurance schemes appear generally to have poorer coverage than countries with social insurance. However, these schemes are only really effective in economies with a high level of formal sector employment relative to the total labour force. Disparities in coverage of existing social insurance schemes seem likely to persist, being linked to the extent of formal employment which is not showing strong growth. A number of these mechanisms continue to be hampered by issues of governance (inadequate oversight), weak and costly administration and sub-optimal investment of funds, resulting in low replacement rates and weak protection of rights.

Occupational schemes for civil servants have a long history in the region but also suffer in a number of cases from a weak regulatory framework and inefficient administration. The guaranteed defined benefits appear unsustainable, in view of low contribution rates, the unfunded nature of pay-as-you-go schemes still operated by several governments and the weak fiscal situation of several governments. There is no doubt that funded schemes are significantly more secure than unfunded schemes but it is also necessary to recognise the risk that large pension funds will provide an attractive target in countries facing fiscal and poverty challenges. Reforms therefore need to insulate the assets of pension funds from the threat of political fiscal expediency.

Only a few countries, such as Botswana, Namibia and South Africa, have strong private pension sectors providing occupational and private plans whose assets play an important role in financial markets. Even in these countries, inadequate regulation and oversight of banks and non-bank financial institutions (including pension funds and insurance companies) may lead to challenges regarding administration and asset management costs (and hence replacement rates) and protection of rights. Such risks are much greater in countries with less developed and less competitive financial markets,

Whereas conversion from defined benefit (DB) to defined contribution (DC) funds makes good fiscal sense (for governments) and sound commercial sense (for private firms), conversion leaves the risk of investment performance on those least able to bear it (pensioners) and in practice members often actually receive much less than their entitlements under their existing DB schemes.

Other reforms need to address issues relating to the management of the substantial volume of assets that are generated by pension funds. There is a potential threat to sound macroeconomic management if these resources are invested in relatively small domestic capital markets, as they could cause significant market distortions with adverse effects on the smooth operation of the financial sector. Trustees and/or fund managers have a fiduciary responsibility to secure the best possible return for their members but, in several countries, funds have achieved below-average real rates of return because the managers follow poor investment strategies (sometimes compounded by misguided government policies, such as a minimum percentage of domestic investment) or fail to diversify holdings across asset classes. This will have a serious adverse impact on the benefits that can be paid out on reaching the scheduled retirement age. This problem may be exacerbated if recipients are restricted in the choice of annuities that they can purchase.

In response to these urgent challenges, the study has found that several SADC countries are implementing or debating promising departures and initiatives relating to: design and broad system reform; fighting poverty through extending social pensions and improving administration; and strengthening social insurance schemes and dealing with weaknesses in occupational and voluntary schemes. Careful monitoring of these initiatives could provide a rich source of learning for all the countries in the region.

With respect to design and broad system reform:

- Angola and Mozambique provide a comprehensive approach to social protection for the elderly with broad founding social protection legislation encompassing basic, compulsory and complementary systems. This holds the promise that going forward the different components will be viewed and planned as a comprehensive retirement system with each leg of the system playing specific and complementary roles.

- Mauritius took early action in requesting external support for in-depth analysis of their, by regional standards, exemplary retirement system and, on the basis of this research, has devised a range of interventions to strengthen aspects of the system.
- While pensioners in Zimbabwe have suffered immeasurably from the hyperinflation – with public and private pension promises being dishonoured – the experience shows the resilience of strong legal frameworks and institutions with the National Social Security Authority continuing to operate strongly (with payments continuing and good monitoring and reporting of activities) given the external conditions and the Pensions and Insurance Commission (PIC) regrouping on a strong legal base.

A number of countries provide positive examples of fighting poverty through social assistance schemes:

- Introducing basic social pensions to reduce poverty among the elderly while heeding affordability e.g. both Lesotho and Botswana have introduced a universal pension that guarantees income at a modest poverty line for all citizens aged 70+ and 65+ respectively at a reasonable fiscal cost.
- Testing and building new systems for delivery of cash (often by bringing in the private sector and modern communication technology) and the development of new institutions. Payment mechanisms that will improve service delivery and reduce cost are being explored in at least Namibia, South Africa and Swaziland where social pension schemes are in existence. A range of experiments with smaller scale cash transfers are ongoing in the region, for example in Malawi, Mozambique and Zambia. Centralising administrative responsibility for cash grants in the Social Security Agency is also intended to push these improvements forward in South Africa.
- The history of the introduction of social pensions in southern Africa has made it difficult to conduct randomised experiments that conclusively show their impact and more comparative work is required. Nonetheless, there has been progress in building the evidence base for the impact of cash grants and social pensions. The Mozambican cash grant programme (which also targets the poor elderly) has recently been extended on the basis of the evidence of positive impact. Similarly, the continuing extension of the South African cash grant system is motivated by the growing evidence of strong social and economic impact.

There are a number of ongoing processes to improve the operation, sustainability and adequacy of social insurance and occupational and private schemes:

- In South Africa coverage and adequacy challenges are being addressed through the development of proposals to move away from the current essentially voluntary (occupational and private) system of retirement to the introduction of a compulsory social insurance mechanism to complement the social assistance and occupational and private system.
- Botswana and Lesotho have both converted their civil service occupational pension schemes from unfunded defined benefit schemes to funded defined contribution schemes. South Africa has taken a different route to ensure fiscal prudence and sustainability by fully funding its Government Employees Pension Fund (GEPF) while maintaining the defined benefit format. Other countries (such as Mozambique and Zimbabwe) have also embarked on or are considering steps to improve the operation and sustainability of their civil service pension schemes. A number of countries (such as Botswana, Namibia and Swaziland) have shown the benefits of including pension schemes for civil servants under the general pension regulatory framework.

- Several countries have taken steps to strengthen the regulation of other occupational and private schemes. Mauritius has passed a revised Financial Services Act (2007) and re-established the Financial Services Commission to enhance the regulatory framework and oversight. In Botswana, the outcome of a review of the pension regulatory framework has been new legislation and the establishment of the Non Bank Financial Institutions Regulatory Authority (NBFIRA).

2 Background country characteristics

The economic and social structures of the countries of sub-Saharan Africa differ markedly from those in other parts of the world, and there are also significant differences among the SADC countries themselves. These differences impact on the need for redistributive and savings mechanisms (the demand for retirement provision) for the elderly, but also on the capacity of societies and government to respond to those needs. There are important demand-side factors that need to be considered, such as demographic characteristics of the country (e.g. the proportion of aged people in the society and the rate of ageing) and the level of earnings in cash generated by the workforce (which determines how much can be saved while working). On the supply side, there are also important factors to consider, such as the range and quality of institutions that offer services related to pensions, the availability of relevant products and the administrative capacity of government to extract taxes or contributions.

2.1 Demographic trends[5]

There are three fundamental demographic trends occurring in the SADC region that conform to current global trends: rapid urbanisation; the impact of the HIV and AIDS pandemic; and the growing number of the elderly.

The SADC region is rapidly urbanising. In 2008, on the basis of national definitions (which tend to understate the numbers living in urban and peri-urban environments), 38.60% of the total population lived urban areas, compared with 35.08% in 2000. Between 2000 and 2008, SADCs urban populations, on average, grew by 3.97% per cent per year, which is significantly faster than the overall population growth rate of 2.47%. In 2008, South Africa was the most urbanised, with over 60% of the population living in urban areas compared with 56.9% in 2000. Despite all countries facing rapid rates of urbanisation, there are varying degrees in the levels of urbanisation. In 2008, Angola, Botswana, and the Seychelles all had over 50% of their population living in urban areas, while Malawi, Lesotho, Madagascar, Swaziland and Tanzania all had less than one-third of the population in urban areas.

Urbanisation impacts on provision for the elderly in several ways. First, urbanisation has been identified as one of the factors weakening informal systems of social protection and, hence, also points to the need to prioritise policy and implementation around old age security. Second, the process also puts pressure on occupational pension schemes, which tend to be dominated by the urban formal employed.

The average life expectancy in the region in 2000 was 51; this remained unchanged in 2007. However, there are large differentials among countries. Mauritius has the highest life expectancy (76 years), which rivals that of the developed world while Mozambique has the lowest life expectancy at 42 years.[6] Since 2000, six out of 15 countries in the region have experienced deterioration in life expectancy: Lesotho, Mozambique, Namibia, South Africa, Swaziland and Zimbabwe. This trend is due to the impact of the HIV epidemic.

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[5] It has not been possible to find one consistent data source for all countries, since census and Labour Force Survey data have not always available. For comparability, this section mainly uses World Development Indicators unless otherwise stated.

[6] Different sources give different values for life expectancy. For example, the Human Development Report gives life expectancy for Mozambique in 2007 as 47.8. This discrepancy is largely due to different projections concerning the impact of HIV/AIDS on a person's life expectancy.

Fertility is declining. The Total Fertility Rate in the region averaged at 4.1 in 2007, lower than the 4.6 recorded in 2000.

These demographic changes will have a substantial impact on demand and ability to pay for social security. In the short-term, countries experiencing a decline in life expectancy face the difficult problem of addressing HIV/AIDS, which hits those of working age, reducing gross national income and increasing dependency rates. In the long-term (i.e. over several generations), increasing life expectancy implies that the cost of social security will increase, both because the absolute number of elderly will increase and each one will survive longer after reaching retirement age. The decline in total fertility is also likely to mean fewer people of working age, and may imply an increase in the dependency ratio.

2.2 Labour market conditions

The labour market conditions of the SADC countries vary markedly. Although comparisons will be drawn in this section, it must be noted that the sources, ages and definitions used for constructing labour market indicators vary across countries, as well as there being a lack of data for all years. Therefore, the comparisons highlighted here must be taken as indicative, and considered in the context of their limitations. See Table 2.1 (p. 24) for labour market statistics.

Using the latest available data (only one source is available before 2005), we find that there are six of the countries who have unemployment rates that reach into double digits: Botswana, Lesotho, Namibia, South Africa, Swaziland and Zambia.[7] Namibia has the highest rate of unemployment, 37% in 2008 according to the World Bank; while this indicator is probably using the broad definition of unemployment, persistently high unemployment is confirmed by a figure of 22% unemployment found in Namibia's Ministry of Labour and Social Welfare (LFS) (2004), using the standard international definition.

SADC countries also differ in the span of their formal sectors; the proportion of employment within the formal sector ranges from 5.9% in Tanzania to 85.6% in Mauritius. Formal employment is an important factor governing a person's access to pension scheme coverage, since formal schemes are likely to offer little coverage to those in informal employment. While some countries have started making provision for contributions from informal sector workers, these seem not to have elicited a significant response. A smaller formal sector also means a smaller tax base from which to fund any social protection systems. The countries that have the lowest levels of formal employment are Madagascar (14.9%), Zambia (7%) and Tanzania (5.9%).

Economic growth and increased modernisation, monetisation and formalisation of economies provide the conditions for expanding formal social security through an expanding revenue base and stronger institutions for supporting the flow of contributions and transfers. While the growth record in Southern Africa is mixed (Table 2.2, p.24), growth in a number of countries has stabilised or expanded in recent years. A number of countries with threatening macroeconomic imbalances (notably Mauritius, the Seychelles and Angola) have taken steps to put their economies on a more sustainable trajectory.

While growth prospects may be cautiously optimistic in the region, this growth will take place in an environment where long-term, stable employment opportunities do not expand at the same pace as the economy. Changes in the nature of the labour market and global

[7] It should be noted that statistics are unavailable or outdated for some countries that may have high rates of unemployment, such as the DRC and Zimbabwe.

composition has ensured that a greater proportion of employment opportunities will be short-term and without some of the customary employment benefits attached. Some of this is evident in Mauritius, where it seems as though social security benefits for workers are partly sacrificed in an effort to reduce the cost of investment and operation of a business. While the demand for retirement provision is therefore growing, the growth of such provision will lag behind economic expansion. This is part of the reason why a new model for thinking about social protection may be necessary in the developing world, in contrast to the European welfare state model.

Labour Force Participation Rates (from the WDI for 2007) for the SADC countries range from 53.4% in South Africa to 88.6% in Tanzania. More starkly contrasting, however, are the variations in the proportion of the population aged over 65 years that are economically active; these proportions range from 1.98% in South Africa to 88.16% in Malawi (ILO LABORSTA). While a great many factors can affect this proportion, one that is relevant is that the presence of well-functioning retirement systems (both in terms of coverage and in benefit levels) will reduce the number of people aged over 65 who would choose to work.

Another noticeable structural difference between these countries is the proportion of the labour force in the agricultural sector, whether as waged labourers in commercial agriculture, subsistence farmers or self-employed. Four countries rely on agriculture to provide more than 70% of employment (Madagascar (82%), Malawi (75%), Tanzania (76%) and Zambia (72.3%)), whereas Mauritius and the Seychelles have fewer than 10% of their jobs in agriculture.

2.3 HIV/AIDS

The SADC region is at the epicentre of the HIV epidemic. The HIV prevalence rate (percentage of population aged 15–49) varies considerably: in 2007, three countries Swaziland (26%), Botswana (24%) and Lesotho (23%) had high rates, whereas Angola and Mauritius had only a 2% prevalence rate. High HIV prevalence levels have negative implications for both formal and informal provisions for old age.

In terms of formal pension provision, deaths from HIV (and care for those who are ill with HIV-related diseases) results in withdrawals from the labour market and increasing pressure on corresponding funds in the form of survivor benefits, funeral benefits, and the like. Similarly, deaths resulting from HIV reduce the contribution base by causing shrinkage in the number of employed people. With regard to informal mechanisms (e.g. family support), HIV wipes away the productive workforce that would have otherwise acted as a safety net for their parents. At the same time, the elderly are left behind to act as carers to their grandchildren and other younger relatives; this, in turn, increases vulnerability further.

2.4 Poverty levels

In the absence of harmonised data on poverty, it is very difficult to make meaningful judgements and comparisons on poverty levels. In Zimbabwe, the Poverty Assessment Study Survey (PASS II) assessment estimated that the population in poverty increased from 55% in 1995 to 75% in 2003. The most recent household expenditure survey data for the Seychelles indicates around 13% of Seychellois are living below an SR 50 per day (approximately US$3.5) poverty line. In the absence of consistent data, poverty levels in the region can be proxied using other socio-economic indicators. For example, in 2007 the DRC had the lowest gross primary school enrolment at 85% compared with 103% in South Africa

– the highest in the region. On average, 42% of the total population in SADC had access to improved sanitation services in 2006. Again, country disparities are obvious.

2.5 Macroeconomic context

Table 2.2 (p. 25) shows a comparison of annualised gross domestic product (GDP) growth for the periods 1990–2008 and 2000–08. Two countries have experienced negative growth during the period 1990–2008: Zimbabwe and the DRC – although the DRC has recovered to experience average yearly growth of 3.65% since 2000. Countries that have experienced average growth of over 5% since 2000 are Angola (12.15%), Mozambique (7.36%) and Zambia (5.10%).

The levels of GDP per capita for the SADC countries vary significantly from $8267.40 for the Seychelles (for 2008 at constant 2000 US$; the highest GDP per capita for any country in Africa) to $98.51 for the DRC. Most of the data values are towards the lower end of the distribution, with the median GDP per capita for 2008 (constant 2000 US$) being $941.01 (See Table 2.2 for details).

The economies of Zambia, Namibia and Botswana are dominated by a single commodity, which makes them more susceptible to external shocks, demonstrated by the greater impact of the global downturn on these economies relative to other SADC countries. Other countries with a narrow export base include the Seychelles (reliant on tourism for 42% of total exports in 2007 (WDI)) and Angola (which, while relying on oil for more than 90% of its exports in 2004, also possesses a large stock of diamonds that it has not fully exploited for export).

Special mention must be made of Zimbabwe, which has experienced a decade of economic decline and an increased informalisation of its economy. However, it has recently implemented a range of macroeconomic policy reforms and has improved price stability.

2.6 Financial sector development

Finscope datasets are available for five countries: Botswana, Namibia, South Africa, Tanzania and Zambia. The differences in the financial sectors of these economies can be seen by the proportion of the population excluded from the financial sector. Zambia has the least developed financial sector in terms of coverage, with 66.3% of the population financially excluded (2005); in South Africa, only 33.8% are financially excluded (2006). However, Tanzania has the lowest proportion of formally financially included, at only 11% (2006).

Three SADC countries are heavily indebted (the DRC, the Seychelles and Zimbabwe), with a present value of external debt of more than 100% of gross national income (GNI). This debt can be significant when it comes to decisions on funding social protection measures.

The IMF's *Regional Economic Outlook in Sub-Saharan Africa* (IMF, 2009) provides a classification of countries in sub-Saharan Africa focusing on financial sector capacity. It identifies South Africa as the only *emerging market* in the region, since it has a well-developed financial system with a full continuum of market segments that are interconnected and integrated with global markets. Although they vary in their degree of financial development, Botswana, Mauritius, Namibia, the Seychelles, Mozambique, Tanzania and Zambia are all identified as *frontier market countries,* because the linkages between financial segments and with global markets are fewer than in emerging markets. The remaining countries are classified as *financially developing countries*, as they have narrow financial sectors (in which most segments are underdeveloped) and few financial instruments.

2.7 The elderly

Out of a total population of 276,270,000 in the region, (49% male, 51% female), 5.48% is aged 60 and over.[8] Mauritius has the highest proportion of population aged 60 and over at 11.6% in 2010 (up from 8.7% in 2000). In South Africa, 7.32% of the population is aged 60 and over in 2010 (up from 5.9% in 2000 (UN, 2010)).

United Nations (UN) estimates show that this growing number of the elderly is expected to continue. By 2030, the elderly will make up 9.35% of the total population in the SADC. However, such overall increases mask country variation. Lesotho, Zambia and Zimbabwe will expect a decrease in the proportion of those aged over 60, although by less than one percentage point from 2010 figures. In 2030, Mauritius will have the largest proportion of people aged 60 and over (20.64% of the total population), followed by South Africa (11.06% of the population). By contrast, (Zambia 4.39%) and the DRC (4.67%) will have the smallest proportion of people aged 60 and over.

Overall, the increasing elderly population highlights the urgency of efforts to understand and support systems to ensure income security in old age.

[8] Total excludes the Seychelles.

Table 2.1 Labour force data for SADC countries

	Angola	Botswana	Democratic Republic of the Congo	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	Mean	Median
Labour force participation rate, total (% of total population ages 15+)(WDI)(2007)	81.70%	55.70%	71.60%	70.90%	85.20%	77.80%	59.50%	82.90%	53.80%		53.40%	65.10%	88.60%	70.10%	69.70%	70.43%	70.50%
Economically Active Population of 65+ (% of population)(2007)(ILO LABORSTA)	52.30%	39.74%	44.53%	59.34%	63.69%	88.16%	7.34%	81.54%	32.15%		1.98%	33.91%	62.28%	62.78%	51.89%	48.69%	52.09%
Unemployment (%)(From Country Profiles)		17.5%[6]		22.7%[8]	2.6%[5]	8%[5]	7.2%[8]		37%[8]	2%[6]	21.9%[8]	30.0%[6]	5%[9]	16%[5]	4%[4]	14.49%	12.00%
Employment in Formal Sector (%)(From Country Profiles)		48%[6]		50.3%[8]	14.9%[5]		85.6%[c]				68.9%[8]	79.8%[d]	5.9%[5]	7%[8]		45.05%	49.15%
% Employment in Agriculture (From Country Profiles)(Years are Country Specific)		29.9%[5]		40.6%[8]	82.0%[5]	75%[5]	9.1%[7b]		29.9%[4]	1%[9]			76%[6]	72.3%[5]		46.20%	40.60%
Unemployment (%)		17.50%		22.70%	2.60%	8.00%	7.20%		37.00%	2.00%	21.90%	30.00%	5.00%	16.00%	4.00%		
Employment in Formal Sector (%)		48.00%		50.30%	14.90%		85.60%				68.90%	79.80%	5.90%	7.00%			
% Employment in Agriculture		29.90%		40.60%	82.00%	75.00%	9.10%		29.90%	1.00%			76.00%	72.30%			

[0] = 2000, [1] = 2001, [2] = 2002, [3] = 2003, [4] = 2004, [5] = 2005, [6] = 2006, [7] = 2007, [8] = 2008, [9] = 2009, [10] = 2010, b = aged 16 and over, c = year undefined, source http://unstats.un.org/unsd/demographic/meetings/wshops/Tanzania_28Sep09/Exercise%20IV%20ILO%20IndicatorCalcResults%28FINAL%29.pdf, [d] = year undefined

[a] = from country profile, (% of 15-64)

Table 2.2 Annualised GDP growth, 1990–2008 and 2000–08

	Angola	Botswana	Democratic Republic of the Congo	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	Mean	Median	Skew
Average % Real GDP Growth 2000-2008 (WDI)	12.15%	4.50%	3.65%	3.94%	3.99%	3.69%	4.26%	7.36%	4.71%	2.26%	4.11%	3.38%	6.63%	5.10%	-5.75%	4.27%	4.11%	
Average % Real GDP Growth 1990-2008 (WDI)	6.28%	5.32%	-1.15%	3.93%	2.74%	3.92%	4.88%	6.41%	4.41%	3.63%	2.68%	3.56%	4.79%	2.61%	-0.51%	3.57%	3.92%	
Current Account Balance (% GDP)(2006)(IMF - WEO)	25.20%	17.23%	-2.08%	4.34%	-8.77%	-7.16%	-5.32%	-8.31%	13.84%	-13.87%	-6.31%	-7.22%	-7.74%	1.18%	-12.57%	-1.17%	-6.31%	
GDP per Capita (PPP)(Current US$)(2006)(IMF - WEO)	$4,631.44	$13,474.95	$295.24	$1,183.81	$879.43	$694.57	$10,446.49	$782.57	$6,009.12	$18,972.52	$9,150.58	$5,202.86	$1,164.30	$1,241.92	$9.65	$4,942.63	$1,241.92	1.331562
GDP per capita (constant 2000 US$)(WDI)(2008)	$1,356.78	$4,440.04	$98.51	$525.23	$270.78	$164.67	$4,928.68	$364.65	$2,692.41	$8,267.40	$3,763.82	$1,558.53	$362.36	$387.31		$2,084.37	$941.01	1.447627
Inflation, average consumer prices (Annual % change)(2008)(IMF - WEO)	12.47%	12.62%	17.97%	10.72%	9.17%	8.71%	8.76%	10.33%	7.09%	36.98%	11.50%	13.11%	10.28%	12.45%	156.20%	22.56%	11.50%	
% Financially Excluded (Finscope surveys)(Years are country specific)		46%[4]							45.2%[4]		33.8%[6]		54%[6]	66.3%[5]				
% Formally Financially Included (Finscope surveys)(Years are country specific)		49%[4]							53.9%[4]		58%[6]		11%[6]	22.4%[5]				
Present value of external debt (% of GNI)(WDI)(2007)	31.53%	3.00%	111.45%	22.90%	20.99%	9.41%	64.88%	14.51%		192.63%	18.99%	14.01%	14.82%	7.14%	120.94%			

[0] = 2000, [1] = 2001, [2] = 2002, [3] = 2003, [4] = 2004, [5] = 2005, [6] = 2006, [7] = 2007, [8] = 2008, [9] = 2009, [10] = 2010

Table 2.3 Demographics of SADC countries

	Angola	Botswana	Democratic Republic of the Congo	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe	Total (excluding seychelles) from UN-WPP
% Population over 60 (UN - WPP)(2000)	3.99%	4.82%	4.29%	6.91%	4.76%	4.69%	8.70%	4.96%	5.12%		5.91%	4.70%	4.58%	4.55%	5.11%	5.48%
% Population over 60 (UN - WPP)(2010)	3.95%	5.92%	4.21%	7.00%	4.63%	4.86%	11.62%	5.09%	5.65%		7.32%	5.30%	4.86%	4.77%	5.79%	5.48%
% Population over 60 (UN - WPP)(2030)	5.11%	7.96%	4.67%	6.81%	6.73%	5.18%	20.64%	5.97%	8.01%		11.06%	5.90%	5.25%	4.39%	4.88%	9.35%
Life Expectancy at birth, total (WDI)(2000)	43.82	48.93	43.98	48.77	56.72	46.03	71.66	44.90	54.36	72.34	56.12	50.01	51.17	42.48	43.69	
Life Expectancy at birth, total (WDI)(2007)	46.80	50.59	46.42	42.56	60.11	48.26	72.43	42.07	52.78	73.19	50.46	45.78	55.36	45.08	43.83	
% Urban Population (WDI)(2000)	49.00%	53.20%	29.80%	20.00%	27.10%	15.20%	42.70%	30.70%	32.40%	51.00%	56.90%	23.30%	22.30%	34.80%	33.80%	
% Urban Population (WDI)(2008)	56.70%	59.58%	33.96%	25.46%	29.52%	18.80%	42.48%	36.84%	36.84%	54.34%	60.74%	24.94%	25.52%	35.42%	37.34%	
Total Fertility Rate (WDI) (2000)	6.75	3.39	6.70	4.03	5.49	6.20	1.99	5.65	3.91	2.08	2.88	4.20	5.70	6.14	3.87	
Total Fertility Rate (WDI) (2007)	5.79	2.90	6.30	3.37	4.78	5.59	1.66	5.11	3.60	2.10[6]	2.69	3.57	5.58	5.87	3.47	

[0] = 2000, [1] = 2001, [2] = 2002, [3] = 2003, [4] = 2004, [5] = 2005, [6] = 2006, [7] = 2007, [8] = 2008, [9] = 2009, [10] = 2010

Table 2.4 Socio-economic indicators of SADC countries

	Angola	Botswana	Democratic Republic of the Congo	Lesotho	Madagascar	Malawi	Mauritius	Mozambique	Namibia	Seychelles	South Africa	Swaziland	Tanzania	Zambia	Zimbabwe
Poverty headcount ratio at $2 a day (PPP) (% of population)(WDI) (Years country specific)	70.2%[0]		79.53%[6]	62.23%[3]	89.60%[5]	90.44%[4]		90.02%[3]			42.89%[0]	81.00%[1]	96.56%[0]	81.50%[4]	
Prevalence of HIV, total (% of population ages 15-49)(WDI)(2007)	2.10%	23.90%		23.20%	0.10%	11.90%	1.70%	12.50%	15.30%	0.2%[2a]	18.10%	26.10%	6.20%	15.20%	15.30%
Human Development Index	0.564	0.694	0.389	0.514	0.543	0.493	0.804	0.402	0.686	0.845	0.683	0.572	0.530	0.481	N/A
Adult Literacy Rate (15+)(%)(Human Development Indicators 2007)	67.40%	82.90%	67.20%	82.20%	70.70%	71.80%	87.40%	44.40%	88.00%	91.80%	88.00%	79.60%	72.30%	70.60%	91.20%
GINI Coefficient (WDI)(Most recent data - years country specific)	58.64[0]	60.96[1995]	44.43[6]	52.5[3]	47.24[5]	39.02[4]		47.11[3]	74.33[1993]	42.0[7]	57.77[0]	50.68[1]	34.62[0]	50.74[4]	50.1[1995]
Gross Primary School Enrolment (%) (WDI)(2007 unless noted)		106.73%[5]	85.13%	114.36%[6]	141.38%	116.50%	101.39%	111.02%	109.21%	125.34%	102.50%	113.43%	111.85%	118.96%	101.16%[6]
Access to Improved Sanitation (WDI) (2006)	50%	47%	31%	36%	12%	60%	94%	31%	35%		59%	50%	33%	52%	46%
Access to Improved Water source (WDI) (2006)	51%	96%	46%	78%	47%	76%	100%	42%	93%	87%[0]	93%	60%	55%	58%	81%

[0] = 2000, [1] = 2001, [2] = 2002, [3] = 2003, [4] = 2004, [5] = 2005, [6] = 2006, [7] = 2007, [8] = 2008, [9] = 2009, [10] = 2010, a = from country profile, (% of 15-64),

3 Social assistance

3.1 Overview

Social assistance for the elderly refers to non-contributory (tax or donor-financed) retirement schemes that can be available universally (to all the elderly), or be means- or resource-tested. These are redistributive schemes aimed at ensuring a minimum income level for all the elderly. Entitlement to these benefits is normally spelt out in government legislation and regulations. Some general social assistance or social protection schemes may also include the elderly, although they are not specifically targeted at the elderly but, rather, at the poor generally.

Six of the 15 SADC countries have a social assistance programme specifically designed and targeted towards elderly people in the form of an old age pension. Five of these countries are within the Southern African Customs Union (SACU): Botswana, Lesotho, Namibia, South Africa and Swaziland. The other country with a social pension is Mauritius.

Table 3.1 provides a summary of the social pension schemes available in SADC countries. These schemes provide a monthly payment to targeted age cohorts, and are either means-tested or universal. All these schemes are tax-funded.

Table 3.1 Social pension schemes in SADC countries

Country	Age eligibility	Universal/ Means Tested	No of beneficiaries	Coverage	Amount paid (Monthly)		% of population over 60	Cost as % of Government Expenditure***	Cost as % of GDP
				% of age eligible	local cur.	US $**			
Botswana 2009	65+	Universal	90,639	88% of 60+	P220	$31	5.4%	0.7%	0.3%
Lesotho	70+	Universal*	80,000	86%	M 300	$38	7.7%	3.6%	1.6%
Mauritius 2008	60+	Universal	136,408	104%	Rs2,802	$100	9.0%	7.9%	1.8%
Namibia	60+	Universal	100,000 (2005)	85%	N$ 450	$56	5.6%		0.8%
South Africa 2009/10	60+	Means Tested	2,534,082	68%	R1,080	$135	7.5%	3.6%	1.2%
Swaziland 2009	60+	Means Tested	60,000	95%	E 200	$25	6.2%	1.3%	0.6%

Sources: Botswana - 2009 Budget Speech; Lesotho: 2010/11 Budget Speech & estimates; Mauritius - Central Statisitcs Office Statistics by Subject (Social Security); Namibia - Ministry of Labour and Social Welfare Estimate (coverage and cost); South Africa - Budget Speech 2010; Swaziland: Budget Speech 2009

* Anyone receiving a pension from the consolidated fund is excluded.

**Base for currency conversion: World Bank, World Development Indicators - average exchange rate for latest year (2008)

*** 2009/10 with exception of Mauritius which is from 2007/08

The other SADC member countries have, to a varying degree, elements of assistance to the elderly through a variety of interventions (medical, food aid, subsidies, cash transfers, and the like) that are targeted at the most vulnerable segments of the population, but which often include elderly. Some of these schemes have the potential to become the base for a pension for the elderly, such as the Programa Subsidio de Alimentos (PSA) in Mozambique (See Section 3.6.2 and the Country profile for more information).

The remainder of this section reviews the countries with social pensions in terms of eligibility, coverage, financing, cost and sustainability. A section is also provided on the summary of interventions by other SADC countries.[9] The section concludes with a list of key findings.

[9] It should be noted that the six countries with social assistance programmes also implement schemes to support vulnerable groups, and the beneficiaries may include the elderly.

3.2 Eligibility and coverage of the population

Of the six countries in SADC with social assistance, four provide universal benefits and two provide means-tested benefits. The countries with universal coverage are Botswana, Lesotho, Mauritius and Namibia, although Lesotho requires its pensioners not to be in receipt of any pension from the government's consolidated fund.

In South Africa, the means test for eligibility includes both an income and an asset test. In 2009/10, the annual income threshold stood at R 29,112 for a single person and R 58,224 for joint (family) earnings. The target group for the Old Age Grant in Swaziland is pensioners with a pension income of less than E1,000 per month, although it is not clear that this target is mandated in the rules of the scheme or whether it is adhered to in implementation.

The age of eligibility is any individual above the age of 60 years in Mauritius, Namibia, South Africa and Swaziland, 65 years in Botswana and 70 years in Lesotho.

The percentage of people above the age of 60 in the SACU countries and Mauritius ranges from 5.4% in South Africa to 9% in Mauritius. In Mauritius, there is full coverage of the age eligible population; the rate in Swaziland is estimated at around 95%. In Botswana, the number of beneficiaries aged 65 and over is 88% of the population, and in Lesotho and Namibia coverage is around 85%. In South Africa, 68% of the eligible age cohort is covered.

3.3 Financing and benefits

All the social pension programmes in the SADC are tax funded. The level of benefits varies from an equivalent of $25 per month in Swaziland to $135 per month in South Africa (Table 3.1).

In South Africa, qualified pensioners receive amounts that are calculated in accordance with a sliding scale, up to the maximum amount of $135.

In Mauritius, the pension payment is age-related, with a payment scale having a base rate for those aged 60–89, substantial increments for those aged 90–99, and further substantial increment for those aged 100 and above.

In all countries, the benefits are paid on a monthly basis and in cash; the exception is Swaziland, where payments are made on a quarterly basis unless they are paid electronically into a bank account in which case they are paid monthly.

The expenditure on social pensions in these countries in terms of total government expenditure is between 0.7% (Botswana) to 7.9% (Mauritius).

3.4 Sustainability

The cost of social pensions in SADC countries ranges from 0.3% of GDP in Botswana to 1.8% of GDP in Mauritius. Given that five of the six countries with social pensions are members of SACU, and since the revenues derived from this customs union provide a large share of the revenues of Lesotho, Swaziland and Namibia, any threats to this revenue share will have major implications on the sustainability of these schemes in these countries.

There are also concerns about the fiscal costs and sustainability in Mauritius as a result of rapidly changing age structure, higher life expectancy and relatively high outlays.

3.5 Governance and administration

Most of the social assistance programmes are administered by departments within the government, the exception being South Africa. In Namibia, for example, the Ministry of Labour, through its Directorate of Social Welfare, is responsible for the administration of the Old Age and Disability Grants. The Directorate has national staff support by regional staff (Namibia, 2010, p. 2). Benefit payments are made through agents, and five payment methods are currently in use:

- cash payments at designated pay points utilising biometrics for identification: this is managed through United Paymasters, appointed by means of a tender process for a three-year period;
- commercial banks – electronic transfer of funds (via the First National Bank) to beneficiary bank account;
- Nampost over-the-counter cash payments;
- deposit into Nampost savings accounts; and
- distribution through institutions for the elderly (retirement homes, care units and community centres), which receive a cheque and a pay sheet in order to distribute the benefits.

The South African Social Security Agency is an autonomous government agency reporting to the Minister of Social Development and responsible for administering cash social benefits. It operates through regional and branch offices responsible for managing applications and approvals. The bulk of monthly payments are made at cash points through subcontracted payment agencies, but payment is also available through beneficiaries' bank and post office accounts of.

In Lesotho and Swaziland, the administration was initially undertaken by the postal services. However, operational and management deficiencies resulted in the government taking over the administration.

In terms of payment mechanisms, the most common method is physical disbursement of cash at selected pay points. The postal services and beneficiaries' bank accounts are also used as delivery points in Botswana, Mauritius, South Africa and Swaziland.

The administrative process of reaching low density and geographically challenging areas has major cost implications for administration, and lead to erosion of the real value of pensions both to the beneficiaries and the government. Increasingly, countries are assessing the usefulness of and implementing technological innovations in payment delivery. For example, in Namibia and South Africa biometric smart cards are used at pay points and Nampost post offices, and Swaziland has started converting some beneficiaries to payments through bank accounts, which has the benefit for beneficiaries of monthly payments rather than the quarterly cash payments (Cull and Mayiza, 2010). Various unconditional cash grant pilots across the SADC, in countries without a social pension, are experimenting with innovative ways of paying benefits, also using mobile phone technology.

The administrative cost of the social pensions is not known for all six countries but, in Lesotho, it was 6% of the total value of benefits (M 17 million) and, in South Africa, about 6.5% (cost of the South African Social Security as a proportion of the value of total benefits paid in 2009/10). While benefit payment in South Africa was centralised in the SASSA in order to enhance efficiencies and reduce the cost of administration and payment, no

information is available on whether real progress has been made in reducing costs and providing an improved service to pensioners.

Payment mechanism and use of financial services: Swaziland

Initially, in Swaziland payments were only made via cash disbursements and through the SwaziPost post offices. However, problems with this mechanism led to the Department of Social Welfare (DSW) taking over in 2007. In 2009 the DSW piloted the introduction of electronic disbursements in partnership with five major financial institutions operating in Swaziland – Swazi Bank, the Swazi Building Society, First National Bank, Nedbank and Standard Bank – and the SwaziPost post office. Recipients are encouraged to open a cost free bank account and to receive their transfer electronically. Those receiving benefits electronically can access their pensions on a monthly basis whereas those receiving cash payments will only receive their payments every quarter (Wahenga 2009). This initiative should not only reduce the administrative costs but also increase the use of financial services in rural areas.

3.6 Alternative social assistance mechanisms in other SADC countries

This section provides a brief summary of interventions in other SADC countries where there are no formal social assistance programmes specifically designed and targeted at the elderly. These interventions are often targeted at the most vulnerable segments of the population in the form of pilot schemes, and often include the elderly.

3.6.1 Madagascar

There are no social assistance schemes in Madagascar; neither do there appear to be any initiatives put any such scheme in place.

3.6.2 Malawi

In the absence of a national policy, formal pension coverage is currently very low. Unlike other SADC countries, Malawi has no social security schemes; there is very little security for retirees. As such, social assistance interventions are the most important mechanism for provision of support to the elderly.

Various social assistance strategies are being used by the government to address the social and economic issues affecting older persons. The key interventions under the government include the Public Assistance Scheme (PAS) and the National Safety Net Programme. In addition, there are a number of non-governmental organisations (NGOs) with activities targeted at the welfare of the elderly (including the president’s own personal foundation for the elderly – Bingu Silvergrey).

The PAS provides social assistance to the elderly through social and health care services within the community. In addition to this, PAS provides short-term emergency support to the needy elderly through occasional supplies of food stuffs, soap, clothing, shelter and such by way of direct transfers.

Under the Direct Welfare Transfer interventions of the National Safety Net Programme,[10] the elderly are prime beneficiaries of the Social Cash Transfer Scheme (SCTS). The programme targets individuals who are ultra-poor and labour constrained. This represents 10% of the poorest households. As of March 2009, the scheme covered seven districts and reached 24,051 beneficiary households, of whom 60% were headed by elderly people and 94,386 individual beneficiaries, of whom 18% (17,163) were aged 65 and over.

3.6.3 Mozambique

Although its name, Programa Subsidio de Alimentos, implies that it provides food subsidies, the PSA operates as an unconditional cash transfer, and makes payment to women aged 55 and older and men aged 60 and older, as well as to chronically ill and disabled people – in all cases, payment is subject to a means test. In mid-2008, the benefit went to 143,455 people and ranged between M 100 and M 300 (US$3 to US$10), depending on the number of children in the household. Coverage of the country and the very poor is incomplete due to financial and implementation constraints.

3.6.4 The Seychelles

The Seychelles does not have a social assistance programme that provides basic retirement benefits to the elderly. However, employment-related benefits and a basic old age pension are paid from the Social Security Fund, a contributory national social insurance programme, and an earnings-related pension from the Seychelles Pension Fund. In the context of relatively high levels of employment in the economy and price subsidies, these social insurance benefits seem to have provided an adequate safety net for the elderly. As part of its current restructuring process, the country is moving to a more targeted and direct system of social support and phasing out hidden subsidies in the form of employment guarantees and price subsidies.

3.6.5 Tanzania

Social assistance interventions that specifically target the elderly are currently limited in Tanzania. The government has recently launched a pilot Conditional Cash Transfer programme (CCT). The programme is not strictly targeted at the elderly; it is aimed at mitigating the effects of vulnerability in very poor households. However, under the stated eligibility criteria, the elderly are prime beneficiaries. Programme implementation began in 2008.

The CCT pilot operates in three districts, which cover 80 villages (40 treatment and 40 control). These districts are amongst the poorest. There are currently 2,136 enrolled beneficiaries who are aged 60 years or over (26% of the total beneficiaries).

Payments to beneficiary households are made fortnightly. Each payment ranges from a minimum of $12 to a maximum of $36, depending on the number of people in the household. To continue to qualify for benefits, elderly beneficiaries must visit a health facility at least once a year for a basic check and orientation.

[10] The National Safety Net Programme ia an encompassing government strategy to improve the livelihoods of the most vulnerable and marginalized groups, which includes the elderly.

3.6.6 Zambia

There is no universal social assistance scheme within Zambia. However, there are several pilot social cash transfer programmes under the umbrella of the Public Welfare Assistance Scheme, largely funded by NGOs and official development assistance (ODA). In one of the pilot locations, the benefit payment takes the form of a universal old-age pension for those aged over 60. The overall cash transfer pilot is currently undergoing expansion into a national scheme as laid out in the Zambia 5th National Development Plan.

The other main, large-scale, non-contributory schemes within Zambia are the Food Security Pack, the School-Feeding Programme and the Project of Urban Self-Help. While these schemes may benefit households including or headed by an elderly person, this is not their main focus.

The Public Welfare Assistance Scheme targets around 2% of the population; while it is estimated that around 10% of the population are in dire need of social assistance. In 2006 the Public Welfare Assistance Scheme covered 166,559 people.[11] Beneficiaries typically receive assistance in the form of food, shelter, education, health, warm clothing and travel allowances to the value of US$2–20, annually. Those groups specifically targeted include households where the head is elderly, chronically ill, a disabled women or child; households with no productive assets, relatives to provide assistance or adults capable of working; and victims of natural disasters, people with unsatisfactory housing, orphans and children not at school, including street children.

3.6.7 Zimbabwe

There is no dedicated social assistance system for the elderly in Zimbabwe, although a number of poverty relief programmes from government (such as the Public Works Programme/Drought Relief) and donors (the World Food Programme Vulnerable Group Feeding and Monthly Food Distributions under Protracted Relief Programme (PRP) Phase II include, or have included in the past, the poor elderly as a vulnerable group. Various donors (such as HelpAge and Concern) are expanding pilot systems of cash grants. There is also a system of cash support for the elderly in institutions which, in 2005, benefited nearly 40,000 people.

An assessment of the Public Assistance Programme of the Ministry of Public Service, Labour and Social Welfare indicated that 14,246 elderly were reached by the programme in 2007.

The budget allocated for this programme in the 2010 budget is only $1 million, which is equivalent to 0.04% of the total budget of $2.25 billion.

This programme also focuses on people with disability and vulnerable households.

3.7 Key findings

Six countries in the SADC provide either a means-tested or a universal social old age pension to their citizens. These pensions reduce poverty rates for the elderly substantially from the level they would otherwise have reached, and do so at a fiscal cost that is reasonable. In Mauritius (the country with the largest proportion of elderly in the SADC),

[11] (ILO, 2008).

which has a universal system and pays at a relatively high level in an SADC context, the cost comes to 1.8% of GDP and 7.9% of government expenditure.

The fiscal costs may be difficult to sustain for Lesotho, Namibia and Swaziland, if the recent decline in SACU revenues continues; also, the prospects for such a system in countries that are highly donor-dependent (such as Mozambique) may not be promising. Countries have, however, been innovative in creating mechanisms to ensure broad support of the population at a relatively low cost. Lesotho has restricted access to benefits for those aged 70 and over; and both Botswana and Swaziland pay benefits at a low level, although these are still meaningful in their economic context.

Although there is room for improvement in administration and payment in all countries, current estimates show that, even in the difficult context of Southern Africa, delivery can be undertaken at reasonable costs. Institutional and technological experimentation and innovation with regard to delivery systems are ongoing. Successful partnerships of the public and private sector already exist in a number of countries with regard to the delivery of cash, and there are exciting prospects for improving efficiencies, lowering costs and expanding business opportunities. While a systematic review could not be conducted of other more complexly targeted and smaller scale social assistance mechanisms, it would appear that the scale and nature of cash distribution makes for far greater efficiencies and lower cost, for both providers and beneficiaries.

This study could not focus on the impact of the social old age pension, and did not begin analysis of differential poverty rates associated with the existence (or not) of a social assistance scheme for the elderly. Also, evidence on impact is limited, except for the South African case, where the social old age pension has been studied extensively. In addition to its direct role in poverty alleviation, the quantitative and qualitative evidence is pointing more and more to the fact that the social old age pensions also flow to other household members. In so doing, they support the physical growth and education of children, and job-seeking and labour force participation, and are also associated with expanding small business activity. Assessment of the impact of a limited cash grant system in Mozambique has been used effectively to argue for an expansion of the programme.

SADC countries without a social pension scheme all have a number of small social assistance mechanisms which, while not specifically targeted at the elderly, include the elderly as one of the vulnerable groups. Most of these schemes have erratic coverage and small-scale administration, which is likely to be costly. They are limited in scope and benefit a very small proportion of the elderly. It is certainly important to compare the benefits of a more comprehensive social pension for the aged before expanding such schemes.

It has recently been argued that:

> Social pensions could change for the better the lives of millions of older people who currently live in poverty in poor countries – just as they have for older people in many developed countries. They could imbue the lives of poor older people and their families with a measure of predictability, replacing the uncertainty in which they currently live and transforming their behaviour, encouraging them to plan for and invest in the future. If the international community is serious about tackling old age poverty, a social pension is the best answer we have (Kidd and Whitehouse).

An important debate in further expanding social pensions in the SADC is the issue of targeting versus universality. It has also recently been argued that:

> Taking all things into account – the need to keep the fiscal cost low, minimize adverse incentive effects, and maximize the poverty reduction impacts both at the national level and at the level of the targeted group, and bearing in mind the fact that there are other groups among whom the incidence of poverty is about the same or much worse than that of the elderly – the study concludes that the case for a universal approach is weak (Kakwani and Subbarao 2005).

Contrary to this conclusion, the current Southern African experience seems to show that a universal pension can be introduced at reasonable fiscal cost (especially in the light of the benefits that it holds) – which infers that means-testing is either very costly or very difficult to implement in the Southern African context, and that it could introduce various disincentives for people to save for their old age.

4 National Social Insurance

National social insurance refers to contributory schemes to which workers are obligated to contribute through a national legislative mandate. Benefits will relate to the extent of contributions, but there may be some minimum guarantee for low-income workers, implying a redistributive component. The key objective of these schemes is to provide earnings-related benefits ('minimum income-related benefits') after retirement, and these are focused more on income-smoothing rather than simply providing a minimum income (poverty relief). While such schemes are often administered through a public sector agency and fund, the mandate can also be to contribute to private sector managed funds. Such funds can be 'defined benefit' or 'defined contribution'.

Ten out of the 15 SADC countries have national insurance schemes (Angola, DRC, Madagascar, Mauritius, Mozambique, the Seychelles, Swaziland, Tanzania, Zambia and Zimbabwe). Of these, two (Mauritius and Swaziland) also have social assistance schemes. Five countries do not have social insurance schemes (Botswana, Lesotho, Malawi, Namibia[12] and South Africa) but four of those do have social assistance schemes, leaving Malawi as the only country without either social assistance or social insurance.

This could suggest that social assistance has been viewed as an alternative to social insurance, almost as if they are two separate models of providing social security to the elderly. This is not so in the broadly accepted models of social protection today, where recommendations are for a multi-pillar system, each pillar having a specific role. For instance, social assistance guarantees a minimum income into old age (poverty alleviation), and social insurance is to provide income replacement (consumption-smoothing) for old age. Arguably, if the latter had sufficiently high coverage, the former would not be needed (which broadly appears to be the case in the Seychelles). However, most social insurance schemes are restricted to people in formal sector employment; they therefore have a low coverage rate and are concentrated on those who already have relatively high incomes. Thus, most schemes actually substitute for occupational pension schemes, rather than complementing basic pensions provided through social assistance.

The following sections describe the official rules governing social insurance schemes in 10 countries. However, it should be noted that administrative capacity constraints mean that actual coverage and service delivery are likely to be significantly worse than indicated in several countries.

4.1 Legal and institutional

All social security schemes have legal authority, but there is a wide range of schemes, each with different rules for coverage, financing, benefits and management.

All schemes require contributions based on current salary and most pay retirement benefits that are linked to salary (however, in Mauritius members accumulate points calculated from their contributions and these points determine their entitlement).

[12] Namibia has had the legislation for a national social insurance pension scheme since 1994, but this has not yet been implemented

Table 4.1 Social insurance funds in SADC countries

Country	Name of Fund	Responsible Agency
Angola	National Social Security	National Institute of Social
Botswana	No national retirement insurance	
DRC		National Social Security Institute
Lesotho	No national retirement insurance	
Madagascar		Caisse National de la Preyovance Sociale
Malawi	No national retirement insurance	
Mauritius 1 (Pension)	National Pension Fund	Ministry of Social Security
Mauritius 2 (Provident)	National Savings Fund	Ministry of Social Security
Mozambique	National Social Security Fund (Mandatory social	National Social Security Institute
Namibia	No national retirement insurance	
Seychelles	Seychelles Social Security Fund/Seychelles Pension Fund	Mnistry of Finance (Soc Sec Fund)/Seychelles Pension Fund
South Africa	No national retirement insurance	
Swaziland	Swaziland National Provident Fund	Swaziland National Provident Fund
Tanzania	National Social Security Fund	Ministry of Labour
Zambia	National Pension Scheme	National Pension Scheme Authority
Zimbabwe	Pension and Other Benefits Fund	National Social Security Authority

Source: Country Profiles

Some schemes provide basic retirement pensions; some provide an earnings-related pension; some include an element of redistribution; and some are provident fund schemes, through which the contributor only receives a lump sum on retirement.

Although the legislation sets up a variety of administrative institutions, the general approach is for a public and/or quasi-public agency to manage the schemes. In some cases, the government acts as a guarantor for the benefits.

4.2 Eligibility and coverage

It is necessary to consider the work force in four separate groups:

- **Private sector workers (excluding the self-employed).** Most private sector workers are covered by these mandatory schemes. Some sub-sectors of private sector workers,

such as domestic staff or casual workers, may be excluded from the scheme, as defined in the legislation.

- **Civil servants and parastatal employees**. Only five countries (Mauritius, the Seychelles, Swaziland, Zambia, and Zimbabwe) definitely include public sector workers in their schemes. The other countries tend to rely on occupational schemes for public sector workers.
- **The self-employed**. The self-employed are obliged by law to contribute to the national social insurance scheme in only three countries (Mozambique, Tanzania and Swaziland). However, they are allowed to make voluntary contributions in both the Seychelles and Mauritius. The self-employed can comprise a significant proportion of formal sector workers and, in countries where voluntary private schemes are poorly regulated, they are left vulnerable. Most voluntary systems provide low incentives for the self-employed to invest, as they do not benefit from the substantial employer contribution. Mauritius provides an example of good practice, in that the fund itself adds 50% to any contributions made by the self-employed, but this has obvious negative implications for the size of benefits paid to other members.
- **Informal sector workers**. Mauritius does require employers to pay contributions for their casual and part-time labourers. Along with Mozambique, Mauritius also allows informal sector workers to join on a voluntary basis, whereas they are not covered by the schemes in other countries. Voluntary schemes tend to have very low coverage levels. Many social security agencies expressed a wish to include informal sector workers in their schemes, but there is no consensus on the best way to achieve this. Madagascar defines a fixed level of contributions for household workers and agricultural workers, and this approach could perhaps be extended to cover other categories of the labour force.

Coverage of schemes ranges from 1.6% of the labour force in Tanzania to 54.6% in Mauritius.

Table 4.2 Coverage

Country	Coverage	Self-employed, informal, hh workers	Voluntary contributions for others?	Number of members	Number of registered employers	Proportion of labour force covered
Angola	Private and public sector					
Botswana	No national retirement insurance					
DRC	No detailed information					
Lesotho	No national retirement insurance					
Madagascar	Private sector	HH workers included, not self-employed		521,191	32,162	5.50%
Malawi	No national retirement insurance					
Mauritius 1 (Pension)	Private sector	Casual & part -time included	Self-employed and unemployed explicitly included.	305,300	17,600	54.60%
Mauritius 2 (Providend)	Private and public sector	Casual & part -time included	Self-employed and unemployed explicitly included.	373,100		
Mozambique	Private sector		Building mechanism to include informal			
Namibia	No national retirement insurance					
Seychelles	Private and public sector	Excl. self-employed	Yes, for self-employed, no for casual workers			
South Africa	No national retirement insurance					
Swaziland	Private and public sector	Excl. self-employed	Any employer not covered may join	70,000	2631	21%
Tanzania	Private sector	Incl. self-employed	Yes, for informal sector workers	307,539		1.60%
Zambia	Private and public (except military)			355,200	15,000	8%
Zimbabwe	Private and public sector	Excl. self-employed		2,100,000	69,145	30%

Source: Country Profiles

4.3 Financing and source of funds

Contribution rates vary from 7% of salary in Mozambique to 22.5% in the Seychelles. The wide range of rates reflects the different objectives and benefits that they are intended to deliver. Contributions are split equally between employers and employees in the DRC, Swaziland, Tanzania, Zambia and Zimbabwe; whereas employers make larger contributions in Madagascar, Mauritius, Mozambique and the Seychelles. In some countries, deductible income is capped; this cap can be very low, having a strong effect on the true rate of contribution.

In principle, periodic actuarial valuations are required to ensure that funds have adequate assets with which to meet their benefit obligations, but this does not appear to be the case in all countries. In Tanzania, it is explicitly stated that, if the Fund is unable to meet its obligations, then payment will be made through the Consolidated Fund, but it is unclear whether (and how) governments will honour a guarantee to cover any shortfall. Very few schemes have formal arrangements in place to address an asset shortfall (such as automatic increases in contribution rates) and, instead, rely on *ad hoc* political decisions.

Most countries make contributions to social insurance exempt from taxation and, even though annuities are part of taxable income, benefits are typically too low to incur any income tax.

Some countries allow members to make additional voluntary contributions to the scheme. Although this would enable members to top up their replacement rates (notably, higher earners whose are limited by a ceiling on their deductible earnings), there has been limited uptake.

Table 4.3 Contributions

Country	Total Contribution rates	Employer	Employee	Ceiling on contributable earnings	Exempt if earn less than
Angola	11%	8.0%	3.0%		
Botswana		No national retirment insurance			
DRC	7%	3.5%	3.5%		
Lesotho		No national retirment insurance			
Madagascar	10.50%	9.5%	1.0%	8 times the national minimum wage	
Malawi		No national retirment insurance			
Mauritius 1	9%	6.0%	3.0%	80 % of average earning in 2003	11.5% of average earnings in 2001
Mauritius 2	2.5%	2.5%			
Mozambique	7%	4.0%	3.0%		
Namibia		No national retirment insurance			
Seychelles	22.50%	2.5%	20.0%	No	
South Africa		No national retirment insurance			
Swaziland	10%	5.0%	5.0%	E1,300 a month	
Tanzania	20%	10.0%	10.0%		
Zambia	10%	5.0%	5.0%	4 times national average earnings	K15,000 per month
Zimbabwe	8%	4%	4%	Yes	

Source: OPM Country Profiles

4.4 Contingencies covered

All of the schemes provide a retirement benefit, survivor's benefit and disability benefit. Most of them (the DRC appears to be the only exception) provide a benefit on death-in-service. Four schemes (the Seychelles, Tanzania, Zambia and Zimbabwe) provide a funeral benefit, but only Madagascar, the Seychelles and Tanzania provide employment-related benefits. Angola and Mozambique also provide some employment-related benefits, such as sickness and maternity benefits.

4.5 Benefit type and levels

Swaziland's provident fund is a DC scheme, but all other social insurance schemes are DB-based. These benefits are calculated as some function of deductible income, whether over the last year of work, the last 10 years of work, or lifetime earnings. To be eligible for the benefit calculation, all schemes have minimum contribution requirements, normally specifying a total number of eligible years worked and a number of years worked over the last 10 years before retirement.

Table 4.4 Eligibility for benefits

Country	Normal retirement age	Min Contributory period	Benefit	Minimum	Maximum
Angola	60	15 years.	(ave monthly income over last 3 years)x(months of service)/420		35 times the minimum wage
Botswana			No national retirement insurance		
DRC			No detailed information		
Lesotho			No national retirement insurance		
Madagascar	55 (women)/60 (men)	15 years.	Average Ar 86,458 per month ($40). Replacement rate around 30%	60% of national minimum wage	75% of average adjusted wage during last 10 years of employment or 4 times the national minimum wage, whichever is the lower
Mauritius 1	60		Estimated Replacement rate of around 15% compared to target of 33% after 40 yrs contributing		
Mauritius 2	60		Lump sum		
Mozambique	55 (women)/60 (men)	10/20 years			
Namibia			No national retirement insurance		
Seychelles	63 (basic), 60 (insurance)	10 years immediately before retirement (insurance), 20 in total (basic)			8,100 (incl. basic)
South Africa			No national retirement insurance		
Swaziland	50				
Tanzania		180 months			
Zambia	55	180 months	Based on career average adjusted earnings	20% national average earnings	40% of career average adjusted earnings
Zimbabwe	60	10 years		$25 per month	

Source: OPM Country Profiles

If members have not reached full eligibility, there are often intermediate benefit regimes, with a penalty in the benefit level.

If members are not eligible for any pension, but they have made a small number of contributions (usually one year’s worth), on retirement they are entitled to receive their contributions back, and sometimes those of their employer, with a nominal interest rate. This interest rate is generally not competitive, and is often below inflation. It raises the question of whether membership should be mandatory for those workers who do not have enough years before retirement to become eligible for the pension: essentially, in that case, they are being forced to take out a savings fund with a very low interest rate.

There is inadequate information to draw any conclusions about the typical procedure for indexing benefits over time.

The schemes provide a wide range of retirement benefits. The Seychelles provides a universal basic retirement pension plus an earnings-related benefit. Both Swaziland and the National Savings Fund (Mauritius) only provide a lump sum benefit, whereas the other schemes pay a monthly benefit (although some commutation may also be permitted). Most benefits are calculated as a percentage of a recent benchmark salary and a number of years of contributions. Replacement rates vary from a low of around 15% in Mauritius (this is estimated as the actual rate against a target rate of 30%) to a maximum possible rate of 75% in Mozambique. Several schemes impose a cap linked to average wages or to the legal minimum wage, so actual benefits are likely to be significantly lower than the potential maximum.

4.6 Preservation and withdrawal

Because these are mandatory schemes applying to all formal sector employees, the main concern arises should a worker become unemployed and be unable to maintain their contributions. In Tanzania, membership is automatically revoked if the member is unemployed for a period of six months. In Swaziland, membership explicitly cannot be revoked (but, because this is DB scheme, their final benefits will be reduced). Most schemes impose a vesting period (typically 10 to 15 years). A person who retires or becomes unemployed prior to vesting may only get back their contributions and a relatively low interest rate, so this represents a very poor deal.

4.7 Administrative costs and asset management

The management of these schemes is of considerable social and political concern. It is paramount that this management is both effective and transparent. Trust in the scheme is very important in ensuring high coverage rates and encouraging individuals to save for their retirement. Good practice includes having boards of representatives comprising representatives from government, employers and employees, as well as regular actuarial reviews and intelligent portfolio choices for investments.

There are no standard procedures for assessing administrative costs. Relative to contributions, administration costs are typically 15–20% (e.g. Madagascar, Tanzania, Zambia and Zimbabwe). The exception is Swaziland, which reports costs of only 6% of contributions, but this is a relatively simple provident fund. International reports into social security often suggest that these costs are too high and should be reduced.

Fund management is frequently criticised as being sub-optimal, resulting in rates of return that are significantly lower than could be achieved and adversely affecting the benefits payable to members. A common fault is that the investment portfolio is not adequately diversified. A high proportion of assets are held in domestic markets (sometimes as a result of government directives), often in domestic government securities (which could be seen, effectively, as a transfer to the state through increasing the price of bonds). Actuarial reports tend to suggest that a more active approach should be taken to fund management, with a higher percentage of funds being invested in tradable securities. National social insurance pension schemes obviously need a high level of security, and overall exposure to risk should be low, but expert opinion suggests that significant improvements in returns could be achieved.

4.8 Financial and social sustainability

The financial outlook of most of these schemes appears to be good in the short term and adequate in the medium term (with the exception of that of Zimbabwe, which must work hard to rebuild its asset base in the wake of the recent hyperinflation and subsequent scrapping of the Zimbabwe dollar). However, this assessment needs to be confirmed by checking that the actual benefits payable to members are in line with targeted payments since the actual replacement rate could be significantly lower.

Actuarial reports suggest that the long-term outlook for several schemes is more worrying. At varying times in the 2020s, most schemes are expected to have depleted their reserves under current rules. This could be for a number of reasons:

- **Demographics**. The demographic split of the population in SADC means that the workforce has been increasing much more quickly than the elderly population. However, a combination of changes in life expectancy and changes in the birth rate means that this is likely to change, with the proportion of the population aged 60 and over being set to grow.

- **Membership of the schemes**. It appears that, as the schemes have become better established and understood, the coverage of the eligible sections of society has increased. Conversely, recent economic trends suggest that there has been increasing informalisation of the economy in developing countries. Since social insurance schemes are generally only for formal sector workers, this means that the eligible proportion of the population has fallen in recent years. Also, the gender role of women in society has changed, with a much higher percentage of women entering into formal employment than previously. As such, there are currently a large number of women contributing to schemes, but very few benefiting.[13] The buoyant effect that this has on the pension funds will be lost as the current generation ages. The net impact of these conflicting trends is unclear, but it is plausible that there will be an increase in the number of eligible beneficiaries combined with a relatively smaller number of active contributors

Most of the schemes have relatively low contribution rates (by comparison with occupational schemes) and low coverage of the labour force (which limits the funds that they accumulate). Combined with high administrative costs and poor investment returns, this means that the replacement rate of benefits that they can provide is low. Although some schemes recognise that government is responsible for any shortfall of assets against liabilities, there do not appear to be legally binding mechanisms to ensure that governments will meet these explicit or implicit guarantees.

4.9 Reform initiatives

Several schemes are looking actively at measures to reduce long-term deficits. Possible solutions include raising contributions, increasing retirement age (e.g. Mauritius), and changing formulae for calculating benefits payable. Mechanisms are required to ensure that governments honour their guarantees to resolve any emerging shortfall of assets against liabilities.

Administrative costs seem high relative to contributions and there are no systematic reform initiatives, although Madagascar is hoping to improve efficiency by making payments through microfinance institutions.

Namibia and South Africa are discussing the introduction of a social insurance pension scheme. Botswana has had discussions on how to improve retirement provisions, but has not endorsed the introduction of a compulsory national insurance scheme.

The legislation governing national insurance schemes is often old and requires thorough review and updating.

Two broad considerations are at play here. On the one hand, the South African experience shows that, in an essentially voluntary environment without a national mandate to save for retirement, adequate coverage of the employed population will be difficult to achieve, and the

[13] This is well demonstrated by the sex and age pyramid of contributors to Madagascar's scheme, which is presented in the Madagascar country profile.

relatively high cost of occupational and private provision will also impact on replacement rates and the adequacy of benefits. There is, therefore, a strong argument for establishing and strengthening the mandatory social insurance pillar.

On the other hand, social insurance schemes in the SADC seem broadly not to have delivered on their promises to their citizens: this might have been because of macroeconomic implosion (such as in Zimbabwe), or sub-optimal management of funds or inadequate contribution rates. Also, the SADC social insurance schemes have failed to make a dynamic contribution to the economy (and secure adequate replacement rates) because of failure to implement modern management procedures and modern asset management practices, free from indirect subsidies to government.

The social insurance pillar in SADC countries therefore needs strengthening and, while the institutional infrastructure (of which the essence is a semi-autonomous government agency working under clear rules) seems to be in place in almost all the SADC countries, these institutions need substantial strengthening, and improved reporting and oversight. Transparency and reporting is, however, much better than for schemes run by government departments.

5 Formal retirement systems: Public sector occupational schemes

'The objective of **occupational schemes for public sector workers** are generally the same as those for private sector workers. Indeed, in some countries, little or no distinction exists between them. Largely for historical reasons, however, public worker schemes in many countries often diverge from private sector pension practices and norms – particularly with respect to coordination and integration with national social insurance. In addition, public worker schemes are often financed with more reliance on "current disbursement" (PAYG) and less reliance on (advance) "funding." The latter difference is not just a public finance issue; some public worker schemes pose political economy problems similar to those encountered with large reserves in basic social insurance regimes (and with provident funds).' (Lindeman, 2002)

5.1 Overview

Although it is state-funded, old age pension schemes and/or national social insurance funds for all formal sector employees tend to cover the largest number of pension beneficiaries, the bulk of pension *resources* are generated by funded occupational pension schemes. In most SADC countries, this includes funded public sector schemes and schemes by large private firms for their middle- and higher-level staff. In the SADC, assets held by these schemes are equal to a significant proportion of GDP. In Mauritius, public debt is equal to 60% of GDP, but it is nearly all held by the National Pension Fund and commercial banks. Insurance and pension sector assets are equivalent to 52% of GDP in 2005, up from 41% in 2001 (IMF, 2008). Several pension funds have invested between 30% and 50% of their assets in overseas securities, and have achieved very satisfactory investment returns while also diversifying their risks (IMF, 2008). This, potentially, provides an important source of finance for the economy.

Fund trustees have a fiduciary responsibility to ensure that they secure the best possible outcome for their beneficiaries. This means that they must find the optimal balance of risk and reward. However, governments frequently impose some restrictions on the destination of investments. Typically, at least 30% has to be invested in the domestic economy. However, smaller economies and those lacking developed financial markets are unlikely to offer suitable instruments. This can penalise beneficiaries by resulting in their assets being more risky and/or generating a lower rate of return than available in more diversified overseas markets.

Experience over the past decade provides valuable lessons about occupational schemes: DB schemes are becoming less common; several governments have converted from DB to DC schemes. The typical total contribution rate is around 20%. The split between the employee and the employer contributions is usually 5–15%, although the exact spilt can vary significantly. It is unusual for companies to pay the entire contribution, although there are some examples (e.g. Debswana in Botswana, which pays the entire 20%).

The public sector includes the civil service, teachers, defence force personnel, local authority staff and employees of public enterprises. Although almost all of these staff participate in occupational pension schemes, the specific modalities vary substantially across countries. In some countries, there is centralised system that allows all public servants to be members, but other countries have chosen a fragmented system with various schemes for central and local government personnel; and individual schemes for public enterprises. As a result, there is considerable diversity in the type of scheme, coverage, financing, benefits and

administrative arrangements between the SADC countries. It is difficult to secure information and to conduct a comparative analysis on all of these schemes. The Seychelles is unique, in that public sector employees are required to participate in the national social insurance scheme and there is no public sector occupational scheme.

Three countries have been omitted from this section: for Mozambique, the latest 2009 legislation and 2010 regulations are still being reviewed; and reliable information has not been secured on the schemes in Angola and the DRC. Tables 5.1 and 5.2 summarise the information on civil service occupational schemes.

It has been more difficult to extract information about public service schemes than about national social insurance schemes. This has included greater difficulty in extracting rules of schemes, as well as data. Generally, national social insurance schemes are more transparently managed than civil service schemes housed inside government departments. Exceptions include South Africa and Namibia.

5.2 Legal and institutional set-up

The Seychelles and the DRC are the only member states of the SADC that do not operate occupational pension schemes for employees in the public sector. In the Seychelles, all formal sector employees, including the public service, are legally required to participate in the National Pension Fund.

In general, all public sector schemes have been established through legislation. Most countries have identified an authority that is responsible for the administration of the scheme (in some countries these are government departments, rather than quasi-autonomous agencies). These bodies are governed by existing legislation on how to administer the funds. However, the regulatory environment is often confused, and many schemes do not appear to have a formal regulator (although they may still be expected to adhere to the general principles that underpin the procedures for occupational schemes that are regulated).

On the issue of dualism ('whether civil-service schemes are integrated with national schemes covering private sector workers or are separate' (Palacios and Whitehouse, 2006:8)), very few countries have attempted to integrate their national social insurance pensions with their civil service occupational pension schemes. Of the 15 countries studied, 10 have social insurance programmes, while 14 have civil service pension schemes in place (the Seychelles being the only exception). However, only four countries require public sector employees to participate in their social insurance schemes and operate occupational schemes for the public sector (Mauritius, Swaziland, Zambia and Zimbabwe).

It is often suggested that civil service pension provision is substantially more generous than private sector provision (Lindeman, 2002; Palacios and Whitehouse, 2006) and this is borne out by the information collected. This may contribute to labour market distortions, in that employees are more likely to seek and retain civil service occupation as a result of better retirement benefits.

Both Tanzania and Madagascar have separate schemes for permanent and pensionable civil servants and for those who are not (or not yet) eligible for that status.[14] In other countries,

[14] Tanzania operates the Public Service Pensions Fund (PSPF) and the Government Employees Pension Fund (GEPF), and Madagascar has the Caisse de Retraites Civiles et Militaires (CRCM) and the Caisse de Prévoyance et de Retraites (CPR).

only permanent and pensionable employees are eligible to become members (typically, casual and daily-paid employees will be entitled to a gratuity when they retire).

Several countries operate separate schemes for the civil service and for local government employees (e.g. Mauritius, Tanzania, Zambia and Zimbabwe,).

Tanzania also runs a parastatal pension fund, which has both DB and DC schemes. In most other countries, parastatals are expected to establish and administer their own occupational schemes.

This diversity of approach may have adverse effects on unit administrative costs, create scope for disparities in benefits for otherwise similar personnel, and make uniform regulation more complex and damage coordination. Proponents for coordination (such as Palacios and Whitehouse, 2006) have accused dualist systems of being inefficient and wasteful of state resources. This may be a valid criticism in countries with a poorly developed financial market and in Tanzania (where the Pension Protection Fund, in particular, is experiencing declining membership as a result of privatisation), but economies such as that of South Africa demonstrate that it is possible to provide a range of pension schemes catering for both large and small memberships, although the costs of fragmentation of provision and regulation have also been seen as high.

5.3 Eligibility and access rules, and coverage of the population and the elderly

The relevant legislation and/or rules and regulations make membership of the scheme mandatory for all permanent and pensionable staff, but usually exclude casual employees (or make them eligible for a different set of benefits; or, as in Tanzania, have a separate scheme – the Government Employee Provident Fund). There is usually a vesting period (the median period is 10 years, although Madagascar requires 25 years of service) before members are eligible to the full range of benefits.

While these schemes apply to all permanent civil servants, there is considerable diversity in coverage of other cadres of civil servant (there can be schemes for teachers, defence personnel, local government staff) and of employees of public enterprises.

The country profiles show that the median age of retirement is 60 years. There were, however, a few outliers such as, Lesotho (55), Madagascar (55), the local government scheme in Mauritius (50), and Zambia (55). There are often provisions for personnel in arduous professions (e.g. defence, police) to retire at an earlier age on full benefits. A number of countries are considering an increase in the pensionable age in order to address emerging concerns about the fiscal sustainability of these schemes.

5.4 Financing or source of funds

The majority of civil service pension schemes/funds are DB schemes – although Botswana, Lesotho and Tanzania have converted into DC schemes.

Public sector pension schemes may be either funded or unfunded. Unfunded PAYG schemes initially have a very low fiscal impact, but this gradually increases as the public service ages and more staff reach retirement age. This is likely to cause budgetary pressure, and can cause governments to cut back on the benefit package (e.g. by failing to index link pensions). In a number of the SADC countries running pay-as-you go systems, civil service

pensions are imposing significant fiscal pressure. This is certainly the case in Zimbabwe and Mozambique where reform efforts are ongoing.

Conversely, a fully-funded scheme is usually able to increase benefits through returns on assets, and this can deliver either better benefits or a lower total contribution rate. Thus, institutions such as the World Bank encourage funded schemes. However, the initial costs of switching to such systems are extremely high, as it is necessary to inject adequate capital so that the fund can meet all its obligations to members arising from their service prior to conversion (this is typically based on an actuarial study that will quantify accrued liabilities). For example, in the two years following establishment of the Botswana Public Officers Pension Fund, the Government transferred P10.5 billion to the fund in respect of accrued liabilities. Switching from non-contributory schemes to contributory schemes has the effect of reducing take-home pay for employees (which may contravene employment contracts); also, there may be pressure for offsetting wage increases, which, if granted, will increase the public sector wage bill.

Only Malawi and Mauritius are currently running non-contributory PAYG civil service pension schemes. All other schemes are contributory. In general, the government contributes 15% of the monthly salary and the employee contributes 5%. Zambia imposes contribution rates of 7.25% on both the employer and employee. Namibia has an employee contribution rate of 7% and explicitly recognises that the government is liable for all other funding required to meet the obligations of the DB scheme, as determined by the trustees.

5.5 Contingencies covered

Most schemes provide a normal retirement pension, a survivor’s pension, death-in-service and a disability/invalidity pension. Some may include funeral benefits.

5.6 Benefit type and levels

Most of the DB schemes ensure that personnel with 30 years of service will typically receive 50–60% of their final salary[15] (i.e. they receive approximately 1.8% of their benchmark salary for each year of service). Under some circumstances, the replacement rate could reach 80% (e.g. 40 years of service at an accrual rate of 2%), but some countries impose a maximum level of benefit (usually two-thirds of salary). Mozambique appears to have the most generous scheme, enabling members to secure 100% of their salary after 35 years of service.

It is necessary to determine whether the DBs are paid out in the form of pension, or as a lump sum, or a combination of both. Most countries allow part of the benefits to be taken as a lump sum (typically, up to 25% of their entitlement, although up to two-thirds in Zambia), with a corresponding reduction in the monthly pension payable. This approach usually has some tax benefits (the lump sum is not taxable, whereas income is taxed).

In DC schemes, it is necessary to ascertain whether the member has access to his entire trust fund on retirement, or is required to purchase an annuity (and, if so, how much control he has over the supplier).

Due to the fluctuations in pricing and the cost of living in general, it is necessary to consider the way in which pension benefits are indexed. There are three general methods in which

[15] This may be their salary at retirement, or an average of the previous one to five years.

benefits can be indexed: prices, wages or discretion. Some commentators consider that civil service pension indexation methods are too generous and tend to put unnecessary pressures on the fiscal budget (Palacios and Whitehouse, 2006) but, in practice, it is not clear that benefits are generally indexed in line with inflation (and some countries may use delays in up-rating benefits as a means of reducing the fiscal cost of pensions). Few countries have explicitly stated their indexing method; most, however, allude to the practice but do not state the method or frequency of their pension benefit indexation. Zimbabwe claims to link civil service pension benefits to changes in civil service wages, but the macroeconomic situation has rendered the entire pensions promise meaningless.

5.7 Preservation and withdrawal: protection of rights

The treatment of pensions in the civil service, particularly with regard to early leavers, has an impact on the decisions that employees make with regard to the sector in which they choose to work (private or public), and their ability to move between these sectors. Indicators on this subject are whether or not pensions are transferable, and the rules surrounding the preservation of rights in the event that an individual leaves the particular department or fund. The length of the vesting period in civil service pension funds also has an impact on the mobility of civil service employees. Longer vesting periods are more likely to lock employees into the civil service, and employees that are, thus, less likely to be willing to move to the private sector.

Botswana and South Africa have fully transferable pensions, while Namibia and Zambia provide preservation benefits. Swaziland and Tanzania pay a lump sum benefit (withdrawal) that amounts to a proportion of both the government and civil servants contribution added to their accrued interest income.

Table 5.1 Occupational civil service: Sources of funding

	contributory / noncontributory	funded/unfunded	Government Contribution	Member Contribution	Salary %age
Botswana	contributory	funded	15%	5%	20%
Lesotho a)	contributory	funded	11.2% of basic salary	5%	16.20%
Lesotho b)	contributory	unfunded			
Madagascar	contributory	funded	16%	4%	20%
Madagascar b)	contributory	funded	6%	3%	9%
Malawi	non-contributory	unfunded	full pension per annum *years of service *0.022	0	not available
Mauritius a)	non-contributory	funded	20% of wage cost (2004)	0	20% of wage cost (2004)
Mauritius b)	non-contributory	funded	15 -27%	0	15-27%
Namibia	contributory	funded	16%	7%	23%
South Africa	contributory	unfunded	13%	7.50%	20.50%
Swaziland	contributory	75% funded	15%	5%	20%
Tanzania a)	contributory		15%	5%	20%
Tanzania b)	contributory	funded	15% of basic salary	5%	20%
Tanzania c)	contributory	funded	15% of basic salary	10%	25%
Tanzania d)			unclear	unclear	20-25%
Zambia	contributory	funded	7.25%	14.50%	21.30%
Zimbabwe	contributory	not clear	not available	not available	not available

Source: OPM country profiles

Table 5.2 Occupational civil service: Financing

	Defined Contribution	Befined Benefit	pay as you go (PAYG)
Botswana	Defined Contribution	no	no
Lesotho a)	Defined Contribution	no	no
Lesotho b)	no	Defined Benefit	not clear
Madagascar	not clear	not clear	not clear
Madagascar b)	not clear	not clear	not clear
Malawi	not available	Defined benefit	PAYG
Mauritius a)	not clear	not clear	not clear
Mauritius b)	no	Defined Benefit	not clear
Namibia	no	Defined Benefit	not clear
South Africa	no	Defined Benefit	not clear
Swaziland	no	Defined Benefit	not clear
Tanzania a)	no	Defined Benefit	not clear
Tanzania b)	not clear	not clear	
Tanzania c)	not clear	not clear	
Tanzania d)	(DAS) Defined Contribution	(TPS) Defined Benefit	unclear
Zambia	no	Defined Benefit	PAYG
Zimbabwe	no	Define Benefit	PAYG

Source: OPM country profiles

Table 5.3 Preservation and withdrawal: Labour market impacts

	Transferable	Preservation	Length of Vesting period
Angola			
Botswana	transferable	yes	not available
DRC	not available	not available	not available
Lesotho a)	not transferable	not available	not available
Lesotho b)	not transferable	not available	not available
Madagascar	not available	not available	15yrs
Madagascar b)	not available	not available	15yrs
Malawi	not transferable	no preservation rights	10 yrs or (20 for voluntary retirement)
Mauritius a)	not available	not available	not available
Mauritius b)	not available	not available	not available
Mozambique			
Namibia	not transferable	preservation benefit (otherwise withdrawal option)	10 yrs
Seychelles			
South Africa	transferable	preservation benefit	10 yrs
Swaziland	refundable	not available	more than 10yrs
Tanzania a)	not transferable (withdrawal only)	no preservation	credits based system: 180 contribution credits
Tanzania b)	no t transferable (wthdrawal only)	no preservation	credits based system: 180 contribution credits
Tanzania c)	only transferable to PSPF	no preservation	not available
Tanzania d)	not transferable	no preservation	120 months/ 10 yrs
Zambia	not available	preservation benefit	10 yrs
Zimbabwe	not available	not specific	not available

Source: OPM country profiles

5.8 Administrative costs and asset management

As shown in Table 5.3, the data available on administrative costs has been provided using different measures, which precludes an exhaustive cross-country analysis.

Table 5.4 Administrative costs and assets

	Administrative costs	Assets
Botswana	P 166.5million (2008/2009) 0.73 % of Assets	P 24 Billion
Namibia	N$ 75,033 000 (7% of contributions) (2008)	N$36 Billion
South Africa	R0.34 Billion	R 639,7 Billion
Swaziland	5 % of total contributions	E49.5 million(2009)
Tanzania a)	4% of total income (2006)	TZS 400 billion
Tanzania b)	3.7% of total icome (2009)	TZS 216.93 billion
Tanzania c)	8.91% of total income	not clear
Zambia	17.46 % of contribution in 2006	not available
Zimbabwe	estimated at US$ 684 000	not available

Palacios and Whitehouse (2006) posit that administrative costs conform to economies of scale. This seems plausible, but does not appear to be reflected within the SADC. Although the absence of standardised indicators makes it difficult to make reliable cross-country comparisons, some schemes appear to incur expenses equal to 20% of annual contributions (e.g. Zambia), whereas best practice in the region demonstrates that costs of 4% can be achieved, unless there are special factors (complexity, large numbers of active members and beneficiaries, rapid turnover of members, high unit cost of distributing benefits).

With regard to asset management of funded schemes, it is necessary to consider the cost of managing the assets against both regional and international comparators, and against performance of the fund. Achieving the optimal balance of risk and return should be the key fiduciary responsibility of the trustees of the fund. It is, therefore, important to understand the process for investing the assets, the existence of explicit investment strategies, and the impact of any regulations on the mix of domestic and offshore investments and the types of assets they own.

Table 5.5 Asset management of civil service pension schemes

	Investments	International	Asset types	Prescriptive	Public sector investment management	Commercially based investment management
Botswana		40 percent offshore & 60 percent onshore	equities			commercial
Namibia	N$ 35,283,017	SA & International	bonds,equities,	not available	no	commercial
South Africa			fixed intersts,equities,		P.I.C	commercial
Swaziland		30 percent domestic market	money market		not mentioned	
Tanzania a)	TZS 400 Billion		79% fixed income and 21 % real estate			
Tanzania b)					LAPF board of trustees and Director General	unclear
Tanzania c)	not available		government securities, corparate bonds ,			
Zambia			real estates, fixed deposits			
			with commercial banks and equity or shares			

Table 5.4 shows that different asset management strategies have been adopted by the countries for which we have data. Half of the countries make use of commercial fund managers, in line with the sentiment that civil service pension funds need to modernise their investment strategies – by moving away from a model where investment strategies and/or decisions are made in the public sector, to one where these decisions are made by commercially based asset or fund managers (World Bank, 2004).

With regard to the asset mix, three general investment categories can be identified: equity, property and government bonds. Principles of fund management indicate that it is prudent to diversify asset holdings. This is relatively easy in countries with a highly-developed financial market (such as South Africa), or where there are no effective limits on convertibility of the currency (thus allowing the ownership of offshore assets). However, several countries

require fund managers to invest most or all of their funds in the domestic market. This is likely to increase risks and depress returns. Given the size of pension funds, it can also create distortions in the financial market (especially if it is small and not well-developed). Although comparable information is lacking for several countries, it appears that some funds are not adequately diversified (e.g. Tanzania holds 58% of assets in government bonds) and, as a result, fail to secure a reasonable rate of return for their members.

5.9 Financial and social sustainability

The primary indicator of the fiscal burden of public service pension schemes is the amount of expenditure expressed as a percentage of total expenditure (alternatively, of total revenue) and of GDP. However, the nominal level of annual expenditure varies in accordance with the type of scheme. In unfunded PAYG schemes, the fiscal burden is the annual cost of payments to existing pensioners but this significantly understates the true cost, as no provision has been made for accrued liabilities. In funded DB schemes, recorded expenditure reflects the employer's contribution. This is the actual budgetary cost, but it may understate the true cost if, when converting from an unfunded scheme, the government approved an exceptional salary award in order to compensate employees for the impact of their contributions on take-home pay and/or if the government has guaranteed to make good any shortfall in the fund to provide the benefits.[16] In DC schemes, expenditure is accurately measured by the employer's contribution (although, again, this possibly excludes the cost of an exceptional salary award and any capital injections that were required to address accrued liabilities prior to conversion).

Malawi and Mauritius operate DB PAYG schemes. These schemes rely on an implicit government guarantee and are more risky (for pensioners) than either funded DB or DC schemes.

Most other countries run funded DB schemes, which are safer than PAYG schemes but still require a government guarantee for any shortfall in assets against liabilities (which may occur because the benefits are more generous than the contribution rates, or because investment returns have been less than anticipated, or, as in both Zambia and Zimbabwe, government has not been making its contributions in full). All DB schemes are vulnerable should the country experience a demographic transition in which the number of pensioners in civil service occupational pension schemes increases faster than the number of contributors. As a result, the ability of these schemes to meet their pension liabilities is questionable.

The comparative analysis suggests that some countries are providing unsustainable DB pension promises, in that the target benefits cannot be delivered, given the current contribution rates and investment returns. The weak regulatory environment is likely to result in infrequent actuarial studies, and political considerations may delay the implementation of necessary remedial action.

DB schemes (Botswana and Lesotho) are not exposed to these risks but, in circumstances when investment returns are lower than anticipated, the annuity that a pensioner can purchase on retirement may be substantially less than he expected; this may create both social and political pressures.

[16] This guarantee is explicitly reflected in the Namibian scheme (although no estimates are provided of this contingent liability), which indicates that the amount of the employer's contribution will be determined by the trustees in order to provide the specified benefits.

5.10 Reform initiatives

While civil service pension reforms have been, and are being, undertaken on a case-by-case basis in the different countries, a few general concerns are clear, and the associated reform recommendations are standard across the board:

- Civil service pensions in a number of countries still exert increasing pressure on the fiscus as a result of a combination of factors such as excessive pension promises, current civil service wage policies, and the internal demographics of the civil service (for instance, a high prevalence of early retirement – and, thus, longer-term pension liabilities to the system).

- Labour market distortions as a result of immobility in the civil sector caused by civil service pension regulations (long vesting periods, non-transferable funds and inadequate preservation of pension rights).

- The crowding out of other important social programmes as a result of the increasing pressure of civil service pensions on the fiscus (World Bank, 2004; Palacios and Whitehouse, 2006).

General reform recommendations to address these issues include:

- raising the pensionable age (this allows for a greater pool of contributions given the additional years, and it decreases the duration of the pension liability of civil service employees upon retirement. Mauritius is an example as they have attempted to increase their pensionable age from 60 to 65 for the Civil Service Plan as of 2004 (World Bank, 2004));

- reducing the overall replacement rate for civil service pensions;

- indexing benefits to changes in prices – as opposed to civil service wages, which generally tend to be inflated in comparison to the private sector; and

- introducing or increasing member contributions (Whitehouse, 2002; Gopee, 2006)

Calls for such reforms are made in the context of the ‘total compensation approach’, in which all sources of remuneration of civil service employees are taken into account (Palacios and Whitehouse, 2006; Whitehouse, 2002).

6 Occupational schemes for private sector workers and voluntary schemes

6.1 Overview

As indicated in Chapter 4, some countries have established national insurance schemes to cover all formally employed persons on a mandatory basis, and others (informal sector, self-employed) on a voluntary basis. This significantly reduces the pressure on employers to set up their own group pension schemes, especially for relatively low-paid personnel. Nonetheless, many large private sector firms do operate their own funded pension schemes for their middle- and higher-level staff. In countries without such national schemes, the membership of occupational and voluntary schemes tends to be higher. If they are not covered under a public service scheme, a number of parastatal enterprises also participate in occupational pension schemes.

Most occupational schemes allow individuals to save for personal pensions, either independently (e.g. self-employed) or to supplement their membership of employer schemes.

6.2 Legislative framework, benefits and funding

6.2.1 Legal and institutional set-up

The regulatory system is usually set by legislation dealing with pension and provident funds or, more recently, covering non-bank financial institutions. Usually there is a national regulator who sets standards and supervises compliance. This may be the non-bank financial institution (NBFI) regulator, an insurance commissioner or a pension fund regulator. Several SADC countries do not have an effective legal framework and/or have not established a regulator.

In most countries, the Revenue Authority (Commissioner of Tax) plays a major role in ensuring that pension schemes are accredited, in order to secure entitlement to tax incentives.

6.2.2 Eligibility, access rules and coverage of the population and the elderly

Membership of occupational schemes is usually determined as part of conditions of employment or on a voluntary basis. Information is frequently incomplete on the number of schemes and on their active membership, but membership typically covers a minority of formal private sector employment. Many categories (informal sector, casual workers) are excluded, as they cannot meet the requirements of the fund manager (e.g. to save a regular amount each month).

6.2.3 Financing and source of funds

DC schemes have a variety of contribution arrangements, usually specified as part of the terms of employment. The typical total contribution rate is around 20%, with the employer contribution ranging from 10–20% and the employee contribution from 0–10%.

Occupational DB schemes must be funded, unlike some public service DB schemes that are unfunded PAYG. The regulator normally requires actuarial reports (typically every three years) to ensure that the current contribution rates are adequate to meet the liabilities. If the

assets are inadequate, it is the company that is usually obligated to top up the fund, but higher contribution rates can also be subsequently be levied on both the employer and employee.

Tax rules have a significant impact on the pension industry. Exemptions are common under income tax legislation, but only for schemes that are accredited by the revenue authorities. The typical tax arrangement is to have tax exemption on contributions and on pension income from accredited schemes. There may also be tax concessions for some commutation of benefits into a lump sum on retirement. The fiscal cost of the revenue foregone from the tax treatment of the pension industry can be quite substantial; it was estimated at R28.5 billion for South Africa in 2005.

6.2.4 Contingencies covered

Contingencies covered vary with conditions of employment. In addition to retirement, they usually include disability, death–in-service and survivors' benefits.

6.2.5 Benefit type and levels

Most occupational schemes are now operated on a DC basis. The member is typically able to buy an annuity with their personal trust fund (less any commuted amount). There are still a number of DB schemes that provide a pension linked to a standard indicator of final salary, and usually provide approximately 2% of salary for each year of service. Rules on commutation vary, but most beneficiaries are allowed to take part of their pension as a lump-sum without incurring any tax liability. All other benefits (the DB pension and the DC annuity) are part of the pensioner's taxable income.

6.2.6 Protection of preservation and withdrawal rights

There is usually a vesting period of 10 years before members are entitled to the full range of benefits. Prior to vesting, the member will receive reduced benefits (often as a lump sum), frequently only their individual contributions and returns on those contributions.

Generally, the rules imposed by the regulator are designed to protect beneficiaries' accumulated capital in funded schemes should the employer go bankrupt (e.g. by keeping assets separate from employer accounts) and if the employee is retrenched or moves to a different job, and to ensure refunds of accrued entitlements if the employee emigrates. However, there may be some problems with protection of rights if the fund has a net deficit or, in some self-managed schemes, should the company declare bankruptcy or move to a different country.

6.3 Administrative cost and asset management

The efficiency of administration can be assessed by measuring expenses relative to several indicators (annual contributions, number of active members, number of payments made). The SADC countries have not adopted standardised indicators, so it is difficult to make reliable cross-country comparisons. Several schemes appear to consider that expenses equal to 20% of annual contributions are acceptable, but best practice in the region suggests that this is much too high, unless there are special factors (complexity, large numbers of active members and beneficiaries, rapid turnover of members, unit cost of distributing benefits). For funded schemes, the cost of investment advice should be measured relative to total assets under management, and scheme administrators should monitor investment performance against a suitable range of comparators to ensure that the advice remains cost-

effective. Occupational schemes make use of a wide range of fund arrangements. Some are self-managed (usually by a board of trustees appointed jointly by the firm and employee representatives) but most are managed through appointed fund managers. In countries with highly developed financial markets, such as South Africa, resources can be placed in umbrella funds.

Several countries impose investment restrictions, principally on the share of assets that can be invested overseas. In smaller countries with relatively under-developed financial markets, fund trustees may experience a major conflict between their obligation to adhere to the rules and their fiduciary responsibility to secure the best risk-adjusted returns for their beneficiaries. In some countries, accumulated funds have been used as a source of public loan finance (sometimes on concessional terms) or are utilised to address national development objectives, rather than maximise the returns to beneficiaries. Many funds do not appear to be adequately diversified; the beneficiaries are therefore unduly exposed to the risk of falls in particular markets or movements in exchange rates. In some countries (e.g. Zambia), a major asset class is Treasury bills and bonds, which means that returns are unduly correlated to the fiscal position. Where fund assets are substantial relative to the financial sector (e.g. Botswana), there is a risk that domestic investment by fund managers can create distortions, resulting in asset bubbles. This also increases risks and may damage long-term fund performance.

In many countries, it seems unlikely that the regulator has adequate capacity to ensure that DC schemes are delivering a reasonable rate of real return on assets, and also whether it has effective powers to remedy poor performance and compensate beneficiaries.

6.4 Financial and social sustainability

Unfunded (PAYG) DB schemes are inherently unstable and are likely to be unsustainable. After suitable actuarial analysis, these should be converted into funded schemes whenever the employer has the opportunity to make a significant financial contribution to meeting the accrued liabilities.

Funded DB schemes require reliable and frequent actuarial reports – at least every three years. The strong performance of fund managers over the period 200207 meant that contributors to funded DB schemes were able to reduce their level of contributions or take pension holidays. However, the recent decline in investment returns means that most funds have seen a decline in asset value during 2008 and 2009. As a result, actuarial reports are likely to show that the present value of assets is less than liabilities. In order to meet their obligations, the employer will be required to make a lump sum contribution to eradicate the deficit, and both employers and employees will need to accept higher contribution rates. A critical issue is whether the regulator will be able to enforce the necessary remedial actions, and whether employers (including public entities) will have the necessary fiscal headroom (and political commitment) to make the necessary changes.

While DC schemes are not exposed to the same pressures, it is clear that, in many cases, the actual pension annuity turns out to be much less than the beneficiary had anticipated. The recent decline in investment returns will exacerbate this concern, since pensioners can expect significantly worse returns. Not only will their personal pension funds be smaller in terms of the asset value, but also the annuity that can be purchased with any given fund will be lower. Thus, an employee retiring in 2010 will receive a substantially smaller pension than someone with an identical contribution history who retired in 2007. Some pension schemes do allow excessive commutation (e.g. Tanzania's NSSF). However, although this means that

the beneficiary receives a lump sum on retirement, there is a very real risk that it will not generate a secure monthly income throughout old age.

In securing the optimal balance between risks and rewards for beneficiaries, it is desirable that fund managers hold a diversified portfolio that is not dependent on a narrow range of asset classes and that is properly hedged against exchange rate movements. As noted in Section 4.3.8, fund managers in some countries hold a large proportion of fund assets in a relatively narrow range of assets (e.g. property in the Seychelles), and thereby run a serious risk of potential losses.

Another risk that has been identified is that some fund managers may provide unrealistically optimistic forecasts of their expected investment returns in order to make their performance look better. This will exaggerate long-term returns and obscure emerging fund deficits, and may encourage trustees to defer the implementation of desirable remedial measures (such as higher contribution rates). In fact, several SADC countries are experiencing systemic weakness in their regulatory and supervisory functions, with the result that pension schemes do not deliver the benefits that their members expect.

The country profiles identify a number of country-specific reform initiatives, but some key areas that require attention in several countries include:

- raising the retirement age (it remains quite low in several countries) in response to demographic change (increasing absolute number and percentage share of the elderly) and financing problems; and
- improving the legal framework and the institutional arrangements for regulation of the pension industry.

A.1 Notes from the country profiles

Botswana: In the absence of any national social security schemes, formal private sector employees and the self-employed are fully dependent on private pension providers. All occupational schemes are conducted under the regulatory authority of the Registrar of Pension and Provident Funds (now NBFIRA) and the Unified Revenue Service. Most schemes are DC, with contribution rates determined under an employee's contract of employment. The Employment Act requires employers to make contributions of 10% to a severance scheme, under which employees not covered by occupational pension schemes and with 60 months of continuous employment were entitled to a benefit if their employment was terminated/gratuity fund. It has been extended into a gratuity scheme so that, after completing five years' service, the employee is entitled to a lump sum payment equal to between two and four months' pay.

Democratic Republic of Congo: All formal sector workers must participate in the National Social Security Institute scheme. However, it appears that there are major problems with the administration of the scheme. The Employment Act states that membership of a pension or provident fund should be part of the conditions of employment for all workers. However, there does not appear to be any regulatory system to monitor and enforce this obligation, or to supervise the performance of the pension industry. Anecdotal information suggests that some schemes do exist (either social groups or private insurance policies), but principally to provide social protection of a very basic level.

Lesotho: In the absence of any national social security schemes, formal private sector employees and the self-employed are fully dependent on private pension providers.

However, the industry is not subject to detailed regulatory oversight and no summary information is available. Nonetheless, major private and parastatal employers do provide cover for middle and senior personnel. For example, the Central Bank participates in a multi-employer DB pension plan for all permanent staff, the assets of which are held in a separate trustee-administered fund. The pension plan is funded by employee and employer contributions, taking into account the recommendations made by independent actuaries. Most individual voluntary funds will be managed through insurance policies. Migrant mine workers are able to participate in a DB Provident Fund – benefits can be taken either as a lump sum or an annuity.

Madagascar: All formal employees are members of the mandatory CNaPS social insurance scheme but members may choose to make additional contributions, either to CNaPS or to pension funds operated by two insurance companies. Despite the absence of a formal legal and regulatory system for these companies, their schemes have approximately 41,000 members (by comparison, there are approximately 520,000 members of CNaPS and a labour force of 8.5 million). No information on costs of administration and fund management is available publicly. On retirement, the beneficiary can either be paid the accrued amount in full plus accumulated returns on the investment without any tax liability, or purchase an annuity (which is part of taxable income). The different tax treatment encourages beneficiaries to take the lump sum but, although they will have an investable financial asset, there is no guarantee that this will be used to provide a regular pension income.

Malawi: In the absence of any national social security schemes, formal sector employees (including parastatal staff) and the self-employed are fully dependent on private pension providers for group schemes (mostly occupational) and/or personal retirement schemes (private voluntary contributions). Group schemes can be either DB or DC. Personal schemes can involve lump sum contributions or regular savings. Relevant legislation includes the Insurance Act and the Income Tax Act, but there is limited regulation and supervision of the pension administrators. Funds can be taken as a lump sum, or used to purchase an annuity on retirement. Government policy requires all funds to be invested in Malawi. Total net assets were approximately MK38 billion in 2009 (equal to about 5% of GDP) and were mainly used to buy Treasury instruments, property and equities.

Mauritius: Contributory pensions are mandated under the National Pensions Act, and a lump sum benefit is guaranteed on retirement under the National Savings Fund Act. Contributions are required in respect of all employees (other than those in the public sector and casual workers), and self-employed and unemployed can make voluntary contributions. Basic contributions are 9% of salary (6% from the employer, 3% from the employee). The pension (which is additional to the Basic Retirement Pension) is paid as an annuity calculated on the number of points accumulated through the member's contributions. The target replacement rate is 33.3% after 40 years of service. Legislation relating to non-bank financial institutions has been updated in recent years, and a new Financial Services Commission came into operation in 2007; however, the regulation of private occupational pension schemes still appears to be fragmented and there are no comprehensive reports on the industry. There are currently about 30,000 contributors to insured pension schemes and superannuation funds, with total assets of MUR 25.4 billion. The schemes are equally divided between DC and DB.

Namibia: The Social Security Act makes provision for a National Pension Fund; however, this has not yet been operationalised, and there is no national scheme for occupational pensions. The Pension Funds Act 1956 established the post of Registrar of Pension Funds but, since 2001, overall responsibility has been exercised by the Namibia Financial Institutions Supervisory Authority. The majority of schemes are DC. Most DC schemes

require contributions of 7% from employees and 16% from employers. For DB schemes, the employer contributions are determined by periodic actuarial reports. Beneficiaries can take their accumulated capital as a lump sum, or purchase an annuity from a recognised provider. While up to 65% can be invested within the common monetary area and up to 30% outside, at least 35% must be invested domestically.

The Seychelles: The Seychelles Pension Fund (SPF) provides beneficiaries with an earnings-related pension. It covers all full- and part-time employees in the public and private sectors. Self-employed persons can contribute but casual workers are excluded. The SPF receives 5.4% of contributions to the Social Security Fund (20% employer, 2.5% employee), and imposes a flat-rate levy for each employee. Earnings-related benefits are paid in addition to the flat-rate social security pension. All assets are invested domestically, and returns are distributed annually to members. Although the government guarantees the Fund, concerns have been raised that it may need additional funding to remain viable. It appears that some firms may contribute to occupational schemes for their employees, but no separate details are available.

South Africa: In the absence of any national social security schemes, formal private sector employees and the self-employed are fully dependent on private pension providers. Most occupational group schemes for the private sector are DC. Personal schemes involve voluntary lump sum contributions or regular savings. Benefits may be provided through provident funds, pension funds and annuities. Funds can be self-managed, umbrella funds or segregated funds. Tax benefits only apply to schemes approved by the Revenue Service. The regulatory framework is fragmented with many occupational arrangements being unregulated, overseen by government departments, or overseen by the Registrar of Pension Funds. The Registrar is not responsible for funds operated for public service and parastatal organisations.

Swaziland: The Swaziland National Provident Fund is a DC scheme with contributions of 5% from both employers and employees for each eligible formal employee. Occupational and voluntary schemes are regulated by the Registrar of Insurance and Retirement Funds (through the Insurance Act 2005 and the Retirement Funds Act 2005). Under reform proposals, this function will become part of the proposed Financial Services Regulatory Authority.

Tanzania: The National Social Security Fund covers all self-employed and private sector employees, and all informal employees are eligible to join on a voluntary basis. Both the employer and employee contribute 10% of salary. Benefits can be paid as a lump sum on retirement or as an annuity. The vesting period is 180 months. The government guarantees benefits. The assets are fixed income securities (56%, largely government debt), 23% property and 21% equities. Some private firms have established supplementary pension schemes through the National Insurance Corporation or other pension providers. The purpose is either to top up mandatory benefits, or as an incentive to skilled workers. No summary data is available on these funds. For the Tazara (Tanzania–Zambia Railway Authority) scheme, the employee contributes 10% of salary (in addition to their NSSF contribution), while the employer contributes (15%). This means that pension contributions represent an additional 45% of basic salary. Insurers also offer pension services to private individuals. Contributions are more flexible than in group schemes (contributions can be lump sum, regular or a combination). However, this is likely to attract only high-income low-risk participants.

Zambia: A National Pension Scheme (NPS) is in force for all regularly employed persons (this replaced the Zambia National Provident Fund with effect from 2000). The NPS is a

partially-funded, DB scheme that bases its benefits on career average adjusted earnings. Both employers and employees contribute 5% of gross earnings. The minimum pension level is set at 20% of national average earnings (determined using data from the Central Statistical Office and indexed annually), and the maximum pension is 40% of career average of monthly earnings. The Pension Scheme Regulation Act 1996 established the Pension and Insurance Authority and a registrar who has responsibility to supervise and regulate all non-governmental pension schemes. Rules require annual audited statements, quarterly reports and that annual benefit statements are issued to each member. Most schemes are designed to supplement the national pension and, although private voluntary members can join, members tend to be middle and senior personnel as part of group schemes of medium-size and large companies. Registered schemes can be either DB (in which case, there must be triennial actuarial reports) or DC. Registered fund managers must be majority-owned by Zambians. A maximum of 30% of assets may be invested abroad.

Zimbabwe: The National Pension and Other Benefits Scheme is administered by the National Social Security Authority (NSSA). All employers and all formal employees must be members (self-employed and domestic workers are not required to participate) and must make contributions (currently 4% of insurable monthly earnings by both employer and employee). Occupational and voluntary schemes are supervised by the Insurance and Pension Commission established under the Pension and Provident Funds Act 1997. For those who have contributed for more than 10 years, it is a DB scheme with benefits linked to the number of years of contributions (40% of earnings for 30 years, and 50% for 40 years). However, economic problems have forced the administrator to limit benefits to a fixed amount of US$25 per month. There is a sound legal and regulatory environment for occupational and voluntary pension schemes, but the mismanagement of the macro-economy has meant that all commitments and expectations have been undermined.

7 Informal systems: long-term savings and asset accumulation

7.1 Overview

Informal mechanisms for providing income in old age refer to mechanisms that are not established through legislation or formally regulated. It is assumed that these informal mechanisms are utilised mostly by people outside the formal sector of the economy, but it is conceivable that, where the formal system is weak, formal sector workers (and sometimes even high-income groups, in particular) may also utilise informal mechanisms.

Such informal mechanisms are more difficult to identify and to classify because of the smaller scale, and the absence of clear and documented rules for their operation. While social protection for the informal sector and less formal mechanisms have been receiving increasing attention, a common typology or framework for the classification of informal schemes has not been standardised. It is, therefore, useful to undertake a review of the income sources of the elderly to help identify additional informal mechanisms but, as a point of departure, we broadly distinguish between three informal avenues of support for the elderly:

- Longer-term savings vehicles, focusing on savings instruments or relationships that last for longer than one year – these include rotating savings and credit associations, micro savings and insurance schemes, and long-term voluntary contractual saving schemes not specifically focused on retirement. These have formal characteristics (such as written contracts, and being supervised by a regulator in terms of legislation). It may, therefore, be necessary to distinguish a further main group (alongside formal and informal retirement approaches) of formal, non-retirement focused, long-term savings schemes;
- Accumulation of assets that can generate revenue during old age – such as cattle, land, housing and hardwood tree plantations;
- Other informal forms of support of the elderly:
  - continued household production after retirement or in old age (such as child care or household management) 'remunerated' through income sharing or remittances;
  - redistribution within households (intra-household transfers); and
  - support from communities or social networks.

These informal mechanisms have many other objectives in addition to saving or providing for retirement for old age; in many cases, they will instead be focused on other aspects such as income-smoothing in the short to medium term, and more general management of risks.

Informal systems are a significant source of social support for older persons in most developing countries, and particularly in Africa. Many developing economies may have formal social security systems in place, although they are far less important than existing informal systems, which tend to be family-based.[17] The protection or support offered within the context of informal systems may not always involve monetary transfers, but could also manifest in the form of services.[18] A key point to consider here is that, while individuals from

[17] It is estimated that only 6% of the population in Africa is covered by social security systems based on formal employment. This is not surprising, considering that a significant proportion of the workforce in low-income countries is outside the formal wage sector.

[18] This, however, falls outside the scope of this present study.

higher-income groups may actually use informal systems for various reasons, it is almost always the case that such informal systems are closely linked to the poor, who tend to be excluded or constrained from access to formal social security systems. For many poor people, overcoming poverty and social exclusion requires that they develop their own mechanisms of support and protection in order to sustain themselves; these mechanisms typically function mainly through family or community networks.

This section looks at long-term savings and asset accumulation as a means to support the elderly or for providing for old age/retirement. This is then followed by a discussion in Section 8 of the 'other support systems' in place.

7.2 Long-term savings pattern across the countries studied

Saving is extremely important to many households in developing countries. It allows households to smooth consumption in the face of volatile income, and enables them to make investments in human and physical capital. But the mobilization of savings is typically considered a low-level activity in many developing countries. This results from poor access to safe, flexible, convenient and affordable savings products. Informal savings (such as facilities provided by rotating savings and credit associations (ROSCAs)) and savings-in-kind (i.e. acquisition of physical goods, such as livestock) are prominent methods of savings in many developing countries. These mechanisms often go hand-in-hand or are used in combination by many – and not only by low-income individuals.

In many of these countries, making long-term regular contributions to a savings pool can be very difficult for many individuals. Many households tend to be larger in size (than in industrialized countries) and are more likely to include several generations. The dependency within household members would create less need to save for retirement or for intergenerational transfers. Perhaps even more significantly, income in many of these economies is uncertain and cyclical, which make it difficult to estimate longer-term income flows. Heads of low-income households would be constrained to look far into the future and consider their income positions once they have reached their age of retirement; their present economic position would not afford them to look beyond the short-term. Moreover, many individuals are likely to face constraints in accessing credit, making it difficult for them to borrow cash (for consumption-smoothing or investment) in their early years. Despite these constraints, however, people still continue to save – in small amounts and at frequent intervals – in order to smooth income.

But to what extent do people undertake long-term savings? Perhaps a starting point would be to ask the questions: Are people able to make long-term savings in the countries studied? If they are, to what extent are these long-term savings used to support income for the elderly or for retirement? Addressing these key questions require looking at the availability of suitable savings instruments (both in terms of the products offered and the financial institutions providing them), the degree of market penetration by the savings facilities currently offered, and the conditions that help explain how easy or difficult it is for people to access financial services in these countries.

A range of financial institutions provide access to financial services, including savings, across the countries studied. These institutions include those in the formal (banks), semi-formal (savings and credit cooperatives – SACCOs) and informal (savings clubs or ROSCAs) sectors.

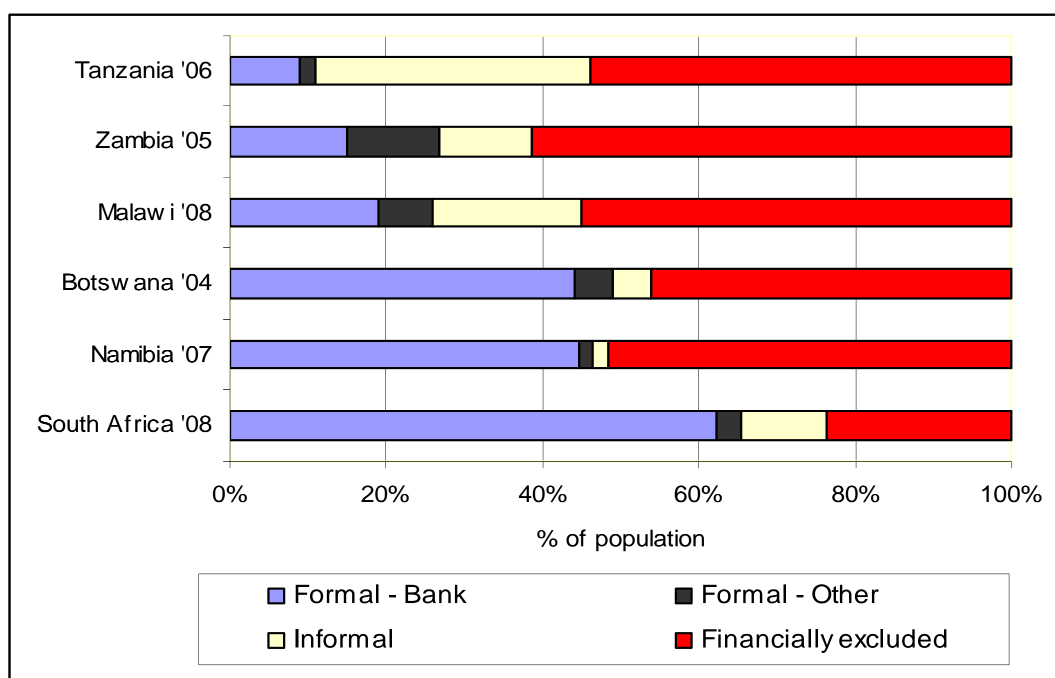
Despite the range in financial institutions operating, there is, however, a significant proportion of the population in these countries who remain unbanked – and are even financially

excluded. The FinScope survey results on some of these countries (Figure 7.1) show that the proportion of those who are financially excluded (i.e. without any form of financial access) can be more than 50% of the population. This is especially true of countries such as Malawi, Namibia, Tanzania and Zambia. With such high levels of financial exclusion, in many of these countries people often resort to keeping their savings at home (e.g. under the mattress).

Among all of the countries studied, only Botswana and South Africa show promising signs of becoming a more financially inclusive society, – with 63% of the adult population in South Africa now being formally banked; similarly, there has been a significant rise in the proportion of those formally banked in Botswana (65% in 2009).[19]

The problem with constrained financial access across the countries is pronounced, and this has implications on the prospects for the vast majority of the people living in these countries to use financial services that allow them to protect themselves against the risk of old age.

Figure 7.1 Access strand across a number of countries studied



In many of these countries, the financial system is dominated by commercial banks, which tend to be foreign-owned. Moreover, the NBFI sector tends to be under-developed, with very few institutions that are able to extend services to the unbanked population. An extreme case would be Lesotho, where the range of NBFIs currently operating includes only a few insurance providers and credit-granting financial institutions that focus on extending payroll-based loans (to mostly public sector employees). In Botswana and Namibia, the NBFI sector is dominated by contractual savings institutions such as pension funds and insurance companies (IMF Article IV Mission, 2008). However, the services provided by these institutions tend to be accessible only to very few people, who are typically employed or have higher incomes.

[19] Even then, 59% of the population in Botswana are not undertaking steps to save towards retirement; only 13% of the population are members of a pension or provident fund.

In other countries, however, the picture looks a little more promising. For example, in Swaziland, NBFIs include a range of SACCOs and microfinance institutions (IMF Article IV Mission, 2008). Thus, even while the commercial banking sector can be very narrow in terms of coverage, people may still be able to resort to utilising more accessible NBFIs and, in particular, SACCOs in order to save and access other types of financial services.[20] It is promising to note that in more and more countries across the region, legal and regulatory reforms are being undertaken so as to create an enabling environment for NBFIs to flourish and to provide accessible financial services to a large unbanked market, which may include savings facilities in a number of deposit-taking non-banks.

The limitations of the banking sector in mobilizing more deposits (especially from low-income households) can be explained in terms of the costs of making use of these services. In Zambia, for example, it is estimated that only 15% of the population has a bank account, and more than 60% of the population is financially excluded. The facilities for saving that are made available by the banking sector in the country appear to be too expensive for a vast majority of Zambians: the monthly charges and other fees imposed by banks, along with the minimum opening and maintaining balances required, make it difficult (if not impossible) for many to save in banks and other formal financial institutions. The same is also true for Malawi, where minimum opening and maintaining bank balances can be equivalent to as much as 10% of the annual cash income received by many households living in rural areas.[21]

Moreover, in many of these countries there is often very little incentive to place one's savings in a bank, as the broader economic conditions make it difficult for financial institutions to provide positive returns on cash savings. Zimbabwe, for example, is described as having a fairly well-developed financial system, with a range of banking institutions as well as regulated microfinance institutions that can provide access to savings facilities. But it is likely that most savings have been substantially devalued by the hyperinflation. Similar situations can also be found in countries such as Zambia.

Given the constrained access to formal financial services and the limited range in NBFIs operating in some of these countries, it is unsurprising to find many people resorting to semi-formal, or even informal, providers.[22] This can be through unregulated cooperatives (some of which may be multi-purpose units, rather than financial cooperatives) that are smaller in size, or unregistered village/community-based associations. These institutions tend to be small and operate within close proximity to many poor households, including those who are rural-based. They may offer regular savings schemes that can contribute to income security in old age, even without referring to them as 'pension schemes'.

In Malawi, while nearly 75% of adults save, most people prefer to save their money by hiding cash (at home), rather than placing it in a bank. They choose to save this way for ease of access and convenience.[23]

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[20] As noted in the country profile for Swaziland, it is estimated that, between 2002 and 2006, lending by SACCOs has grown by 116%, compared with only 26% for banks (Davoodi, 2008).

[21] OPM and Kadale Consultants (2010): Supply Side Study of Financial Inclusion in Malawi; final report submitted to the FinMark Trust.

[22] In some cases, even while the legal and regulatory framework now allows for the emergence of non-banks, the non-bank sector may still be at a nascent stage of development: many financial institutions require time to develop their capacity to serve growing numbers of depositors, and establish their presence in more remote unbanked locations.

[23] In Malawi, only less than 3% of the population have a pension.

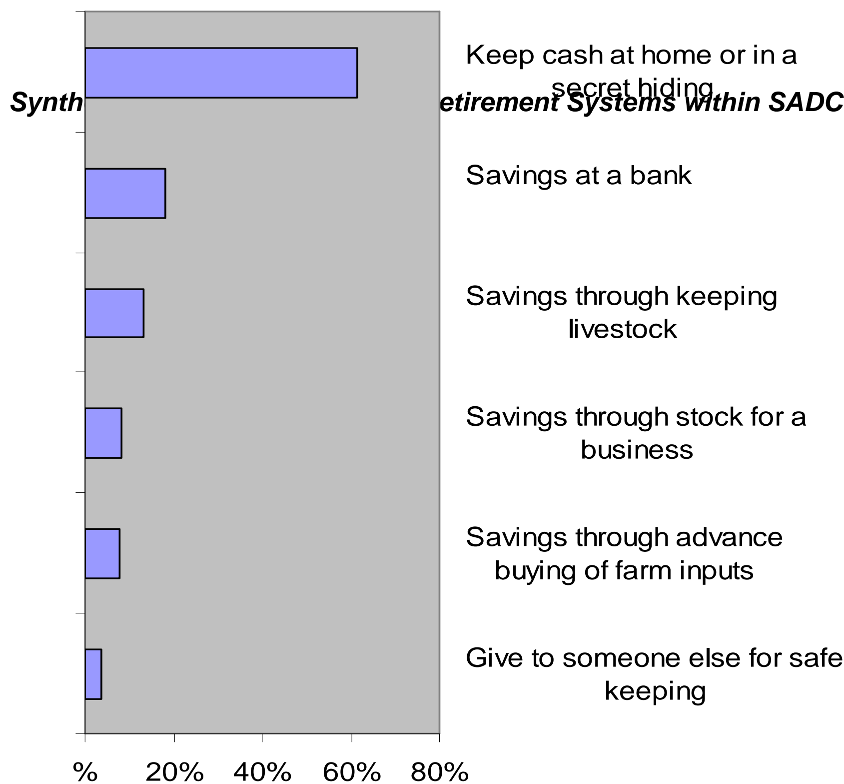


Figure 7.2 Malawi: Methods of saving

Source: Malawi FinScope 2009 results

Across Southern Africa, consistent with the pattern of using informal financial services, it is very common to find informal funeral insurance schemes or burial societies, whose product essentially covers the costs associated with the death of a member of a household. These schemes are very popular in a number of countries as people are aware that, without this funeral cover, their families would need to sell assets or put themselves into debt in order to cover the costs when a family member dies. In Botswana, for example, while very few people have life insurance policies or pensions, it is estimated that approximately 25% of households have funeral insurance.

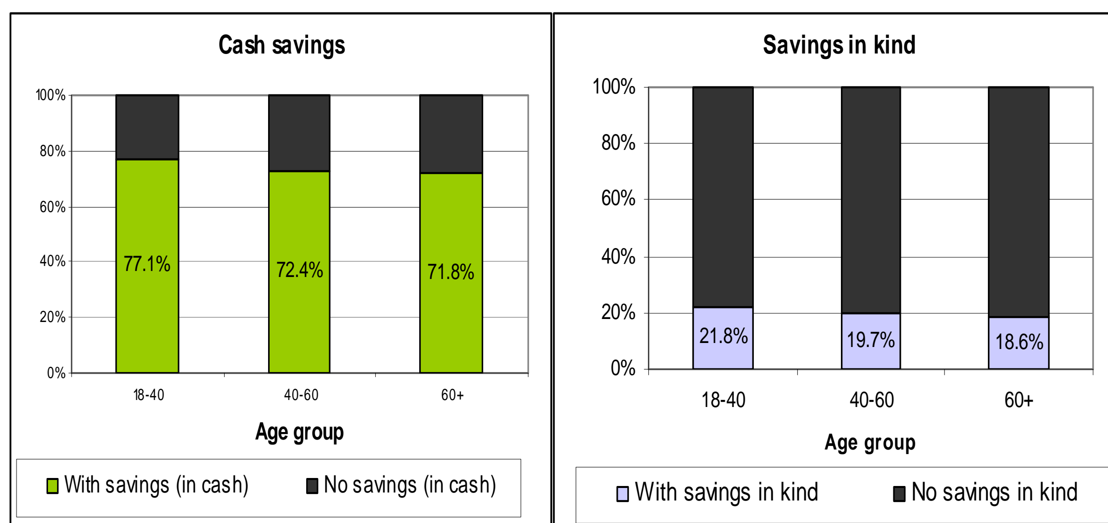
Interestingly, in South Africa, there was also a noted increase in informal forms of financial access: according to the FinScope results, savings club (*stokvel*) membership grew from 6% to 8% between 2007 and 2008, which underscores the importance of informal institutions. A *stokvel* is a very popular example of informal social security. In this situation, a group of five friends make monthly contributions to a *stokvel* (a pool of funds), and each member takes his/her turn in accessing the entire pool of funds, which can then be used by that individual to make special purchases or undertake small investments.

There is insufficient information available to explore the extent to which such informal arrangements are used as a form of long-term savings. However, what we do know, is that, even while many individuals continue to use these informal mechanisms to save and borrow money, there is evidence showing that consumers are aware of the risks associated with the use of these informal mechanisms, which would make it highly unlikely for people to store their savings in such informal institutions over the long term, despite not having other alternatives for saving.

In some countries, the degree of monetisation of some locations can be an issue, and can also help to explain why people use more flexible informal services. In Tanzania, for example, 35% of the population is estimated to use informal financial products, and 20% use non-monetary means of exchange.

It is difficult to ascertain how accessible these informal arrangements are to the elderly, who may be interested in storing small savings amounts to support their income. In Tanzania, for example, village-based associations that are common to many communities tend to exclude the elderly. This is unsurprising, considering that many of these informal arrangements have established within them mechanisms for selecting members who will have the capacity to make savings contributions or even repay loans (in the case of ROSCAs); old people may be generally looked upon as being among those incapable of making regular contributions, given the expectation that they will be unable to undertake economic activities to generate income. It is, however, important to note that this may be simply a misconstrued perception, given the similar patterns in saving across the various age groups (as is demonstrated in the case of Malawi in Figure 7.3).

Figure 7.3 Malawi: Pattern of savings by age group



Informal institutions such as burial societies and community-based savings clubs are important; they enable unbanked households to cope with shocks, and the insurance element provides protection and reduces the need for households to dispose of assets in order to meet certain sudden expenses (e.g. funeral costs). However, these mechanisms tend to be oriented towards addressing specific life-cycle and economic crises, rather than providing facilities for long-term savings that can be used for retirement and old age.

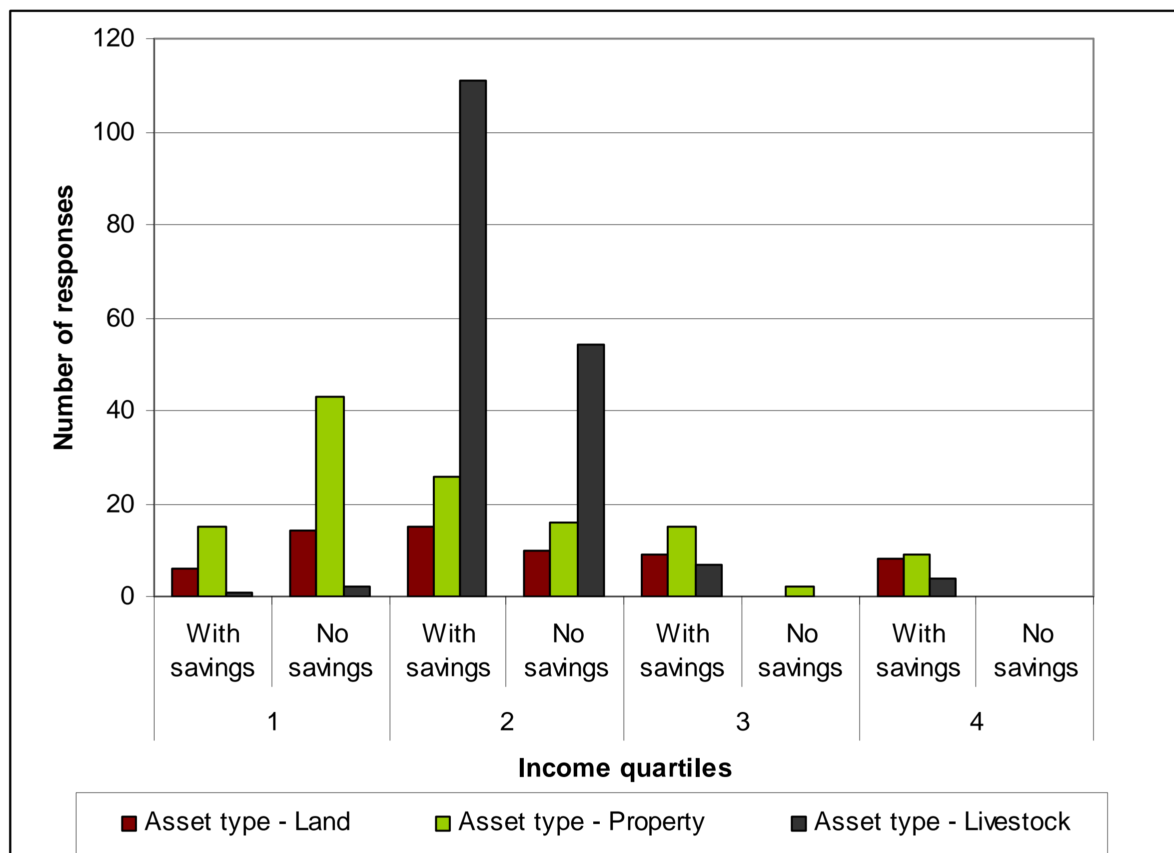
In summary, the countries studied show a pattern of constrained financial access, which limits the capacity of (and incentives for) households to make long-term savings. Moreover, there is also insufficient information to show patterns in household savings among those who save (i.e. whether with banks or other types of financial service providers), and how savings accounts are being used to redistribute consumption to old age.

7.3 Patterns in asset accumulation

As noted earlier, given that the vast majority of people in the countries studied are not able to access financial services, including savings facilities, at commercial banks and other financial institutions, many may resort to hiding money at home or burying it in the ground. A number of them would participate in informal arrangements such as ROSCAs and other community-based organizations. There are also those who would choose to invest their cash in some form of asset (including land/housing, livestock, and so on) that individuals and

households could then draw from in the future. In many developing countries, especially those characterized by high levels of financial exclusion, it is quite common to find people accumulating assets as a way to save for future consumption, or to protect themselves from future risks or shocks.

Figure 7.4 Botswana: Patterns in asset accumulation (among those with and without cash savings)



The strategy of accumulating assets (especially for the purpose of providing for one's future income or for retirement) is, however, not only practised by those who are considered poor. In many cases, even high-income individuals choose asset accumulation as a retirement strategy; this allows them greater control over their resources, rather than their having to depend on institutions providing pension schemes that may have had a history of failure, or are not as transparent as consumers need them to be.

The benefits of accumulating assets (as opposed to saving in cash) can be quite obvious. In Botswana, for example, formal housing in urban areas (especially in Gaborone) commands high rental prices; property ownership, therefore, has great potential to provide a secure income after one's retirement. In a number of countries, the strategy of acquiring property to provide for one's retirement can be typical of migrant workers who return home. These individuals tend to have enough cash savings that allow them to make asset purchases that could then be used to generate rental income.

The problem, however, is in the process of acquiring property: land titling is often imbued with complex and inefficient processes that lead to the limited availability of plots; there are also high transaction and financing costs. In Madagascar, for example, it is estimated that as

little as 10% of land has official title, and entitlements are based on unwritten agreements. This clearly leaves land owners in a vulnerable position. Long-term finance, including housing finance, also tends to be under-developed in many countries in the region. The available loans tend to be concentrated in urban centres and to target affluent individuals. In Botswana, for example, most banks are reported to require a certain household monthly income that limits the potential market to the top quartile. Low-income employees and those operating outside the formal sector are unlikely to be able to meet eligibility requirements. Lower-income earners can enter the property market through relatively cheap housing finance provided through the Self-Help Housing Association. But this facility still does not adequately address the need for low-cost housing among a large number of households in the country.

Ownership of property, while being important in terms of enabling people to generate income for future consumption, is, however, very difficult in a number of countries, especially for many women. The differences in the norms as they apply to the genders have serious implications on the relevance of using land and other property to provide for the elderly. In Madagascar, for example, until recently inheritance laws gave very little importance to the (female) spouse, with blood relations being considered more important. While the laws on inheritance have since changed, in many more remote areas of the country, it is still common practice for the (female) spouse not to benefit from inheritance, leaving widows in a very vulnerable position. This is exacerbated by a tradition in which women rarely own land.

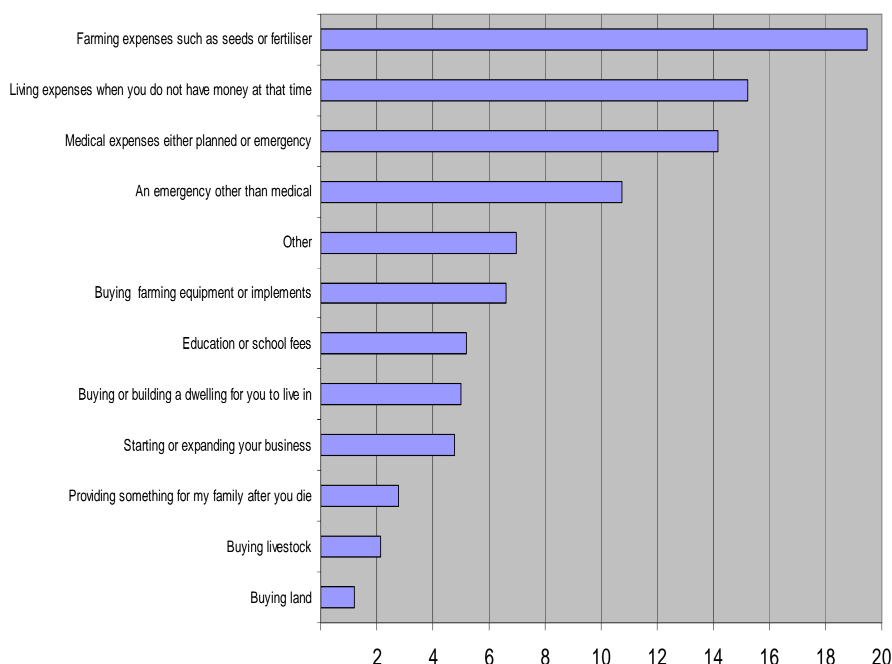
In Swaziland, one of the most common ways of acquiring land is through the *Kukhonta* system, whereby the male head of a household pledges allegiance to a chief and is given a piece of land in return on which to build homestead structures, a field to cultivate crops and free grazing land for cattle. Until recently, women were not permitted to undergo the *Kukhonta* rituals and receive Swazi Nation Land. Thus, in customary practice, when a husband dies, his property is taken over by his brother. It is important to give this consideration, especially since, for many people in Swaziland, and in the region in general, asset accumulation is a commonly-used mechanism for consumption-smoothing against unforeseen circumstances and for use in major life events (e.g. birth, death, marriage).

7.4 Coverage

As noted earlier, saving is extremely important to households' risk management strategies: it is essentially the ability to store wealth for future consumption, including providing for one's retirement or old age. Informal savings (such as ROSCAs and saving-in-kind) are methods commonly used by many households to protect themselves from different kinds of risks and sudden shocks that could potentially erode assets or reduce future incomes. These mechanisms are often used in combination by many – including those who are not necessarily poor or constrained from access to formal financial and social security services.[24]

The evidence, however, shows that, in most of the countries studied, access to financial services is severely constrained in the first place. If most people in the region do not have access to appropriate, safe and convenient mechanisms for storing their savings (not to mention, facilities that will give them a positive return on their savings), most of them will resort to informal ways of saving, making it difficult to establish the extent to which people

[24] This is consistent with the observed pattern of overlaps between those accessing formal financial services and those who also use informal financial services – common across many of countries that have undertaken FinScope surveys. In Botswana, for example, it is estimated that half of the financially-included use both formal and informal products.



are saving in the long term, and, for those who do, the extent to which such long-term savings are used for consumption during retirement or to support the elderly.

Figure 7.5 Malawi: Primary purposes for saving

Source: Malawi FinScope 2009 results
Note: The bottom axis indicates the proportion of respondents.

In Malawi, for example, the most significant financial strains in life cited by FinScope respondents are medical and funeral expenses. To address such risks, people may set aside some cash – but they would be more likely to rely on family members; to borrow money, if necessary; or to seek assistance from the community (e.g. to pay for funerals, and so on). Saving is considered most important among the financial services available – but most people save for farming or household living expenses, and not for future investments.

Constrained access is determined by both supply- and demand-side barriers. On the supply side, financial institutions face challenges in reaching a greater number of consumers, including perceptions of risk about certain market segments, poor infrastructure that makes it difficult to reach thinly-spread and sometimes remote populations, and so on. On the demand side, most individuals who do not have access to savings facilities tend to be earn a low income, and have little or no education – which means that their knowledge and understanding of pension and saving products is limited. Perhaps even more importantly, the resources available for long-term savings among those who are financially excluded also tend to be scarce. In some communities, the availability of alternative insurance mechanisms – mainly in the form of community and extended family support – also helps to explain why people would be less concerned about making long-term savings. But, even in situations where such informal support systems have become weaker (e.g. given the incidence of HIV and conflicts that cause changes in family and social structures), the pervasiveness of low and erratic income patterns among many households explains why most people would find it very difficult to prioritise anything other than their most immediate needs.

Thus, considering the role of savings in providing for incomes of the elderly or those who have retired is far from a straightforward task. Not only are we faced with the problem of inadequate accumulation (given low and erratic income patterns for the vast majority of people in the region), but also saving in low-income settings tends be precautionary, and not long-term in nature. Poor households do save; they accumulate what they are able (in cash and assets) so as to have a cushion against difficulties. However, the flows of storing and using savings tend to cover short periods; this also helps to explain why they would often prefer more liquid assets. The volatility of income and high levels of vulnerability to shocks strengthens this preference for liquidity. It will be difficult to convince many low-income households to tie their money to long-term saving instruments, without the appropriate set of incentives.

7.5 Sustainability

The constrained access to formal financial services and the limited options people have for saving (even through semi-formal and informal mechanisms) already limits the prospects for the vast majority of people living in these countries to use financial services that allow them to protect themselves against the risk of old age. For many, resorting to semi-formal, or even informal, means may be the only option available to store savings. But even while many individuals continue to use these informal mechanisms to save and borrow money, there is evidence showing that consumers are aware of the risks associated with the use of these informal mechanisms, which would make it highly unlikely for people to place their savings in such informal institutions over the long term, despite not having other alternatives for saving. Indeed, these concerns are not unfounded: there are risks in using informal means to store one's savings.

In extreme cases, if people continue to save their money through informal means (e.g. either by putting it in a pot or hiding it under their mattress) such savings can be lost due to theft, or they can be misplaced or even forgotten (especially in instances when the saver dies and he/she has not disclosed to anyone else where his/her savings have been placed). On the other hand, saving in kind (e.g. by investing in cattle/livestock) can also be very risky: should the animal die, then savings are lost instantly.

Thus, if the intention is to address the need for enabling more and more people to build savings over the long term, a crucial first step would be to find ways of offering secure and accessible savings accounts for the mass market.

7.6 Recommendations

This analysis suggests the following areas require further research and consideration:

- Introducing savings products that have built-in incentives to convince low-income people to save in the long term; for example, commitment savings products, or combining (conditional) grants (e.g. to offset lean/hungry periods) with savings.
- Using technology to collect regular micro-denominated contributions. Collecting contributions and paying benefits can be daunting, but there are new approaches being tested using third-party collection agents, ATMs, mobile phone-enabled transfers (used in the Philippines and Sri Lanka).
- For some market segments, the role of increasing availability of basic transactional (bank) accounts which could help to address the need to store money in anticipation of identified, near-term consumption needs. This is expected to lead to better cash

management (i.e. given reduction in risks of loss of cash due to use of only informal means), and could possibly free up resources for more long-term accumulation.

8 Informal systems: Other support systems

8.1 Overview

There has been growing interest in non-formal systems to provide income security to elderly people in developing countries with a range of terms used to describe these: 'informal systems for income security' (World Bank, 1993) or 'traditional social protection mechanisms' (Kpesa, 2010), 'mechanisms of social security in traditional village societies' (Platteau, 2002), 'rural social security mechanisms' (Leliveld 1994), and 'informal protection systems and social networks' (Neves, Samson *et al*., 2009).

Related – but focused not on retirement insurance but, rather, on insurance against a variety of common shocks in the third world environment – is the literature on 'Insurance against poverty' associated with Dercon. This literature focuses on 'informal mechanisms' to cope with 'risk and misfortune' in the context of 'droughts, floods, illness, recession and civil strife'. The informal mechanisms typically identified are 'income diversification, risk avoidance and … self insurance by means of savings together with family or community-based mutual assistance' (Dercon, 2003). Somewhat along similar lines, Devereux focused on the 'informal safety nets' that poor households in Malawi use to 'adjust to … production and income shocks'. He identifies two broad responses: 'searching for additional cash or food (from informal employment, borrowing, or gifts from relatives and friends)' and 'austerity measures (rationing food consumption, withdrawing children from school)'. Again, the focus is not on the risk of ageing and losing the physical ability to produce but, rather, on short-term shocks (Devereux, 1999).

Sabates-Wheeler and Waite have linked the literatures of coping, strategies, social protection migrancy (and, hence, remittances) by conceptualising:

> 'migration itself as an informal social protection mechanism for people/families that are vulnerable in their destination, or alternatively seek risk reduction by migrating. Within this conceptualization migration as social protection overlaps substantially with the literature on coping strategies, such that migration becomes a coping strategy within a portfolio of livelihood choices' (Sabates-Wheeler and Waite, 2003).

There is clearly, therefore, a growing literature conceptualising, documenting and analysing informal social protection systems. However, these are often from very different perspectives, and there are no standard typologies focusing on the range of risks and contingencies (including life cycle events) and carefully systematising responses in terms of their key characteristics, as has been done for formal social security (as indicated in the accompanying literature review, often by international organisations such as the World Bank, the International Labour Organization (ILO), the International Social Security Association (ISSA) or the International Organisation of Pension Supervisors (IOPS).

8.2 Generalisations about informal systems of providing for the elderly

While substantial detailed comparative research on the income sources and survival strategies of the elderly could not be identified, a number of fairly strong generalisations have been made, and are often repeated in the literature – even if implicitly. The first is that, in the developing world – and in Africa, specifically – older people rely extensively on informal systems of support, even though it is clear that these do not always operate perfectly or

optimally. The second generalisation is that, due to a number of factors, these informal systems are under increasing pressure. In 'Averting the Old Age Crisis', the World Bank stated that 'the informal system for income security … is still the mainstay in most developing countries. [A]n estimated 60% of the world's labor force and 70% of the old rely on it exclusively' (World Bank, 1994). It goes on to say that 'most surveys show Africa's informal support systems to be working relatively well'. This statement is, in fact, somewhat contentious, although they do acknowledge that 'some of the fabric of old age support is wearing thin' (World Bank, 1994).

While few other reviews make such explicit statements about the reach and presumed adequacy of informal support systems, the key role of these informal systems is generally acknowledged, although often the caveat is made that these systems have never been perfect (i.e. have 'cracks') and that they have been coming under increasing pressure. For example, Schwarz states that:

> Traditionally, older individuals could rely on their families for support, but as societies move away from tradition-bound multi-generational families to more modern nuclear families in the process of development, the elderly are often left with little support. But even under traditional structures, the safety net was not perfect as there were always people without children to support them or whose children were too poor to support them. The development process exacerbates the imperfections of the safety net as children move away to urban areas, leaving the elderly and their obligations to them behind. At the same time, as the family's source of income shifts from traditional sources to the market, the older individual's ability to contribute to family income declines, resulting in a decline in status for the elderly and a decline in the willingness of other family members to care for the elderly (Schwarz, 2004; Kpesa, 2010).

Similarly, Holzmann and others, in arguing for increased attention to systems providing for the elderly, state that: 'family support is not always there, and it tends to decline as a result of economic development (with the accompanying urbanization, migration, and greater labor force mobility)' (Holzmann, Robalino *et al.*, 2009).

Economic theory has also been invoked to show why some traditional mechanisms provide the best response possible, given the shortcomings (failures) of the market and the state to provide services (insurance against the risk of old age). In the presence of market failure and state failure in these rural or traditional contexts, other institutions (such as household and kinship groups, which are focused broadly on social reproduction) develop innovative ways of dealing with risk.

In addition to components of economic development weakening informal systems, the HIV/AIDS epidemic is radically restructuring demography, household structures and caring responsibilities. As a result, pressure is increasing on the elderly in households. Mortality among the working age population has increased and leads to fewer income sources for the households with elderly members, quite often thrusting on them the responsibility to care for young children (World Bank, 1994; Kakwani and Subbarao, 2005).

Social institutions that also come to play a social protection function (such as families or households) have certain strengths allowing them to provide insurance where market and state systems are absent. In the context of old age, two key risks can be identified: the risk of becoming unproductive because of increasing frailty (declining health, physical incapacity), and the risk 'of living long and needing income for consumption' (but being unable to work) (World Bank, 1994). From this risk perspective, institutions such as the family or village groups and associations allow for 'some risk-pooling without some of the standard

information and enforcement problems plaguing market-based systems' (Dercon, 2003). Key challenges in insurance markets are moral hazard (where the insured fail to adequately protect themselves against the risk – say, in the case of disability, or provide false information about their situation or state); adverse selection (where the good risks opt out of the system); and enforcement. In family groups, adverse selection might be partly dealt with because it is more difficult for household members to opt out of the insurance arrangements (inter-dependency, norms and availability of potential sanctions). Closeness and regular interaction provide good information and the ability to monitor behaviour, so reducing the problem of moral hazard. With regard to enforcement, it has been argued that 'social sanctions in close-knit communities – bolstered by parental ownership of family assets such as land and homes [and the ability to disinherit] – reinforce these arrangements' (World Bank, 1994). However, informal risk-sharing arrangements do have weaknesses in certain contexts, and these become more evident over the development process. These are that they cannot handle general (or covariate) risk, marginal groups are excluded, and they may only be able to adjust slowly to changed circumstances (Dercon, 2003). Slow adjustment to change is, however, common of many (or most) institutions.

A further policy consideration in the literature on formal and informal support systems is the impact that expanding the formal system could have on the informal system. It has been argued that the expansion of the formal system may reduce (crowd out) transfers through the informal system. Evidence is limited. The literature concludes that, while some crowding out has been found, there is no evidence that it fully offsets the public or market transfer (World Bank, 1994); and it has been commented that:

> in itself, crowding out is really not a problem, provided the emerging formal system provides superior social protection. The weakness of existing schemes, in terms of limited coverage of some of the poorest groups and the most catastrophic risk, and the lack of full insurance offered, may be sufficient reason to let formal social protection crowd out informal systems (Dercon, 2003).

8.3 Findings from the literature review and country studies

For most of the 15 countries, some literature was found on the operation of informal systems in providing income security to the poor. These studies confirm some of the general findings highlighted previously, and also add to the policy implications identified.

The following are key generalisations about how the poor elderly survive:

- In the absence of transfer or redistributive mechanisms that are automatically applied at a defined age, a significant proportion of the poor elderly continue to work into old age. While some of this work is in the formal and informal labour market, elderly people can also stay active for a long time in household activity. Child care is often mentioned in connection with household activity, but also other tasks of a more manual nature – such as farming and the collection of wood and water. For South Africa, it has been pointed out that, in a specific survey, nearly 20% of the chronically poor elderly aged over 84 still fetched water, and 14.4% of the group fetched and carried wood (May, 2003). Qualitative survey work in South Africa has also pointed to a range of economic activities taking place in households with elderly people that do not get captured in quantitative surveys (Adato, Lund *et al.*, 2007). Also, for Swaziland (Leliveld, 1994) and Zimbabwe (Adamchak and Wilson, 1998) there is evidence of continued labour market participation and participation in productive activities. For 'Swazi rural society', the principle is 'that each should contribute according to capacity, whatever his or her age' (Leliveld, 1994).

- The kinship group or the family, a basic institution of society, is the most common institution to provide services or 'long-life insurance' to the poor. In addition to receiving support from children living with them in the household, elderly parents also receive support from children not living in the household. For Zimbabwe, and with regard to remittances, a survey showed that 'the most common relationship between the receiving household and sender is that the sender is a son or daughter of the receiver … the second most common category was between siblings' (Bracking and Sachikonye, 2006). For older women in the 1990s in Zimbabwe, a survey found that 'the informal sector, agricultural production and children generated 73% of total income' (for older men, just over 40% of income came from salaries, the informal sector and rent) (Adamchak and Wilson, 1998). In Zambia, it was found that the two informal institutions providing benefits in the case of old age are the extended family and church groups (Mukuka *et al.*, 2002), in Tanzania 'the family and kinship system is highlighted as the most important source of support for the elderly' (see the country profile). From a study in Lesotho, it was argued that:

> Sharing mechanisms continue to play a key role in Basotho livelihoods. As in earlier generations, they are particularly important in helping households to farm, despite lack of the means of agricultural production. … Kinship relations are an important factor in such support, notably in sharing arrangements that support the elderly'. (Turner 2005)

- Other 'groupings' also play a role. Sometimes these are based on geographical proximity (neighbours) (Leliveld, 1994; Devereux, 1999), but sometimes on location plus association (churches, market associations and tribal affiliations) (Turner 2005; Leliveld, 1994).
- It could, perhaps, be concluded from the literature that income flows from kin are more regular and reliable, with support from other groupings more centred around specific events.
- Migrant networks and remittances are important in all SADC countries (Bracking and Sachikonye, 2006; Paola and Tinajero, 2009). Between countries and within countries, in addition to permanent out-migration and resulting remittances, there is a continuous process of short-term and medium-term migration. These migrant networks and remittances should probably not be seen as a separate 'social protection system' but, rather, as specific ways of pursuing security through earning income. The income will then be fed, at times, into kinship and other networks to provide support to the elderly.
- Among others, the Tanzania and Zimbabwe study points out that the form of support, even for long-distance remittances, can be quite diverse, including cash as well as in-kind.

The literature surveyed points to a number of important characteristics of informal forms of support in the institutions identified:

- While the support from kin and other networks is quite far from market exchange (a clearly defined product or service being exchanged at a transparent price), there is also a clear balance of give-and-take in these networks of reciprocity. Parents are respected because of power over resource allocation or because they still contribute to household activity, as in the case of the extensive child care from grandmothers. While norms and values may shape what is expected from the elderly, there clearly has to be some reciprocity. In many cases, and for long periods, the flow of funding might be from the

elderly person to others in the household – such as paying for food, access to education and health, and support to kin to seek work or set up a business.

- Because of the need for reciprocity, the poorest of the poor are often excluded from these informal networks (Tanzania profile; Du Toit and Neves, 2009a; Neves, Samson *et al.*, 2009).
- The informal systems often fail in a situation of drought or other livelihood crisis because the whole kinship group or location is subject to the same shock (Subbarao, 1998).
- While informal networks are often thought to be stronger in rural or 'traditional' areas, in some of the studies (as for Tanzania) it was found that informal support through associations and kin is more extensive in urban than in rural areas, which may testify to the extent of rural destitution.
- There was no hard evidence of the erosion of informal social safety nets, although such a perception exists in the literature and among interviewees.
- A strong conclusion from recent South African research is that, instead of being in competition (i.e. formal public transfers crowding out informal systems), in some cases the public systems actually strengthen people's participation in informal networks and reinvigorate informal networks (Du Toit and Neves, 2009a; Du Toit and Neves, 2009b). This could be because the public transfer allows the elderly persons to reinsert themselves into the informal networks, or keep their status there. Some of the other country profiles and interviews (Mauritius, Mozambique) support this conclusion.

8.4 Conclusions

In embarking on the literature review and country visits, the intention was, as a starting point, to impose the same organisational framework used for formal social security systems on other types of informal support systems. The question, therefore, seemed quite straightforward: to identify the different support systems, and the principles and rules underlying these ('legal and institutional', for the formal systems); to identify the coverage and the rules of access of the different systems; to discover how these benefits are financed (by whom and from what sources); to identify the types of benefits and the cost of delivering these benefits.

In practice, it has been difficult to obtain systematic answers to these questions. This has been partly to do with the absence of consistent and widely-used conceptual frameworks, and partly to do with the information about informal networks being dispersed over different areas of specialised literatures (including the anthropological literature). The major reason for the inability to obtain concise and systematic answers is, however, probability related to the complexity of the mechanisms and networks on which the poor elderly rely.

The following can, therefore, be offered as an initial set of tentative conclusions:

- As pointed out in the literature on 'portfolios for the poor', the poor make use of a vast range of informal instruments in order to survive. This is also the case for retirement, where there is ongoing work and a range of support from diverse institutions, with kinship networks sometimes extended over vast distances. These complex relationships often defy generalisation and it is, therefore, difficult to achieve a policy viewpoint on matters.
- While informal networks have never been perfect, they continue to play a critical role in the survival of poor elderly people in Southern Africa; however, a range of demographic and other factors (including HIV/Aids) are putting these informal networks under strain.

- Literature on informal systems seems to suggest that, rather than being alternatives, the expansion of some formal systems can strengthen informal systems. These informal systems ensure the ability of the poor elderly to participate in networks of reciprocity that not only provide security, but also enhance development through the support of children, asset accumulation and entrepreneurship. Several of the country documents suggest this, but the most detailed qualitative work has at this stage come from South Africa.

9 Conclusions and recommendations

This study has gathered a wide range of information about a very diverse set of institutions focused on providing income support to elderly people in the SADC. While there are international comparisons of social security mechanisms, these have seldom attempted to take in the full set of formal and informal provisions. In addition, this study was focused on the SADC, where comparative data have been lacking for a number of countries.

We believe this study has made progress in putting forward a much fuller and contextualised set of information on the countries, but a number of areas will require investigation. This is the case especially for civil service pension schemes – where regulations were sometimes hard to access, and reliable data on contributors and beneficiaries was not accessible.

Given population growth, ageing and the impact of AIDS, together with labour market trends making for less secure employment and fewer employment opportunities, SADC countries face a significant challenge to provide adequate provision for their elderly population. However, the country profiles, in addition to gaps in provision, also show significant progress in a number of countries, and best practice in the region from which other countries can learn. Reviews of the different components point to the conclusions that now follow.

9.1 Social assistance schemes for the elderly

Six countries in the SADC provide either a means-tested or a universal social old age pension to their citizens. These reduce poverty rates for the elderly substantially from the levels they would otherwise have been, and does so at a fiscal cost that is reasonable. In Mauritius (with the largest proportion of elderly in the SADC), which has a universal system and pays at a relatively high level in an SADC context, the cost comes to 1.8% of GDP and 7.9% of government expenditure.

The fiscal costs may be difficult to sustain for Lesotho, Namibia and Swaziland should the recent decline in SACU revenues continue, and the prospects for such a system in countries that are highly donor-dependent (such as Mozambique) may not be good. Countries have, however, been innovative in mechanisms to ensure broad support of the population at a relatively low cost. Lesotho has restricted access to the group aged over 70; both Botswana and Swaziland pay benefits at a low level, but these benefits are still meaningful in their economic context.

Although there is room for improvement in administration and payment in all countries, current estimates show that, even in the difficult context of some of the countries of Southern Africa (specifically in this case Lesotho, Swaziland, Namibia and Botswana), delivery can be performed at reasonable costs. Experimentation (both institutional and technological) and innovation with regard to delivery systems are ongoing. Successful partnerships of the public and private sectors already exist in a number of countries with regard to the delivery of cash, and there are exciting prospects for improving efficiencies, lowering costs and expanding business opportunities. While a systematic review could not be undertaken of other more complex targeted and smaller-scale social assistance mechanisms, it certainly seems as though the scale and nature of cash distribution permits much greater efficiencies and lower cost, for both providers and beneficiaries.

This study could not focus on the impact of the social old age pension, and did not begin analysis of differential poverty rates associated with the existence (or not) of a social assistance scheme for the elderly. Also, evidence on impact is limited – except for the South

African case, where the social old age pension has been studied extensively. In addition to its direct role in poverty alleviation, the quantitative and qualitative evidence is pointing more and more to the fact that social old age pensions also flow to other household members and, therefore, support the physical growth and education of children and also support job-seeking and labour force participation, as well as being associated with expanding small business activity. Assessment of the impact of a limited cash grant system in Mozambique has been used effectively to argue for an expansion of the programme.

SADC countries without a social pension scheme all have a number of small social assistance mechanisms which, while not specifically targeted at the elderly, include the elderly as one of the vulnerable groups. Most of these schemes have erratic coverage and small scale administration (which is likely to be high-cost). They are limited in scope and benefit a very small proportion of the elderly. It is certainly important to compare the benefits of a more comprehensive social pension for the aged before expanding such schemes.

It has recently been argued that:

> Social pensions could change for the better the lives of millions of older people who currently live in poverty in poor countries – just as they have for older people in many developed countries. They could imbue the lives of poor older people and their families with a measure of predictability, replacing the uncertainty in which they currently live and transforming their behaviour, encouraging them to plan for and invest in the future. If the international community is serious about tackling old age poverty, a social pension is the best answer we have (Kidd and Whitehouse).

An important debate in further expanding social pensions in the SADC is the issue of targeting versus universality. The one side of this debate has been summarised as follows:

> Taking all things into account – the need to keep the fiscal cost low, minimize adverse incentive effects, and maximize the poverty reduction impacts both at the national level and at the level of the targeted group, and bearing in mind the fact that there are other groups among whom the incidence of poverty is about the same or much worse than that of the elderly – the study concludes that the case for a universal approach is weak' (Kakwani and Subbarao 2005).

Contrary to this conclusion, the current Southern African experience seems to show that a universal pension can be introduced at reasonable fiscal cost (especially in the light of the benefits that it holds); that means-testing is either very costly, or very difficult to implement in the Southern African context; and that it could introduce various disincentives for own saving for old age.

9.2 National social insurance

Several schemes are looking actively at measures to reduce long term deficits. Possible solutions include raising contributions, increasing retirement age (e.g. Mauritius), and changing formulae for calculating benefits payable. Mechanisms are required to ensure that governments honour their guarantees to resolve any emerging shortfall of assets against liabilities.

Administrative costs seem high relative to contributions and there are no systematic reform initiatives, although Madagascar is hoping to improve efficiency by making payments through microfinance institutions.

Namibia and South Africa are discussing the introduction of a social insurance pension scheme. Botswana has had discussions on how to improve retirement provisions, but has not endorsed the introduction of a compulsory national insurance scheme.

The legislation governing national insurance schemes is often old, and requires thorough review and updating.

Two broad considerations are at play here. On the one hand, the South African experience shows that, in an essentially voluntary environment without a national mandate to save for retirement, adequate coverage of the employed population will be difficult to achieve. Also, the relatively high cost of occupational and private provision will also impact on replacement rates and the adequacy of benefits. There is, therefore, a strong argument for establishing and strengthening the mandatory social insurance pillar.

On the other hand, social insurance schemes in the SADC seems broadly not to have delivered on their promises to their citizens – because of macroeconomic implosion (such as in Zimbabwe), sub-optimal management of funds, or inadequate contribution rates. Also, they have failed to make a dynamic contribution to the economy (and secure adequate replacement rates) because of failure to implement modern management procedures and modern asset management practices, free from indirect subsidies to government.

Therefore, the social insurance pillar in the SADC countries needs strengthening and, while the institutional infrastructure (of which the essence is a semi-autonomous government agency working under clear rules) seems to be in place in almost all the SADC countries, these institutions need substantial strengthening, together with improved reporting and oversight. Transparency and reporting is, however, much better than for schemes run by government departments.

9.3 Civil service occupational schemes

While civil service pension reforms have been, and are being, undertaken on a case-by-case basis in the different countries, a few general concerns are clear, and the associated reform recommendations are standard across the board:

- Civil service pensions in a number of countries still exert increasing pressure on the fiscus as a result of a combination of factors such as excessive pension promises, current civil service wage policies, and the internal demographics of the civil service (for instance, a high prevalence of early retirement and, thus, longer-term pension liabilities to the system).
- Labour market distortions exist, as a result of immobility in the civil sector caused by civil service pension regulations (long vesting periods, non-transferable funds and inadequate preservation of pension rights).
- The crowding out of other important social programmes as a result of the increasing pressure of civil service pensions on the fiscus (World Bank, 2004; Palacios and Whitehouse, 2006).

General reform recommendations to address these issues include:

- raising the pensionable age – this allows for a greater pool of contributions (given the additional years), and it decreases the duration of the pension liability of civil service employees upon retirement. Mauritius is an example as they have attempted to increase

their pensionable age from 60 to 65 for the Civil Service Plan as of 2004 (World Bank, 2004));

- reducing the overall replacement rate for civil service pensions;
- indexing benefits to changes in prices (as opposed to civil service wages, which generally tend to be inflated in comparison to the private sector); and
- introducing or increasing member contributions (Whitehouse, 2002; Gopee, 2006).

Calls for such reforms are made in the context of the ‘total compensation approach’, in which all sources of remuneration of civil service employees are taken into account (Whitehouse, 2002; Palacios and Whitehouse, 2006).

9.4 Occupational systems for private sector workers and voluntary schemes

Occupational schemes for private sector workers and voluntary schemes in the SADC warrant further systematisation and study. The play a key role in a number of countries, especially in those without mandatory social insurance schemes (Botswana, Namibia, South Africa) but in all countries there is some evidence of private sector retirement schemes. In countries such as Botswana, Mauritius and South Africa they play a key role in mobilising funds for investment and have very significant funds under management.

Information about private sector schemes depends critically on the capacity of the regulator and the quality of information provided by the regulator. In all countries the capacity of the regulator and the quality of information can be improved. Little information was available on 3 countries (DRC, Tanzania and the Seychelles), 4 countries have a weak or non-existent regulatory framework (Lesotho, Madagascar, Malawi and Mozambique) while the other 8 countries have a regulatory framework and regulatory institutions in place but capacity differs.

Mauritius has recently improved its regulatory environment (also evident in improving reporting and information) and Botswana is in the final stages of introducing new legislation. In all the SADC countries more attention has to be given to protection of rights and to ensure that returns and rates of replacement are not unduly reduced by high administrative and asset management costs.

9.5 Informal retirement systems: long-term savings and asset accumulation

The study also set out to investigate, in the context of low coverage of formal retirement schemes, the role of long-term savings vehicles not specifically aimed at retirement in providing income in old age. In addition, the intention was to investigate whether other modes of asset accumulation (land, housing and cattle) play a role in income provision to the elderly.

The literature was therefore scanned for the extent and role of long-term savings vehicles as well as informal savings vehicles and for evidence of the role of the accumulation of other assets.

For the bulk of the SADC countries there is still significant financial exclusion in the sense that a large proportion of the population, especially low-income individuals, are “unbanked” or do not have bank accounts or financial products with financial service providers. In addition, the non-bank financial institutions sector is weakly developed in most of the SADC countries. This clearly limits the role which these institutions and their longer-term savings instruments can play in providing savings for old age. While there is some evidence for some countries on the extent of longer-term savings there is little evidence that these play a significant role in provision for old age. The same is true of semi-formal or informal providers.

The study could also not find systematic information on the diverse modes of accumulation of non-financial assets in the SADC. Even less was available on how these support the elderly. From some countries there were suggestions that housing and land does play a role in providing security for old age and that this is an important area for policy focus. The literature was, however, too limited to make strong generalisations or pointers to policy directions beyond the very general (such as that land titling is of importance).

9.6 Informal retirement systems: Other support

In embarking on the literature review and country visits, the intention was, as a starting point, to impose the same organisational framework used for formal social security systems on other types of informal support systems. The question, therefore, seemed quite straightforward: to identify the different support systems and the principles and rules underlying these (‘legal and institutional’, for the formal systems); to identify the coverage and the rules of access of the different systems; to discover how these benefits are financed (by whom and from what sources); and to identify the types of benefits and the cost of delivering these benefits.

In practice, it has been difficult to get systematic answers to these questions. This has been partly to do with the absence of consistent and widely-used conceptual frameworks, and partly to do with the information about informal networks being dispersed over different areas of specialised literatures (including gerontology and anthropology). The major reason for the inability to obtain concise and systematic answers, however, probably relate to the complexity of the mechanisms and networks on which the poor elderly rely.

Therefore, the following can be offered as an initial set of tentative conclusions:

- As pointed out in the literature on ‘portfolios for the poor’, the poor make use of a vast range of informal instruments to survive. This is also the case for retirement, where there is ongoing work and a range of support from diverse institutions, with kinship networks sometimes extended over vast distances. These complex relationships often defy generalisation and, therefore, it is difficult to achieve a policy viewpoint on matters.
- While informal networks have never been perfect, they continue to play a critical role in the survival of poor elderly people in Southern Africa; however, a range of demographic and other factors (including HIV/AIDS) are putting these informal networks under strain.
- Literature on informal systems seems to suggest that, rather than being alternatives, the expansion of some formal systems can strengthen informal systems. These informal systems ensure the ability of the poor elderly to participate in networks of reciprocity that not only provide security, but also enhance development through the support of children, asset accumulation and entrepreneurship.

Annex A Retirement systems in the SADC: Country system overviews

Angola

Formal systems

Social assistance

There is no general social assistance programme aimed at the elderly. From a general orientation towards subsidies for fuel and utilities, the country has been urged to focus on phasing out these subsidies in favour of more effective social spending. There are many donor, international non-governmental organisation (NGO) and private sector development and support programmes aimed at rural development, governance and the social sectors; specific government income support programmes are not common or widespread.

National social insurance

The National Institute of Social Security operates in terms of the Basic Law on Social Protection (7 of 2004) and operates a mandatory contributory national social insurance programme. Contributions are 11% of remuneration (3% from the employee and 8% from the employer). A wide range of contingencies is covered: illness, maternity, accidents and occupational diseases, disability, old age/retirement death and unemployment.

Occupational and voluntary funds

The Basic Law on Social Protection also makes provision for supplementary pensions. These are regulated by the Institute for Pension Supervision under the Ministry of Finance, with the Ministry of Finance being advised by the Technical Council on Insurance and Pension Funds. In 2009, there were three pension fund management companies operating in the country and 19 pension funds (13 closed and six open). In 2007, the value of funds under management was estimated at US$263 million, there being annual contributions of US$42 million. There were 7,767 beneficiaries (pensioners) and 28,161 active members. Relevant legislation is the Financial Institutions Law (Law 13/05, 30 September 2005).

Informal retirement systems

Little information could be sourced on informal systems. One survey pointed to the importance of migrants and remittances (mostly from Portugal and South Africa). The study did, however, not allow for robust generalisations.

Botswana

Formal systems

Social assistance

A universal old age pension is provided for all citizens aged over 65 residing in Botswana. As at October 2009, there were 90,639 registered old age pensioners, comprising 88% of the population aged 60 and over. The benefit is entirely funded from general government revenue. In 2009, total expenditure amounted to P 239 million, equal to 0.7% of total expenditure and 0.3% of GDP. The benefit level is P 220 per month. This amounts to 12% of median national incomes, but is sufficient to keep the recipient above the poverty line. GDP per capita/average or median earnings

National social insurance

None

Civil service occupational retirement schemes

The largest occupational scheme is the Botswana Public Officers Pension Fund. This was reorganised as a DB scheme in 2001.The scheme is registered in terms of the Pension and Provident Funds legislation. The scheme covers all public servant workers and the military; eligibility for retirement benefits occurs at the age of 60. As at 31 March 2009, there were 94,020 active members; 4,025 deferred members; 4,572 pensioners; and 206 spouses/orphan pensioners. Members contribute 5% and the government contributes 15%. The total net assets as at 31 March 2009 were P 24,083 million.

Private occupational schemes and voluntary schemes

All occupational schemes are conducted under the regulatory authority of the Registrar of Pension and Provident Funds (now NBFIRA) and the Unified Revenue Service. Occupational pension plans are usually established by medium-sized and large employers. Plan rules often specify the maximum age of eligibility for membership to be no greater than the retirement age. Estimates indicate that 28,000 formal sector employees are enrolled in pension schemes. Another 152,000 employees are potentially eligible for some gratuity benefits under the Employment Act. Pension plans are financed both by employers and employees. Contributions depend on plan rules. The total employer and employee contribution rate under an average plan is between 10% and 15% of contributory salary (typically, 5% in employee contributions, 5–10% in employer contributions).

Informal retirement systems

There were 36 Savings and Credit Cooperative Organisations in 2006, although the study team found no data with regard to coverage of the elderly. Asset accumulation, particularly through urban formal housing (especially in Gaborone), commands high rentals so formal property ownership has great potential to provide a secure income after retirement, especially through housing ownership.

Democratic Republic of the Congo

Formal systems

Social assistance

The DRC has no formal social assistance scheme for the elderly, although the Poverty Reduction and Growth Strategy Paper and the National Social Protection Support Program (PNPS) include the elderly as one of four identified vulnerable groups.

National social insurance

The National Social Security Institute is governed by the Minister of Labour and Social Security. The system is mandatory for all formal sector workers (including household and casual workers, sailors, and public sector employees not covered by a social security programme). Voluntary coverage exists for non-employed persons who were previously insured for at least five years and who request to be covered in the six-month period after insured employment ceases. The self-employed are excluded. The scheme is earnings-related. The employed person contributes 3.5% of gross salary, which is matched by the employer. The age of eligibility is 65 for men and 60 for women. Pension benefit is equal to 1/60th of the insured's average monthly covered earnings in the three years prior to

retirement multiplied by the number of months of contributions. The minimum pension is equal to 50% of the legal minimum wage.

Civil service occupational schemes

The civil servants scheme runs parallel to the national social insurance scheme.

Private occupational schemes and voluntary schemes

Individuals in the formal sector (such as in the mining sector) belong to provident funds or pension schemes, as most large firms run pension plans or provident funds (e.g. Goldfields Ashanti). The existence of a regularity authority could not be established. Therefore, it is uncertain whether any or all funds are registered and approved. Equally unclear are any taxation issues.

Informal retirement systems

Rotating Savings and Credit Associations do exist; however, no information on their penetration or effectiveness has been available. The study also failed to find information to provide a more systematic summary of other informal mechanisms.

Lesotho

Formal systems

Social assistance

The old age pension is mandated by the Old Age Pensions Act (2005) and Regulation (2007). This scheme is designed for any person over the age of 70 who is not earning a pension or social grant from the consolidated fund. The coverage for the fiscal year 2009/10 was estimated at 80,000 people; this is 4.3% of the total population (estimated at around 85%), implying less than 100% coverage of the elderly over the age of 70. The old age pension is tax-funded. The old age pension stood at M 288 million in the fiscal year 2009/10, or 3.6% of total expenditure. Since April 2009, beneficiaries receive M 300 per month.

National social insurance

No national social insurance is in place.

Occupational civil servants retirement schemes

The Public Service Pension Scheme is a funded DB scheme. Until 2008, this had been a DB scheme. The new scheme is governed by the Public Officers' Defined Contribution Pension Fund Act (2008) and the Public Service Regulations (2008). The scheme is managed by the pension fund secretariat, and covers all public service officers. Eligibility for the pension fund is after the age of 55 or 45 and after completion of 10 years of service or more. The government pays 11.2% of an employee's basic pensionable salary; employees pay an additional 5% of their basic pensionable salary.

Voluntary occupational and private pension schemes

Voluntary and private pension schemes cover a very small proportion of the population in Lesotho, and are only offered by a handful of insurance companies. Private occupational pensions are governed by the Financial Institutions Act (1999), the Money Lenders Act (1989) and the Insurance Act (1976). These schemes are for people in formal employment. Since there is no regulatory body overseeing pension funds in Lesotho, no information is available on total number of members. Information from the three largest providers of

pension and provident funds puts the total number of active members at around 5,000. This represents 0.3% of the total population.

Informal retirement systems

The financial sector is not well-developed, and potential savers have a limited number of suitable instruments. Long-term savings instruments as provision for retirement are expected to be limited and, where they exist, serve salaried urban individuals that are more likely to be covered by formal pension mechanisms. It is believed that strong traditional support systems have come under increasing pressure (especially from HIV and AIDS). Remittances from migrant workers (mainly employed in the South African mines) supplement household incomes.

Madagascar

Formal systems

Social assistance

There is no national social assistance scheme in Madagascar, and there is currently no initiative to put one in place. Were such a scheme to be implemented, the extreme poverty of Madagascar, as well as the remoteness of a large number of its people, would pose considerable challenges. Many donor agencies are working in Madagascar, but no evidence was found for cash transfer schemes targeting the elderly.

National social insurance

There is a scheme run by the Caisse Nationale de la Prévoyance Sociale (CNaPS) and supervised by the Ministry of Finance and the Ministry of Labour. The Social Insurance Code of 1969 legislates for social insurance. The scheme covers formal sector employees (excluding government employees and the self-employed), and has 521,191 members and 32,162 registered employers (representing 5.5% of the labour force and 37% of formal sector workers). The average pension amount is Ar 86,458 per month ($30).The base scheme gives an average replacement rate of around 30%, and there is an optional complementary scheme to increase this.

Occupational retirement schemes

There are two occupational schemes for civil servants: the Caisse de Retraites Civiles et Militaires (CRCM) (which covers civil servants, government workers and the military); and the Caisse de Prévoyance et de Retraites (CPR) (which covers auxiliary agents employed by the government, who have not yet been granted full government employee status). The schemes are run jointly by the Ministère de la Fonction Publique, du Travail et des Lois Sociales and the Ministère des Finances et du Budget. The CRCM is governed by Act 62-144 (1962), while the CPR is governed by Act 61-642 (1961). In 2004, 100,000 people were affiliated to the two schemes, and 67,000 pensions, invalidity and survivor payments were made.

Private occupational and voluntary schemes

There are two main insurance companies in Madagascar that offer pension schemes, ‘Assurances ARO’ and ‘NY HAVANA’. Both operate under Law 99-013 (2 August 1999), the insurance code for Madagascar, There is no legislation governing private pension schemes, which are currently treated under insurance regulations. ARO currently has around 31,000 members, and HAVANA currently has around 10,000 members. HAVANA estimates that 25% of their clients are individuals who have taken out the scheme independently, and that 75% of their clients come from employer-led schemes.

Informal retirement systems

Very little information is available on informal retirement systems. Little data could be found on the banking sector in Madagascar, and no studies were found on the assets of the elderly or on informal social protection mechanisms for the elderly. Madagascar is culturally highly diverse, and the position of the elderly within society is likely to vary significantly between cultural groups.

Malawi

Formal systems

Social assistance

There are currently various governmental and non-governmental social assistance programmes in Malawi. For example, the Public Assistance Scheme provides social and health care services to the elderly, as well as short-term emergency support on a demand basis. Similarly, the elderly are beneficiaries of several activities of the National Safety Net Programme, given their involvement in subsistence agriculture and the social cash transfer pilot programme. In around 60% of beneficiary households in the cash transfer programme the household head is an elderly person. In addition to this, there are several NGOs (such as the President's own personal foundation for the elderly) that offer support to vulnerable elderly people.

National social insurance

There is no national social insurance scheme within Malawi.

Civil service occupational schemes

The Government Public Pension Scheme is a non-contributory, DB, PAYG system paid to employees at the mandatory retirement age of 60 and following 10 years of service, or earlier following 20 years of service. The regulations pertaining to qualification for GPPS are contained in the Malawi Public Service Regulations Act (1944). Reform and regulatory aspects of the fund are handled by the Department of Human Resources Management and Development. The day-to-day management and administration of the fund follows a tripartite structure: the Department of Human Resources Management and Development, the Auditor General (Ministry of Finance) and the Accountant General (Ministry of Finance). Two main contingencies are covered: old age and a death gratuity. Currently, there are approximately, 140,000 people in the Malawian civil service and around 30,000 retirees. The pension accrues at a rate of 1/360th of pensionable salary for each completed month of service. The final salary forms the base for calculating pensions.

Private occupational schemes and voluntary schemes

In the absence of an independent regulator, it is very difficult to estimate coverage; however, there are around 600 private pension funds in Malawi, offering both DB and DC pension schemes. There are three main pension administrators (Mhango, 2008). There is currently no regulation or legislation governing private occupational or voluntary schemes. The sector is governed by the Insurance Act and the Taxation Act.

Informal retirement systems

The study has been unable to find any information on informal retirement mechanisms.

Mauritius

Formal systems

Social assistance

There is a non-contributory, universal, tax-funded social assistance scheme known as the Basic Retirement Pension (BRP). It is covered by the National Pension Act (1976). Eligibility for receiving benefit is age 60 and over. In June 2008, there were 136,408 beneficiaries of the BRP and 131,143 people aged 60 and over, implying full coverage (104%). The average monthly value of the BRP is MUR 2,909, which is 17% of GDP per capita and 20% of average earnings. The total value of the scheme was MUR 4,761,800,000, representing 1.8% of GDP and 7.9% of government expenditure.

National social insurance

There are two parallel social insurance schemes: the National Pension Fund and the National Savings Fund. The National Pension Fund (NPF) is a partially funded PAYG points system. The NPF is provided for by the National Pension Act (1976). Eligibility is at the age of 60 and over, and covers all private sector workers (this includes casual and part-time workers). Unemployed and self-employed people are encouraged to join the scheme on a voluntary basis. In March 2008, there were 17,600 employers and 305,300 employees contributing to the Fund, representing 54.6% of the labour force. The overall standard contribution is 9%, with 6% paid by the employer and 3% by the employee.

The National Savings Fund (NSF) is a DC scheme covering private and public sector workers. It was established by the National Saving Fund Act (1995). The NSF had 373,100 contributors as at March 2008. The NSF requires a 2.5% overall contribution from public officers and 3.5% from private employees (1% from the employee and 2.5% from the employee) with the minimum and maximum monthly earnings for contribution purposes being MUR 1,315 and MUR 8,640, respectively

Civil service occupational retirement schemes

Eligibility for receiving a civil service pension is at age 60. The scheme is paid out of government expenditure. In 2004, the civil service plan had some 50,000 contributors, and the local government schemes a further 5,000. At the same date, there were 20,000 civil service pensioners, and a further 10,000 survivors' pensions. Outlays were MURs 1.25 billion, or 1.3% of GDP. The parastatal pension funds offer an unfunded DB scheme. Employees make no contributions, although employers make a contribution of between 15% and 27% of the employees' monthly income. The normal retirement age was reported as 50 or 45, operated under the Statutory Bodies Pension Fund Act. In 2004, there were 12,000 members.

Private occupational schemes and voluntary schemes

It is estimated that this covers mainly highly-paid workers and employers. Private occupational and voluntary schemes are regulated by the Financial Services Commission by the Financial Services Act (2007). In 2008, there were 845 insured pensions instruments (from seven insurers), of which 582 were DB funds and 263 were DB funds. As at the end of the final quarter of 2008, these funds had 6,606 beneficiaries, 13,460 contributory members and 31,021 non-contributory members.

Informal retirement systems

The study found very little information about informal retirement provision; although, remittances from abroad were seen as important sources of household income. Mauritius has been among the top five recipients of international remittances among the countries in sub-Saharan Africa, although the impact that these remittances have on the living conditions of the elderly in Mauritius remains to be seen.

Mozambique

Formal systems

Social assistance

Mozambique does not have a social assistance scheme specifically targeted at the elderly. However, the Programa Subsidio de Alimentos operates as an unconditional cash transfer, and goes to women from age 55 and men from age 60, as well as to chronically ill and disabled people – all subject to a means test. In mid-2008, the benefit went to 143,455 people, and ranged between MZM 100 and MZM 300, depending on the number of children in the household. Coverage of the country is incomplete, but expansion and funding plans have been developed.

National social insurance

Mandatory social insurance is prescribed for private sector workers in the Lei de Proteccao Social (2007) and managed by the National Social Security Institute. The old age pension is a DB scheme payable to women from age 55 and men from age 60. The scheme covers a range of benefits, and is in the middle of a reform process after allegations of fraud and mismanagement. The scheme is funded from employee contributions of 3% and employer contributions of 4%. The benefits are equal to 50% of average earnings multiplied by the number of months worked out of a total of 240, with the proviso that the total months of contributions cannot be more than 432. The minimum monthly pension is 60% of the national minimum wage.

Civil service occupational schemes

The public officer’s pension scheme caters for civil servants (including local government employees) and is a PAYG DB scheme, the broad rules of which are set out in the General Statute on Functionaries and Agents of the State, Act No. 14 (2009). A tender has been issued for technical support to convert this fund to a DC fund. Member contributions are 7% of earnings. In March 2009, 103,000 pensioners received benefits: of those pensioners, only 31,000 were former civil servants (and the remaining 72,000 pensions were paid to former military personnel); there were 200,000 contributors at that stage. The pension equals the final salary times the years of service divided by 35.

Private occupational schemes and voluntary schemes

The Financial Sector Stability Assessment (IMF, 2009: 11) states that ‘The pension sector remains dominated by the obligatory, state-run PAYG system, although there are a few, small private corporate pension funds’. However, no information could be sourced on private occupational funds and other private/voluntary funds. Most observers conclude that the private pension system is insignificant.

Informal retirement systems

There is little information available on informal pension mechanisms. Asset accumulation, particularly housing in urban areas, can help to provide security into old age; however, no hard data are available.

Namibia

Formal systems

Social assistance

Namibia has a universal, tax-funded old age pension paying N $450 (US$61) per month. This was established by the National Pensions Act (1992) and is administered by the Ministry of Labour and Social Welfare. This benefit is available to all Namibian citizens aged over 60, and the number of beneficiaries for 2009/10 was estimated at about 150,000, including disability beneficiaries (in 2005, coverage was estimated at 85% of the population aged over 65).

National social insurance

Although authorising legislation for a national pension fund already exists, it has not been operationalised and discussion of the establishment of such a social insurance fund is still taking place.

Civil service occupational schemes

The Government Institutions Pension Fund (a fully funded DB scheme) was established by the Pension Funds Act (1956). Its administrator is appointed by the trustees of the Fund. In 2008, there were 72,731 contributing members, and benefits were paid to 38,349 pensioners and survivors. Members' contributions are set at 7%, with employers contributing 16%. Retirement age is 60 years. The pension is calculated as 2.4& of the member's final salary, multiplied by the member's term of pensionable service.

Private occupational schemes and voluntary schemes

In addition, there are approximately 500 private occupational schemes and schemes for individuals, serving potentially as many as 50,000 members. These are governed by the Namibian Financial Institutions Supervisory Authority established by the NAMFISA Act (2001).

Informal retirement systems

Subbaroa (1998) has argued that, 'As with other countries of Africa, family and/or community-based informal sharing arrangements constitute the most pervasive safety net in the country'. The study could not access much further information in this regard or develop a more systematic summary of such informal mechanisms.

The Seychelles

Formal systems

Social assistance

No explicit social assistance programmes for retirement exist in the Seychelles. The government has, instead, opted to focus retirement provision on Social Insurance, which is to

be explained in the light of relatively low unemployment rates. The government also pays a transfer to the unemployed through the established social insurance funds in exchange for their involvement in designated employment programmes. Until recently, there was also a range of indirect subsidies in place (i.e. for energy and transport) that reduced prices for consumers.

National social insurance

There are two elements to the national social insurance scheme, the Social Security Fund (which pays a basic pension), and the Seychelles Pension Fund (which pays earnings-related benefits). The Social Security Fund is governed by the Social Security Act (1987) (repealed in 2005), while the Seychelles Pension Fund was established by the Pension Fund Act (2005).

The Social Security Fund pays a flat rate benefit (minimum pension), and covers all citizens residing in Seychelles territory and resident foreign employees who contribute to the Seychelles Pension Fund. The eligibility age for receiving a pension is 63, and insured persons must have resided in the Seychelles for at least five years immediately prior to the date of retirement. The Seychelles Pension Fund covers all full-time and part-time employees in the public and private sectors, and there is voluntary coverage for self-employed persons (casual workers are excluded from this). Eligibility for receiving pension is age 60.

Employees contribute 2.5% of their monthly earnings to the Fund, and employers pay 25% Of combined employer and employee monthly contribution, 5.4% of the monies paid into the Social Security Fund is transferred to the Seychelles Pension Fund.

In December 2006, the Social Security Fund paid a flat rate old age pension of SCR 2,200 per month. The maximum pension as at December 2006 (including the Social Security Fund old-age pension of SCR 2,200) was SCR 8,100 per month.

Occupational civil service

There are no provisions in place.

Private occupational and voluntary retirement schemes

There is apparently no overarching legislation for occupational and private pension funds, and no information could be sourced on such funds.

Informal retirement systems

No information could be sourced on informal retirement systems.

South Africa

Formal systems

Social assistance

There is a means-tested state old age pension (SOAP) or older persons grant, payable to permanent residents from the age of 60 .The Legislation underpinning the SOAP is contained in two Acts, the Social Assistance Act No. 13 (2004) (the SA Act) and the South African Social Security Agency Act No. 9 (2004) (the SASSA Act).

Grant recipients in 2009/10 numbered 2,534,082 out of a total population over the age of 60 of 3,505,488 (68.4%). Grants recipients accessed grants to the value of ZAR 30 billion.

The SOAP is entirely funded from general tax revenue. In 2009/10, expenditure on the old age pension (excluding administration) totalled approximately 1.2% of GDP. The benefit takes the form of a cash grant paid monthly to the qualifying grant recipient. The maximum monthly grant value is ZAR 1,080 (from 1 April 2010).

National social insurance

There is no social insurance scheme for retirment but government task teams are currently developing proposals for what the 2010 Budget Review refers to as 'a universal savings arrangement'.

Civil service occupational schemes

The Government Employees Pension Fund (GEPF) is currently the largest pension fund in South Africa, and covers all government employees. The GEPF was established by the GEP Law Proclamation 21 (1996). At present, the GEPF has approximately 1.14 million contributing members and 303,977 pensioners (South Africa, 2010). The normal retirement age under the fund is age 60.

Private occupational schemes and voluntary schemes

Occupational or voluntary retirement funds can take a number of forms in South Africa: pension funds, provident funds, umbrella funds, segregated funds, retirement annuity, preservation funds, approved and unapproved funds. The regulatory framework is fragmented with many occupational and voluntary arrangements not regulated, overseen by government departments, or overseen by the Registrar of Pension Funds in the Financial Services Board.

The Financial Services Board estimated that in 2007/2008 there were 7,273,897 active members and 2,138,272 pensioners. A significant number of people belong to more than one fund leading to an estimated number of persons contributing of between 4 to 5 million. Benefits can take the form of lump sum benefits or annuity benefits. Most retirement arrangements are DB in nature with benefits dependent on the value of accumulated contributions and interest earnings less expenses and taxation. The aggregate replacement rates for the contributory retirement system as a whole is low at an estimated 23.9%

Informal retirement systems

Because of the relatively extensive coverage of the formal retirement system in South Africa (chiefly the state old age pension but also occupational pensions), informal systems are less critical to survival than in many other SADC countries. In fact evidence, such as on the size of households with state old age pensioners compared to household without pensioners, shows that a "private safety net" for the unemployed "heavily depends on the existence of state transfers to pensioners which indirectly supports the unemployed" or that "these grants are being heavily used to support others in the household". .Nonetheless, some elderly continue to make economic contributions or partake in economic activity post conventional retirement ages and other forms of saving exist for retirement (cattle, housing, other long-term financial instruments). A recent qualitative study concluded that "social grants allow people to enter into existing systems of social reciprocity (deeply rooted informal social protection systems and social networks) on which the impoverished and vulnerable often depend for their survival" and "enable recipients to leverage and multiply their resources".

This points to the potential for formal and informal systems to be complementary rather than alternative ways of dealing with income risk in old age.

Swaziland

Formal systems

Social assistance

An old age pension grant is payable to those aged 60 and over, subject to a means test, and is estimated to cover 60,000 members (estimated at 95% of the target group) receive E 200 per month (US$27). There is currently no legislation supporting the Old Age Pension Grant; however, a draft regulation has been submitted to the government for consideration. The administration of the programme and cash disbursement is undertaken by the Department of Social Welfare.

National social insurance

Established under the Swaziland National Providential Fund Order (1974), the Swaziland National Provident Fund has compulsory membership for formally employed workers. This is a DB scheme, set at 5% for employees and employers, covering 21% of the labour force (70,000 members), with a retirement age of 50. Governance and administration of the Fund is managed by a chief executive officer appointed by a board. The levels of contributions are determined by the Minister of Labour and Public Service.

Civil service occupational schemes

Established through the Public Service Pension Order (1993), the Public Service Pension Fund is a DB contributory scheme for civil servants. The operations and management of the Fund are supervised by a Public Service Pensions Board. The total number of pensionable officers in 2009 was 35,285, representing 3.5% of the population. Contributions are currently 5% for members and 15% for employers. The retirement age is 60 years and the scheme is 75% funded.

Private occupational schemes and voluntary schemes

Regulated by the Registrar of Insurance and Retirement Funds, and legislated by the Retirement Funds Act 2005, there are 44 retirement fund registered entities in Swaziland, comprising 33 local retirement funds and 11 foreign retirement funds.

Informal retirement systems

Long-term savings vehicles

There is a well-developed banking system with a recent review counting, in addition to 14 banking institutions, 56 credit cooperatives and more than 100 microfinance institutions (IMF Article IV Mission Report, 2008).

Asset accumulation

While asset acquisition is widespread, the most valuable assets (e.g. urban formal housing) are concentrated in the wealthiest households. Housing provides a rental income that supplements formal pension systems.

Other support systems

For rural Swaziland, Leliveld has identified three categories of social security provision: the ‘rural homestead as solidarity group’, ‘kinship relations’, and ‘neighbourhood, associations

and chiefdoms' (Leliveld 1994). Remittances provided US$86 per capita in 2007, significantly more than total Official Development Assistance (ODA).

Tanzania

Formal systems

Social assistance

There is no official social assistance programme for the elderly. Existing forms of social assistance are provided under the umbrella of HelpAge International and other partners. In 2008, the government, through the Tanzania Social Action Fund, launched a pilot Conditional Cash Transfer (CCT) programme in three of the poorest districts in Tanzania. Although the CCT is not strictly for the elderly, the prime beneficiaries under the stated eligibility criteria are the elderly. Of the 2,500 households, 62% have at least one elderly person. Each elderly beneficiary receives US$6 per month (100% of the food poverty line).

National social insurance

The National Social Security Fund covers all self-employed and private sector workers, other than employees in a parastatal organisation. It has been extended to cover employees in the informal economy on a voluntary membership basis. In 2006, there were 307,539 contributing members (ILO, 2008) representing 1.6% of the economically active population. Contribution rates are 10% for both employees and employers.

Civil service occupational schemes

There are four schemes for civil servants (covering central government employees, local government employees and employees of parastatals). Contribution rates range between 20% and 25% of basic salary (15% from employers, in most cases). Each of these schemes is administered by a board of directors. The schemes report to different ministries, who act as supervisory and regulatory bodies. The range of benefits provided varies between schemes and there is no portability of benefits.

Private occupational schemes and voluntary schemes

Some financial institutions (National Insurance Corporation (Tanzania) is the largest) offer personal retirement packages to individuals as part of a package of products. However, without a regulator, it is difficult to estimate the coverage of such schemes or fully to capture the different types of benefit they offer. A Social Security Bill, soon to be passed, will institute an independent regulator, and initiate series reform initiatives to include flexibility in contribution rates, portability, preservation and indexation of benefits and so on.

Informal retirement systems

Available information points to three main informal mechanisms for coping with old age: family, income-generating activities and community-based support. Of respondents in a study by Rwegoshora *et al*. (2009), 73% viewed their families as a significant support base in times of hardship; 56% relied on a form of income-generating activity for support. Finally, there is a reliance on the community and faith-based organizations as a coping strategy for the elderly; however, support from this source is limited by poverty at community level.

Zambia

Formal systems

Social assistance

There is no universal social assistance scheme within Zambia. However, there are currently several pilot social cash transfer programmes (under the umbrella of the Public Welfare Assistance Scheme), but largely funded by NGOs and ODA. In one of the pilot locations, the benefit paid takes the form of a universal old age pension for those aged over 60. The overall cash transfer pilot is currently undergoing expansion into a national scheme, as laid out in the Zambia 5th National Development Plan.

The other main, large-scale, non-contributory schemes within Zambia are the Food Security Pack, the School-Feeding Programme and the Project of Urban Self-Help. While these schemes may benefit households including or headed by an elderly person, this is not their main focus.

National social insurance

Established by the National Pension Scheme Act No. 40 (1996), the National Pension Scheme (NPS) administered by the National Pension Scheme Authority is mandatory for all formal sector workers who began work after 1 February 2000. Self-employed or informal sector workers can enrol on a voluntary basis. The NPS is a DB, partially funded scheme with benefits varying from 20% of national average earnings to 40% of career average adjusted earnings. Retirement age is 55 and the NPS covers around 8% of the labour force. Employee and employer contributions are set at 5%.

Civil service occupational schemes

Pension schemes are regulated by the Pension Scheme Regulation Act. For those who commenced work before 1 February 2000, there are occupational pension schemes for civil servants (the Public Service Pensions Fund) and local authority workers (the Local Authorities Superannuation Fund). These schemes act as a replacement for the NPS, and their DBs are higher than those of the NPS since they are based on final salary rather than average earnings. Civil servants contribute 7.25% of their earnings and their employers 7.25%; local authority workers contribute 10% of their earnings and their employers 23%. The retirement age is 55, and benefits are calculated using the final year salary multiplied by total years of service divided by 660.Private occupational schemes and voluntary schemes

As at the end of 2008, there were 239 registered private occupational schemes in Zambia regulated by the Pensions and Insurance Authority. These schemes were intended by the Zambian government to act as a top-up to the statutory schemes; therefore, they have struggled to extend coverage beyond the scope of the mandatory schemes.

Informal retirement systems

Mukuka *et al.* (2002) conducted a study of informal social security schemes in Zambia and found the existence of traditional extended family support and the semi-formal urban reciprocal networks (church, *chilimba* and market associations). Only two of these can focus specifically on provision for the elderly; however, all have the ability to cover funeral expenses.

Zimbabwe

Formal systems

Social assistance

There is no dedicated social assistance system for the elderly in Zimbabwe although a number of poverty relief programmes from government exist, such as the Public Works Programme. In 2007, the Public Works Programme reached 14,246 elderly, with each household receiving ZWD 19,018 for the whole year. Donors (e.g. the World Food Programme Vulnerable Group Feeding and Monthly Food Distributions under the Protracted Relief Programme Phase II) include, or have included in the past, the poor elderly as a vulnerable group. Various donors (such as HelpAge and Concern) are expanding pilot systems of cash grants. There is also a system of cash support for the elderly in institutions which, in 2005, benefited nearly 40,000 people.

National social insurance

The scheme falls under the general supervision of the Ministry of Public Service Labour and Social Welfare, and is administered by the autonomous National Social Security Authority. It is governed by the National Social Security Authority Act No. 12 (1989, ch. 17:04). The scheme covers all publicly and privately employed persons (excluding the self-employed) aged between 16 and 59 who are residents or citizens of Zimbabwe. In 2009, 2.1 million persons were registered with the POSB, of whom 1.2 million were active contributors (i.e. 30% of labour force). In July 2009, the actuaries recommended that the scheme maintain levels of benefits at US$25 per month for the retirement pension, due to hyperinflationary conditions.

Civil service occupational retirement schemes

There are three pieces of legislation governing civil service pensions: the Local Authorities Employees (Pension Schemes) Act 30 (1971); the Parliamentary Pensions Act (11 of 1978) and the State Service (Pensions) Act (7 of 1989). The schemes are DB schemes and more detail is awaited regarding the exact formulae for calculating benefits. The target seems to have been to index pensions to about two-thirds of the current value of a pensioner's earnings at retirement. For the 2010 financial year, US$165 million was appropriated for public service statutory appropriations, which comprise a variety of pensions and benefits (such as disability benefits to civil servants). This equals 7% of the 2010 government budget of US$2,250 million.

Private occupational and voluntary schemes

These schemes are regulated by the Insurance and Pensions Commission in line with the Pension and Provident Funds Act (1996, as amended) and relevant regulations. Due to the effect of the hyperinflation on the operation of pension funds, there is a lesser amount of detailed information available on occupational and private schemes than in the past. In December 2004, there were 2,810 registered funds with about 850,000 members. Membership must be granted to eligible employees between the ages of 16 and 70. Contributions must be specified as a percentage of salary, including any regular commission or bonus and any other allowances. Employees usually contribute around 6% of their salary.

Informal retirement systems

Available studies confirm that all savings, asset accumulation and informal support mechanisms play a role in the survival of the elderly in Zimbabwe, and especially that the very large current international flow of remittance still reflect kinship support mechanisms.

However, very little detail is available in order to draw conclusions about the essential nature of the mechanisms and their quantitative extent. This is also the case for the traditional 'chief's granary' (access to land in difficult times), which has been mentioned but not in detail as no information was available.

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