Policy Working Paper

Can universal pension help in reducing poverty in old age in Kenya?

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Part One

Introduction

The debate on how best to organize old age support in developing countries is growing. Trends associated with demographic and epidemiological transitions are underway in developing countries focusing attention on the issue (Lloyd-Sherlock 2000). Old age poverty is widespread in developing countries; informal old age support is coming under pressure from adverse economic conditions, migration, women's entry in paid employment, HIV/Aids, and changes in household composition. In the absence of policy intervention, older people and their households will continue to expand the ranks of the poor.

It is estimated that no more than 10 to 15 per cent of the world's working-age population contribute to a formal system of old age pension (Gillion et al, 2000). A non-contributory, flat rate pension can ensure that all citizens regardless of their earnings or occupation have an income in old age. It is possible for this type of pension to automatically cover an entire population in a way that contributory schemes never can. By de-emphasizing the link between paid, formal employment and income in retirement, non-contributory pensions are particularly helpful to women and workers in the informal sector. This paper explores the feasibility of introducing a universal pension in Kenya rather than a means-tested social pension.

The Kenya government has taken steps towards taking care of the ageing members of the society. The government is one of the signatories of the International Plan of Action on Ageing adopted in 1982 in Vienna, Austria during the first World Assembly on Ageing (WAA). Since then, government has been committed to the UN principles which stipulate the rights of the older persons to independence, participation, care, self-fulfillment and dignity.

Despite the commitment to the plan of action agreed on in 1982, the Second World Assembly on Ageing held in Madrid, Spain in 2002, noted that most developing countries including Kenya had not taken the specified steps to domesticate and operationalise the plan. The conference therefore called on member states for changes in attitude, policies and practices at all levels and in all sectors to implement the revised Plan of Action on Aging in the 21st century. Further, at the 38th Ordinary Session of Assembly of Heads of State and Government of the African Union (AU) held in Durban South Africa in 2002, the Policy Framework and Plan of Action was approved. It binds the member states to formulate national policies on ageing, in order to improve the lives of the continents older persons.

Poverty Situation

According to recent government publication, there has been a decline in income per capita while poverty has been on the increase. Upto the 1980s, poverty was more pronounced among subsistence farmers, pastoralists, the landless, and the illiterate among other socio-economic groups. In the subsequent period poverty has spread over a wide spectrum, with the overall poverty rising from 43.8 per cent in 1994 to 52.3 per cent in 1997. Overall poverty currently is estimated at 56 per cent, which illustrate that about 18 million of the 33 million Kenyans live below the poverty line.

Poverty in Kenya is multidimensional and includes deprivation of knowledge and decline in life expectancy and in the quality of life. This relates to material needs, signifying deficiency of social, economic and cultural rights which are important and vital for survival and/or well-being especially for ageing members of the society.

Past efforts to reduce poverty were unsuccessful due to poor implementation and lack of focus on specific targeted programmes towards poverty alleviation. The government therefore formulated new initiatives which include

- the National Poverty Eradication Plan (NPEP) 1991 – 2015 which stipulates the long term strategy to fight poverty for over a 15-year time frame
- adoption of the Millennium Development Goals (MDGs) which aim at reducing the incidence of poverty both in the rural and urban areas by 50 per cent by 2015 and strengthening the capacity of the poor and vulnerable groups including the aged persons;
- the Poverty Reduction Strategy Paper (PRSP) 2001 – 2004, and,
- The Economic Recovery Strategy for Wealth and Employment Creation 2003 – 2007.

What is universal pension?

Universal pension is often referred to us 'citizen's pension' and it is the only one that covers the entire population of the aged. The benefits are the same for everyone of a specified age, regardless of income, assets or work history. The universal pension comes in the form of cash transfers to the targeted population.

Why are we concerned about the older people now?

Both formal and informal care schemes for older people in urban areas are strongly influenced by a 'triangle of uncertainty' (see diagram 1 below). In fact, the care of older people occurs under these insecure conditions. While the resources, capabilities and resilience of older people should not be underestimated, individual resources alone are generally insufficient. Accordingly, Phillips (2000) has identified the care of older people as one of the most urgent problems arising from population ageing, and has warned of 'the potential dangers of over-reliance on informal and family sources' (2000: 5). Helman (2000), a medical anthropologist, concluded that rapid ageing and the increasing number of chronically ill older people ' will require a major shift in the medical paradigm [and] a shift from ''cure'' to ''care'' ' (2000: 8). The main question arising from the triangle of uncertainty is, how can appropriate elder care be provided under circumstances of unreliable social networks, economic constraints, a steady increase in the number of chronically ill older people, and wholly inadequate formal welfare services?

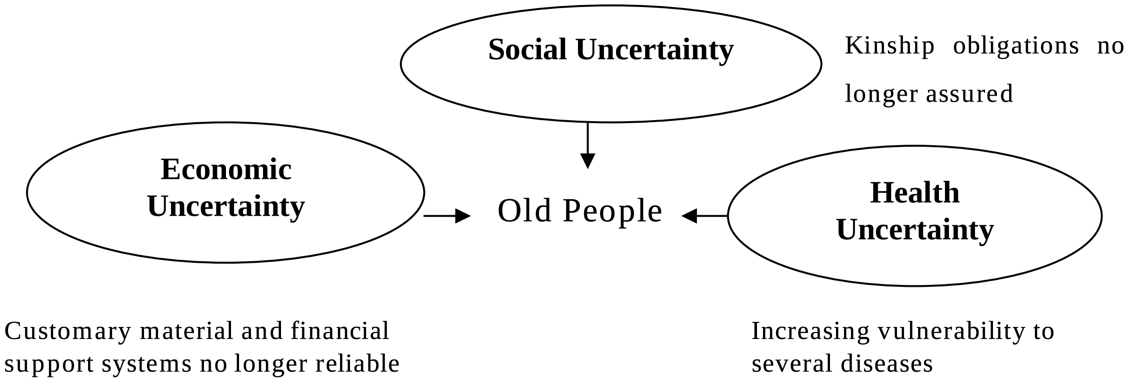

Diagram 1: ***Triangle of uncertainty for older people***

This question implies that care is a complex interplay of different societal dimensions, individual behaviour and structural factors. Niehof described ‘care as both attitude and practice’, which involves discourse, actions and intentions, and framed care as having four inter-connected phases (Niehof 2002) : caring about, that is, assessing the need for care and calling for attention; taking care of, assuming responsibility for meeting the need for care and assigning agency; care-giving, meeting the need for care and having competence to care; and care-receiving, assessing the appropriateness and adequacy of care and calling for responsiveness on the part of the care receiver. Geest saw these phases as ‘moving from awareness and intention to actual practice and response’, and argued that care is a ‘process that sustains life’ and represents ‘the moral quality of life’. A society that claims to have a moral standard has the obligation to provide adequate care for its members.

In her ‘care arrangements’ framework, Niehof identified five levels on which care-giving takes place: the individual, household, community, state and market domains. The household, as the principal locus of care provision in most societies, is the main unit of analysis in her work. Nevertheless, every society manifests its own pattern of care arrangements, which depend on the flow of resources and contributions and on the dominant levels at which care is received and provided. Phillips (2000) took a broader view of what care encompasses, referring not only to health-care needs but also to needs for social care, housing, material welfare and religious wellbeing. This broader approach to care was reflected in Keasberry's (2002) work on the care of older people in rural areas. In the past, it was generally kin who took care of older people with severe ill health, physical and mental disabilities that were associated with functional impairments and the need for healthcare and emotional support (Phillips 2000). Most care and support was provided by younger household and kin members, and the majority of care-givers were women (Leung 2000). Filial piety, kinship obligation, responsibility and respect towards older family members were considered integral to and normative for informal, family and kin-based care arrangements between the generations.

According to the formulation by Phillips and Chan (2002: 3), long-term care incorporates health-care, personal care and social services that are provided at home and in the community over a long period. They describe the recipients of long-term care as adults who lack or have lost the ability fully to care for themselves or to maintain their independence, and emphasize the heterogeneity of older people and the implication that long-term care needs differ greatly and can change abruptly and markedly. Another important point arises from the feminization of the older population (Eeuwijk 2003). Many older women (most of them widows) than older men need long-term care and support (Phillips and Chan 2002). At the same time, it is women who predominate as caregivers, and indeed many older women are primary care-givers, many to their husbands. Clearly there is a need for a gender-sensitive approach in long-term care provision and research. As Niehof concluded (2002: 181), ‘the whole [care] process is gendered’.

Part Two

Impact of Cash Transfers (non-contributory pension) on poverty

In developing countries, the incidence of old age poverty is high (Barrientos 2002), but cash transfer programmes for the old and their households are scarce (Barrientos and Lloyd-Sherlock 2003). In the context of Acquired Immuno Deficiency Syndrome (AIDs), Kanbur notes that poverty measurements focus on the currently living with the implication that poverty measures “decreases if the poorest died as a result of poverty” (Kanbur 2002). Given the relationship between income and life expectancy, this non random attrition works to make old age poverty less visible and old age support less urgent. There are cases of implicit resistance to cash transfers programmes in developing countries. This is based on three widely held generalizations.

First, there is widespread, although weakening, belief that household in low income countries provide effective old age support, and that the introduction of formal old age protection may simply ‘crowd out’ existing support (World Bank 1994). Second, old age poverty is usually given a low priority in development policy, perhaps because of “assessment that there are other, more pressing needs (Treas and Logue 1976). And third, the financial costs attached to the introduction of public pension programmes appear to be beyond the capacity of poor developing countries - especially since such programmes seem increasingly difficult to finance in developed countries (weaver 2003).

The evidence emerging from a handful of developing countries with substantial non-contributory public pension programmes suggests that to a large extent, this resistance to non-contributory pension programmes is misplaced (Barrientos and Lloyd-Sherlock 2003). The two countries with the largest non contributory pension programmes are Brazil and S. Africa. Findings from a number of studies indicate that these programmes have large positive impacts on a wide range of variables. Non-contributory pension programmes reduce poverty among the elderly and their households; enable investment in human and physical capital within the beneficiary households, strengthen intergenerational solidarity and transfers, insure poorer rural communities against the adverse effects of agricultural reform, and encourage local economy activity.

Lund identified the poverty reduction and promotion effects of social pension in S. Africa (Lund 1993). Deaton and Case examined this issue in the context of a 1993 nationwide dataset and confirmed that the social pension has significant effects on poverty. Their analysis showed that around 35 per cent of Africans survived on less than a dollar a day, and that this figure would be 40 per cent if pension incomes were removed and there was no off-setting in pre-pension incomes (Case and Deaton 1998). Studies using recent data have confirmed the poverty reduction effects of the social pension, albeit less directly through estimating the correlation existing between the presence of pensioners in households and measures of income and poverty (Leibbrandt 2001). In Brazil, researchers investigated the impact of rural old age pension and have concluded that the programme has significant effects on poverty (Dalgado and Cardoso 2000b). Delgado and Cardoso compared households with a pension beneficiary against households without one, and found that the incidence of poor house holds was higher among the latter.

INVENTORY OF NON-CONTRIBUTORY PENSION PROGRAMMES IN DEVELOPING COUNTRIES

COUNTRY	**RECENT LAW**	**TYPE**	**ADMINISTRATION**	**ELIGIBLE AT AGE**
ARGENTINA	1993	Means test	Ministry of Social Development	70
BANGLADESH	1998	Means tested	Ministry of Social Welfare	57
BOLIVIA[2]	1993	Universal but cohort restricted	Ministry of Economic Development	65
BOTSWANA	1996	Universal	Department of Labor and Social Security	65
BRAZIL Social Assistance (RMV)[3] BPC	(1974) 1993	Means tested	National Social Security Institute (INSS)	67
Rural Pension	1992	Means tested, basic contributory record		60 for men and 55 for women
CHILE	1980 and 1981	Means tested	Ministry of Development and Planning	70
COSTA RICA	1995	Means tested	Costa Rican Social Insurance Fund	65
INDIA	1995	Means tested	Ministry of Labor	65
MAURITUS	1976	Universal	Ministry of Social Security and National Solidarity	60
NAMIBIA	1990	Universal	Government Pension Fund (GIPF).	60
NEPAL	1995-1996	Universal	Ministry of Local Development	75
SOUTH AFRICA	1992 (amended in 1997)	Means tested	National and Provincial Departments of Social Development	65 for men and 60 for women
SRI LANKA	1939		Means tested	Provincial Department of Social Services
URUGUAY	1995	Means tested	Ministry of Labour and Social Security and Social Welfare Fund	70
WESTERN SAMOA	1990	Universal	Labor Department and Accident Compensation Board	65

Source: World Bank

What is the cost of Universal Pension?

This section will look at basic algebra and illustrative calculations to address the question of cost implication on the tax payers. The simple calculations do not take into account the cost of administration, but it should be noted that the universal pension does not require any record of earnings or contributions. They are the simplest to administer especially in a developing country like Kenya.

Suppose that proportion '***r***' of the population is eligible to receive a uniform universal pension of ***py***, where ***p*** is the ratio of flat pension to per capita GDP (gross domestic product) and ***y*** is per capita GDP. Ignoring administration costs, per capita expenditure on pension is then ***rpy.*** Per capita taxes required to pay these pension can be denoted as '***ty***', where ***t*** is the ratio of taxes to GDP ***y*** is per capita GDP.

To balance the budget for basic pension, the requirement is that tax revenue requirement equal pension expenditure or, equivalently, that tax revenue per capita (***ty)*** equal expenditure per capita (***rpy):***

$$ty = rpy \qquad \textbf{A}$$

solve for t (taxes as proportion of GDP):

$$t = rp \qquad \textbf{B}$$

From the above equation, the tax revenue requirements of a universal pension (as a proportion of GDP) is equal to the proportion of the population eligible for pension times the ratio of the flat pension to per capita GDP.

Using the above equation, assume that 5 per cent of population is eligible for a pension equal to 30 percent of per capita GDP. The revenue requirement for such arrangement can be calculated as $0.05 \times 0.3 = 0.015$ or 1.5 per cent of GDP.

Assume the Kenyan government borrowed the idea of universal pension, how much will the government use to fund the universal pension?

Year	GDP (KSH Billion)	Pension Rate	Universal Pension payable (KSH B)
1997	609.6	1.50%	9.14
1998	680.4	1.50%	10.21
1999	730.9	1.50%	10.96
2000	785.8	1.50%	11.79
2001	883.7	1.50%	13.26

A key parameter in the calculation of pension expenditure is ***r***, the proportion of the population that is eligible to receive a basic pension. From the table above, Kenya would have paid about Ksh1.105 billion monthly in 2001 to fund the universal pension.

The good demographic news for pension costs is that there are proportionally fewer aged persons in low income countries, and this will continue to be the case for at least the next fifty years. In Kenya, the population of older person of 60 years and above was about 1.13 million and is estimated to be about 1.5 million in 2005. In calculating the cost, the country will end up paying less than the cost stated above when full census is done on the aged persons.

It is widely feared that aging of population will create serious problems, if not crises, for public pension systems. Increased numbers of pensioners require increased rates of taxation to transfer a larger share of GDP to the elderly, and there are concerns that this implies that after-tax income for younger workers will fall. Such fears may be groundless, or at the very least, misdirected. It is true that increased taxes will be required to finance universal pension, but tax payers' standard of living will fall only if pensions are very generous (larger than per capita) GDP or if per capita output falls sharply.

This point can easily be demonstrated. Suppose that a country provides a universal pension of py to eligible population, and recipients of these pensions pay no taxes, nor do they have any income. Assume $p < 1$ i.e. paid pension less than per capita output. Lets w be the average income that remains for the rest of the population after transfers to pensioners. Output per capita is then a weighted average of these two average incomes, the weights being the share of pensioners (r) and the share of non-pensioners $(1-r)$ in the total population:

$$y = rpy + (1-r)w \qquad C$$

Solving for ***w***, the average income for non-pensioners:

$$w = y\,(1-rp)/\,(1-r) \qquad D$$

Now suppose that output per capita ***(y)*** remains unchanged, as does the size of the pension payable ***(py)***, but there is an increase in ***r***, the proportion that is not eligible for a pension. The natural question to ask is what happens to ***w***? The surprise answer is that w increases, so long as the universal flat pension is less than per capita output. The logic is clear when one examines the derivative of equation (***D***) with respect to ***r***:

$$w'(r) = y\,(1-p)\,/\,(1-r)^2 \qquad E$$

Where ***p*** is less that unit (universal flat pensions smaller than per capita output), this derivative is unambiguously positive, which means that ***w*** is an increasing function of ***r***.

Even where a country would suffer a fall in per capita output along with an increase in ***r,*** it is still positive for w to increase**.**

Implementation of Universal pension

The next question at this point would be "do we have the capacity to implement universal pension?" The answer to the question is a clear yes. Kenya as it stands is very capable of running the scheme. First of all, Kenya is one of the countries that are working hard to achieve the Millennium Development Goals (MDGs). One of the objectives of the MDGs is to alleviate old age poverty and this is where universal pension comes in handy.

The most important recipe for the implementation of the universal pension is the political will from the government. Political priorities and values, philosophical tradition and social history weigh heavily on decisions on how best to distribute limited resources among Kenya's unmet needs. We have an example of free primary education where political will has made it a success. Other projects and programmes that have succeeded include Constituency Development Fund, Local Authority Transfer Fund (LATF), and District Development Fund.

The country is capable of collecting enough funds to support the universal pension for the elderly. As illustrated above, Kenya like most of the developing countries with a universal pension would be able to support universal pension (with transfers of about Ksh1 billion) per month. Nepal, a very poor country with a GDP per capita of about US$233 (United Nations, 2005a), is able to fund a universal non-contributory pension programme. Nepal's pensions turn out to be the main source of income for many recipients (Gorman, 2004). This case illustrates that even small benefits can make a big difference in old persons life.

Elsewhere in the world, countries with limited financial capacity have used a variety of mechanisms to finance their non-contributory schemes. For instance, general taxes are used to pay for Namibia's Basic State Grant

(Devereux, 2001). Bolivia pays for its universal non-contributory pension programme with returns on government shares of privatized enterprises that were once publicly owned and operated (Gorman, 2004). The strategy of starting with a small benefit amount or a small group of beneficiaries may prove more fiscally feasible. In Nepal, many high income earners choose not receive the universal pension (Rajan, 2003).

For sustainability purposes, a universal non-contributory pension scheme should be structured so that the promised benefits can be maintained, even during periods of serious economic contradictions. The two options available are

1. to spell out in advance the conditions under which pension will be paid; and,
2. Adjust the level of pension as a function of economic circumstances, with the size of pension reduced in a pre-specified way when the economy is performing poorly. The government will have the responsibility to adjust the rates where applicable.

Part Three

Policy Recommendation

In order to ensure adequacy of universal pension – implementation of social objectives, the following may be considered by the Government:

1. Ensure that older people are not placed at risk of poverty and can enjoy a decent standard of living; that they can share in the economic well-being of the country and can accordingly participate actively in public, social and cultural life.
2. Promote solidarity within and between generations.
3. Achieve a high level of employment through where necessary, through comprehensive labour reforms.
4. Ensure that, alongside labour market and economic policies, all relevant branches of social protection, in particular pension systems, offer effective incentives for the participation of older workers; and pension systems facilitate the option of gradual retirement.
5. Ensure that universal pension provisions and reforms maintain a fair balance between active and retired by not overburdening the former and by maintaining adequate pension s for the later.
6. The universal pension is as good as universal free primary education.

Conclusion

Universal pension deserve a lot more attention than they have received to date as a way to provide at least some support to the rural older people. The pension holds great promise that no one will face poverty in old age. This paper has demonstrated that such a scheme is affordable by the Government of Kenya. To illustrate this, let us compare provision of a universal pension with provision of universal Primary schooling. There are good reasons for a universal pension to be more popular than universal primary schooling, yet the government is not committed to universal pension, whereas the government of Kenya is committed to free primary schooling. The Government needs to allocate resources to fund the universal pension scheme.

For purely selfish reasons, Kenyans might be attracted to the idea of universal pension. They are good value, for they provide peace of mind regarding one's own fate, or the fate of relatives or neighbors in old age. Provided that the pension is not set too high, this peace of mind comes at an affordable price. Universal primary schooling is also an attractive idea. Yet, public schooling is often judged to be poor quality, and is frequently rejected by parents who enroll their children in private schools. A universal pension is good to everyone. No matter how much income a retiree might have, additional income is welcome. Taxpayers complain that public schooling does not provide good value for money. So long as fraud and administrative costs are kept down, a universal pension can provide good value for money.

How might the goal of universal pension be reached here in Kenya? More research on ‘*political economy*’ aspect of pension setting is needed, but I propose it is best to start with universality and modest pension rather than with means test and generous. Once universality is achieved, there will be pressure from Kenyans to increase the size of the pension, and to prevent the inflation from eroding its value, by formal or informal indexing of the benefit level.

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