



Realising income security in old age: A study into the feasibility of a universal old age pension in Malawi



Ministry of Gender, Children, Disability and Social Welfare
In collaboration with HelpAge International

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FOREWORD

Population ageing is one of the most important global demographic mega trends that can no longer be ignored. It is happening in all regions of the world and progressing fastest in developing countries, including the ones that have a large population of young people. Today, for the first time in history most people can expect to live into their 60s and beyond. The extra years of life and demographic shifts have far-reaching profound implications for each of us, and the societies we live in. The growing aging population has significant consequences for providing social protection to the elderly. The last ten years have seen significant international frameworks regarding social security and social protection for the elderly.

Many governments in developing countries are setting up non-contributory programs to assist older people, most of whom are not covered by formal pension schemes. Malawi is no stranger to the international advancement of social security and social protection. That said, further analysis on the implementation and the role of social pensions in tackling old-age poverty was needed to inform government policy and practice.

The aim of the study was to address the knowledge gap of social pension reforms in Malawi. The study examined what has been learned from the programs operating in different African countries, and highlights the key policy and budgetary issues that arise. The study has concluded that social pensions represent an important component of an institutional foundation for old-age social protection.

It is my hope that the analysis and experiences shared and featured in the report have contributed to informed policy deliberations on the role of social pensions within the broader social protection framework leading to the delivery of the social pension in Malawi.

I thank HelpAge International for supporting the ambitious endeavour. Special thanks also go to the many individuals and organisations that contributed to the study. I recommend the report to a wide national audience to gain more insight into a topic which affects us all.



Hon. Dr. Jean A. N. Kalilani, M.P
Minister of Gender, Children, Disability and Social Welfare

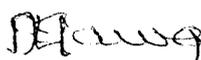
PREFACE

Growing older should be a period when a person's contribution to the society is acknowledged and valued. Apart from having contributed to social and economic development of the country during their productive years, older persons in Malawi continue to make valuable contribution to their households and communities. The contribution should not only be acknowledged and valued but older persons should be supported and capacitated to fulfil their roles.

Growing old in Malawi is to a large extent characterized by continuing to work for as long as one possibly can. Begging and reliance on handouts are the coping mechanisms that older persons use to survive. The situation is exacerbated by case because the existing traditional systems of care and support for the elderly in the country which are increasingly breaking down. In addition, the existing national protection programmes have limited scope and coverage leaving large groups of the poor Malawians including older persons without adequate support. Old age poverty and destitution, therefore, are becoming a common phenomenon in Malawi.

The challenging situation of older people prompted the Ministry of Gender, Children, Disability and Social Welfare to commission the study in order to explore the options for responding to the social and economic hardships people face when they grow old. The feasibility study has therefore, confirmed that it is administratively feasible for Malawi to establish and implement a Universal pension scheme for older persons.

It is my sincere hope that the study report will trigger policy deliberations, directions and opportunities of providing income security in old age in the Malawian context. Whilst the challenge of developing such a scheme is without doubt huge, it is nonetheless and important task to tackle. If we as a nation are serious about realizing the constitutionally guaranteed right to social security, then it is time to reform and restructure the existing social protection programmes and work together to the progressive realization of income security in old age, while harnessing old people's skills and transferring them to the youth for economic growth. Remember "***moto umapita kwatsala tchile***", we will all get older and will require support and morale booster. Let us join hands to care for our older persons and protect them.



Dr. Mary Shawa

Secretary for Gender, Children, Disability and Social Welfare

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This report was written by Charles Knox-Vydmanov and Flavia Galvani of HelpAge International. It draws heavily on a literature review on the situation of older people in Malawi by Alister C. Munthali, Maxton Tsoka and Jameson Ndawala of the Centre for Social Research of the University of Malawi. Analysis of the Integrated Household Survey 2010/11 was undertaken by Bjorn Gelders of Development Pathways. The report benefitted from contributions and review by Steve Vinkhumbo (Department of Disability and Elderly Affairs, Ministry of Gender, Children, Disability and Social Welfare), Andrew Kavala (Malawi Network for Older Person's Organisation), Emily Freeman (London School of Economics) and staff from HelpAge International including Necodimus Chipfupa, Smart Daniel and Alvaro Zimba.

ACRONYMS

DSWO	District Social Welfare Offices
FISP	Farm Input Subsidy Programme
GDP	Gross Domestic Product
GoM	Government of Malawi
IHS	Integrated Household Survey
ILO	International Labour Organisation
IMF	International Monetary Fund
MANEPO	Malawi Network for Older Person's Organisation
MoAIWD	Ministry of Agriculture, Irrigation and Water Development
MoGCDSW	Ministry of Gender, Children, Disability and Social Welfare
MGDS II	Malawi Growth and Development Strategy II
MWK	Malawian Kwacha
NSO	National Statistics Office
SCTP	Social Cash Transfer Programme

EXECUTIVE SUMMARY

Despite strong economic growth in recent years, Malawi continues to face substantial challenges of pervasive poverty and rising inequality. Half of the population (52.4 per cent) were living in poverty at the last count (2010), while many more are vulnerable to falling into poverty over time. Inequality has also risen sharply, with the Gini coefficient rising from 0.39 in 2004 to 0.45 in 2010, meaning the benefits of Malawi's growing economy are limited to a select few.

Minimum social protection floors are increasingly recognised as a necessary and effective approach to ensure the benefits of development are shared fairly, and no one is left behind. This issue is no more relevant than for older people who – despite the contribution they have made throughout their lives – often struggle to secure an income. Social pensions have proven to be a successful approach to ensure income security for older people and their families, particularly in low income agricultural economies where the role of contributory pensions is more limited. This report therefore explores the rationale and feasibility for a universal social pension in Malawi.

Poverty and old age in Malawi

Addressing what happens to Malawians as they grow older is critical to successfully addressing the wider development challenges facing the nation. The 0.7 million older people aged 60 and over in Malawi today have spent their lives contributing to the development of the nation, and most continue to be active in their communities and wider society, as breadwinners, caregivers, and leaders in community, family and political life. Older people have also provided an invaluable safety net for Malawian society by caring for orphans left behind by the HIV/AIDS pandemic, with 62 per cent of double orphans cared for by their grandparents.

Growing old, nevertheless, comes with new challenges. Levels of chronic illness and disability increase with old age, which make it harder for older people to continue working in Malawi's primarily agricultural economy. As health issues kick in, older people face a choice between continuing to work in increasingly vulnerable conditions, and looking for support from families that are already struggling with poverty. Most choose to continue working as long as they possibly can, despite greater challenges to remaining productive, and often having to work in pain.

As a result, many Malawians spend their later years marginalised from family and community life. As in many other countries, traditions of reciprocity are strong in Malawian society, with the idea that support must be both given and received. The increasing challenges that older people face in reciprocating the support they receive means they are often marginalised from decision making in families and communities. In extreme cases, this social exclusion is one of the reasons that older people – and particularly older women – are especially vulnerable to accusations of witchcraft.

Existing social protection

The current pension system has limited scope to provide security for most Malawians. Currently, fewer than 5 per cent of older people receive a pension, and most of these are relatively better off. This is mainly due to the fact that most Malawians enter old age after a lifetime of poverty, working in informal agricultural work where they never had the opportunity to contribute to a pension. While there is need to continue strengthening contributory pensions, international experience suggests that coverage is unlikely to increase significantly for many decades. Basic non-contributory cash transfers should therefore be the priority.

The expansion of the Social Cash Transfer Programme (SCTP) since 2006 has provided a lifeline for many older people. Nearly a quarter of older people (65+) live in a household receiving the transfer, while 16 per cent are direct recipients (as household heads). A number of studies have shown the positive impacts of the scheme on increasing incomes and food security. Older people have been able to hire *ganyu* (casual labour) for themselves while children are better nourished and more able to attend school.

However, most older people – including many of the very poorest – are not covered by the programme. Three quarters of older people are not in receipt of the SCTP, which means – at the very least – half of poor older people miss out. The inherent challenges of the poverty targeting approach mean that the scheme fails to reach some of the very poorest, with high inclusion and exclusion errors. Rather than empowering older recipients, in many cases the targeting process has been found to create conflict and jealousy in communities. Older people only marginally benefit from other social assistance programmes such as food and cash for work, and school feeding. Analysis of the IHS3 shows that only 16

per cent of older people (60+) live in households receiving social assistance, and only 3 per cent of older people are the direct recipients of this support.

The rationale for a universal pension

Social pensions are an increasingly popular approach being used in other African countries to ensure income security to older people and their families. These schemes provide regular predictable government-financed cash transfers to older people regardless of their previous working history. A number of countries in the region, such as Mauritius, Namibia and South Africa have had social pensions in place for many decades, yet in recent years there has been a rapid growth in the number of schemes in the region. Countries including Kenya, Lesotho, Uganda, Swaziland and (most recently) Zanzibar have introduced social pensions in the last 10-15 years.

Universal pensions have particular advantages in their administrative simplicity and political acceptability. The fact that all older people are eligible means they effectively reach the very poorest and most vulnerable. This marks them in contrast to poverty targeted social pension which consistently fail to reach significant portions of poor older people, due to high exclusion errors. They are also able to include vulnerable older people living close to the poverty line. Their simple eligibility criteria also mean that they are relatively straight forward to implement at national scale, even in low income settings with limited administrative capacities. This is exemplified by the case of Zanzibar which was able to reach 86 per cent coverage of its universal pension in the first month of implementation (April 2016). By providing an entitlement that all citizens will one day benefit from, universal pensions tend to be politically popular, which supports the willingness of the population to see them financed through general tax revenue.

A universal pension in Malawi would support older people to live their later years in dignity. Evidence from other countries in the region and the world shows how, with income in their pockets, older people are better able to take charge of their lives, and participate in family and community decisions. A universal pension piloted just across the Malawian border in the Katete district in Zambia was found to reduce accusations of witchcraft, with older people seen as an asset by the community, rather than a burden. A pension would also contribute to increasing gender equality, by addressing the particularly acute vulnerabilities faced by older women in Malawi (including being more likely to be victims of witchcraft accusations).

In the meantime, a universal pension would contribute to a range of Malawi's wider national development objectives (articulated in the MGDS II), and progress towards the Sustainable Development Goals. Microsimulation shows that such a scheme could halve the poverty rate of households with older people, and reduce the poverty gap by two thirds. A universal pension would also create multipliers within the households and the wider community. There is strong international evidence of how pensions can reduce child poverty and rates of child labour, and boost school enrolment. The extra cash being pumped into rural communities would also catalyse efforts towards agricultural development. Finally, a scheme of this nature would provide a long-term tool to systematically share the proceeds of growth amongst society as a whole, and thus contain levels of inequality.

Affordability and financing

Affordable options exist for Malawi to introduce a universal pension in the near future. Given the challenging fiscal context in the country, a pragmatic approach would be to begin by introducing a more limited scheme of, say, MWK 3,700 for older people over 70s. This benefit level is in line with averages for other social pensions across the region. A scheme of this nature would cost MWK 23 billion (0.4 per cent of GDP), and provide a benefit of 20 per cent of average income. Despite the economic challenges facing Malawi in the short term, with political will, a pension of this nature could be financed through ongoing efforts to increase national revenue. Starting small would also create space to put in place administrative systems before scaling up to higher levels of coverage and adequacy.

In the medium to long term the country could seek to lower the age of eligibility and increase the benefit level to the poverty line. In line with current life expectancy, an age of eligibility of 60 years would be an appropriate ambition in the medium term, which would create a scheme costing 0.9 per cent of GDP (MWK 33 billion, in today's prices), assuming a benefit of MWK 3,700. In the longer term the country could seek to increase the benefit level to the poverty line (currently around MWK 8,700). Such a scheme would cost 2 per cent of GDP. However, as the economy grows the cost of a scheme with this level of adequacy would actually fall, meaning it would be more easily accommodated within the government budget.

1 INTRODUCTION

The Government of Malawi is currently pursuing a number of policy initiatives to create a supportive environment to address the concerns of older persons. The Government has recently tabled the National Policy on Older Persons that seeks to ensure older persons have access to affordable and appropriate health care, older persons make full use of their skills and abilities, and discrimination against older persons, especially widows, is prevented. It is expected that the policy will be adopted by Cabinet within the coming months. This comes in addition to a number of other policies and legislation, including the National Social Support Policy and the Constitution itself, which provide a supportive legal underpinning for initiatives to support older people. In the meantime, the government is currently undergoing a process to review the current social protection system in relation to the globally agreed framework of social protection floors, which old age income security is a core part.

In this context, the Department of Disability and Elderly Affairs of the Ministry of Gender, Children, Disability and Social Welfare requested HelpAge International to develop a feasibility study on a universal pension in Malawi. The interest stems from recognition of the limited coverage of existing pensions and other social protection for older people in Malawi. It also stems from interest in the experiences of the implementation of universal pensions in other low and lower-middle income countries in the region such as Lesotho, Mauritius and Zanzibar.

The report begins by analysing the wider context of poverty and inequality in Malawi, and the specific economic challenges that Malawians face in later life. It then goes on to review the effectiveness of current social protection interventions, including pensions, the Social Cash Transfer Programme (SCTP) and other forms of social assistance. Finally, the report explores the rationale for a universal social pension in Malawi – including documenting the projected impacts – before assessing the affordability of different scenarios.

1.1 Methodology

This report brings together evidence from a process that started in January 2016, to draw a more complete picture on the situation of older people in Malawi and their inclusion in the Malawian social protection system. It is based on three main pieces of work:

- **Study on the situation of older people in Malawi** conducted by a team of researchers (Alister C. Munthali, Maxton Tsoka and Jameson Ndawala) from the Centre for Social Research of the University of Malawi. This study draws on the existing literature and data on population projections and older people's participation in social assistance programmes provided by the National Statistical Office (NSO) and by the Ministry of Gender, Children, Disability and Social Welfare (MoGCDSW). It builds a picture of the situation of older people in Malawi, summarises the existing formal and informal social protection systems, and the legislative and policy context for implementing social protection programmes in Malawi.
- **Analysis of the situation of Older People using data from the third Malawi Integrated Household Survey (IHS3).** Statistical analysis of the 2010/2011 Malawi Integrated Household Survey provided further information on older people's basic demographic profile, income distribution, health status of older people (including disability), nature of work and time use in old age, coverage of pension and older people's access to safety nets. The IHS3 was also used for simulating the impact of a universal pension on levels of poverty.
- **Costing of a Social Pension in Malawi.** Using a methodology described by Willmore¹, an exercise to estimate the cost of a social pension in Malawi under different scenarios, both today, and into the future.

This report also benefited from the inputs and feedback received during various consultations held in Malawi in 2016. Most notably, the key stakeholders consultation held by HelpAge International staff in January 2016, as well as feedback received during the National Workshop on evidence-based policies on ageing organised by UNDESA in conjunction with MoGCDSW in May 2016.

¹ Willmore, "Universal Pensions for Developing Countries."

2 POVERTY, OLD AGE AND SOCIAL PROTECTION IN MALAWI

2.1 Poverty, inequality and the need for a social protection floor

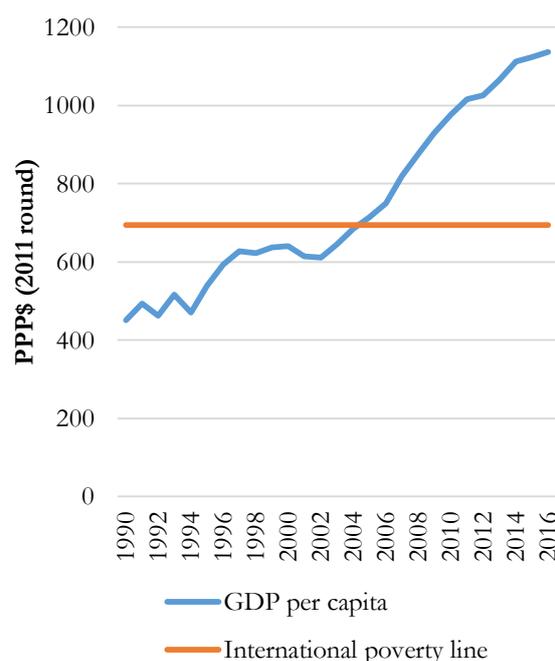
Despite some recent challenges, Malawi has experienced sustained economic growth for over a decade. Following a turbulent economic period in the early 1990s and recession in 2001, Malawi has since entered a period of sustained economic growth (Figure 2.1). Growth in the last five years has not sustained the highs experienced between 2007 and 2009, due to factors including high inflation, weak balance of payments, and the impact of the “cashgate” scandal and recent weather-related shocks.² Nevertheless, the economy continues to grow, and the International Monetary Fund predicts a return to growth rates in excess of 5 per cent in the medium term (by 2019).

The growth of the economy has resulted in a doubling of average income since the mid-1990s. Figure 2.2 shows the increase in GDP per capita since 1990, measured in purchasing power parity dollars (PPP\$)³ which make it possible to make comparisons to recognised international benchmarks. From around 500 PPP\$ in the early 1990s, GDP per capita has doubled to over 1,100 PPP\$. Importantly, since 2005 GDP per capita is greater than the international poverty line of 1.90 PPP\$ per day (693.50 PPP\$ per year), which is used as a globally comparable measure of extreme poverty. Hypothetically, this means that – were all resources in the country shared equally – no Malawian would live below this poverty line.

Figure 2.1: GDP growth rate (1990-2020)



Figure 2.2: GDP per capita, annual (1990-2016)



Levels of poverty in Malawi, however, remain stubbornly high – with over half the population living below the national poverty line. According to the latest Integrated Household Survey (2010/11) 50.7 per cent of Malawians live below the national poverty line, with a quarter of the population (24.5 per cent) living in ultra poverty.⁴ Progress on reducing poverty in the last decade has also been disappointing. While national poverty fell by almost 13 percentage points between 1997 and 2004 (65.3 per cent to 52.4 per cent), in the subsequent 6 years poverty fell by less than 2 percentage points.⁵ Due to the growth of

² International Monetary Fund, *Malawi: Staff Report for the 2015 Article IV Consultation*.

³ 1 PPP\$ is equal to approximately 185 Malawian Kwacha in 2016 prices.

⁴ This report refers in a number of instances to analysis from the three Integrated Household Surveys (IHS) conducted in Malawi in the last two decades. These are the IHS1 (1997/8), IHS2 (2004/5) and IHS3 (2010/11). For simplicity, the data from these reports are referred to as being for the years 1997, 2004 and 2010, respectively.

⁵ National Statistics Office, *Integrated Household Survey, 2010-2011: Household Socio-Economic Characteristics Report*.

the population in Malawi, the absolute number of people living in poverty actually increased by an estimated 987,000.⁶

Levels of poverty in Malawi appear to be even higher when using international definitions which have been embedded into the global Sustainable Development Goals. According to the World Bank's international poverty line (set at 1.90 PPP\$ per day), 71 per cent of the population live in what is defined as extreme poverty.⁷ It is against this benchmark that Malawi's progress towards goal 1 of the global Sustainable Development Goals, which sets the ambition of ending extreme poverty by 2030, will be measured.

A substantial portion of the population also live just above the poverty line, meaning that around 70-80 per cent of the population are either poor or vulnerable to poverty. Regardless of which measure is more appropriate, the majority of the population either live in poverty, or close to the poverty line. For example, analysis of the IHS3 shows that when the poverty line is increased by 50 per cent, the poverty rate increases to 71.1 per cent. Research conducted in Malawi also shows that there is significant movement in and out of poverty over time. A study conducted between 1995 and 2005 found that approximately 10 per cent of households had fallen into poverty over the period, while an equal amount had exited from poverty. Overall, the poverty rate remained largely static. This gives a picture of the majority of the population – much higher than the headline poverty rate – likely to be in poverty at least once within a period of a few years.⁸

Inequality has also risen sharply in recent years, meaning that the benefits of economic growth are not being evenly shared. As recently highlighted in a 2015 study by Oxfam, there has been a sharp rise in levels of inequality in the last decade or so. Between 2004 and 2010, the Gini coefficient (a common measure of inequality) has risen from 0.39 to 0.45. Put in other words, while the richest 10 per cent of the population spent 22 times more than the poorest 10 per cent in 2005, by 2010 they were spending 34 times more. If inequality continues to rise at a similar rate, an additional 1.5 million Malawians will be poor by 2020 (using the definition of the national poverty line).⁹

The fact that the benefits of growth have been shared unequally is illustrated in Figure 2.3. The figure shows the average expenditure of the population in 1997 and 2010 by centile (one hundredth) of the population from poorest – on the left – to richest – on the right. Expenditure is presented in PPP\$ to provide a consistent point of reference. There are two important observations to make from the chart. The first is that – as discussed above – the income distribution of Malawi is very flat, meaning that levels of expenditure are relatively similar for the majority of the population. The exception is the wealthier 10-20 per cent, where expenditure is much higher. The second observation is that the most significant difference in levels of expenditure (represented by the orange bars) is amongst the relatively better off parts of the population; while there have been extremely small increases in expenditure amongst the poorest 30-40 per cent of the population.

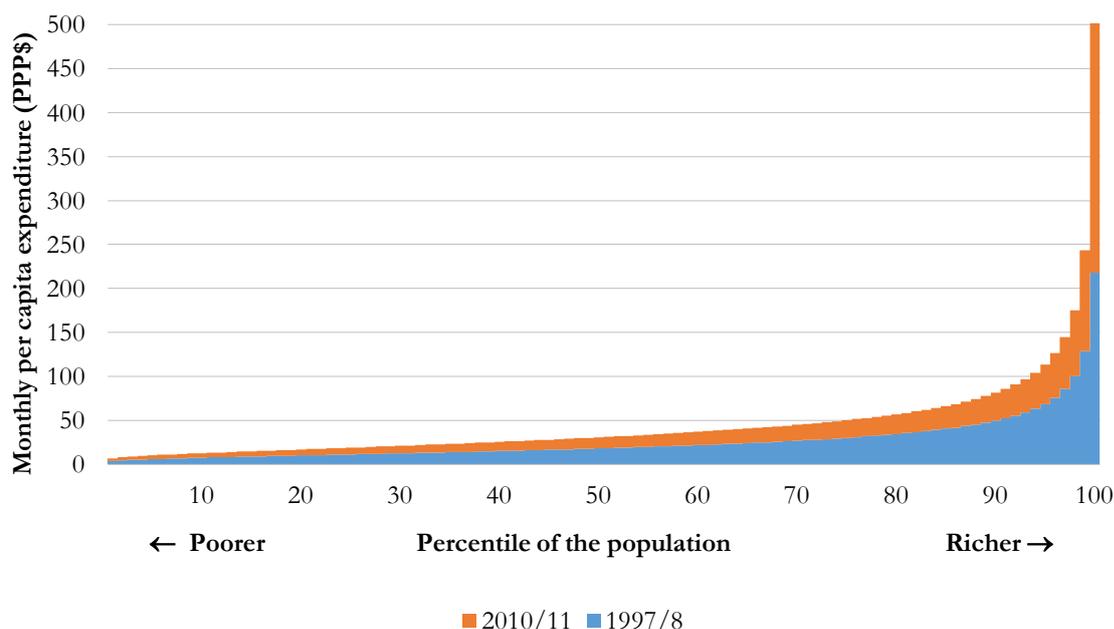
⁶ Authors' calculation based on population estimates and projections from UN Population Division, *World Population Prospects: The 2015 Revision*.

⁷ World Bank, "PovcalNet: The on-Line Tool for Poverty Measurement Developed by the Development Research Group of the World Bank."

⁸ Narayan, Pritchett, and Kapoor, *Moving Out of Poverty, Volume 2: Success from the Bottom Up*.

⁹ Mussa and Henderson Madanjala, *A Dangerous Divide: The State of Inequality in Malawi*.

Figure 2.3: Distribution of wealth in Malawi 1997/8 and 2010/11



Source: PovcalNet (via Centre for Global Development)

There is growing recognition – in Malawi and across the globe – of the role of social protection floors for providing a sustainable and long term contribution to reducing poverty and inequality. In 2012, 185 member states of the International Labour Organisation (ILO) adopted a new Recommendation calling for all countries to implement nationally owned floors of social protection.¹⁰ As a member of the ILO, Malawi contributed to both the elaboration of the Recommendation, and to its adoption. The concept of a social protection floor aligns closely with the African Union’s Social Policy Framework – adopted in 2008 – which defines a “minimum package” of social protection including “essential health care, and benefits for children, informal workers, the unemployed, older persons and persons with disabilities”.¹¹ At a national level, the Government of Malawi has since initiated a process to analyse the current social protection expenditure in the country using the concept of a social protection floor as a reference. This analysis is exploring questions of sustainability, robustness, efficiency and effectiveness of existing social protection programmes in preventing or reducing poverty and social exclusion.

More recently, targets to expand social protection systems and floors have been embedded in the Sustainable Development Goals that were agreed by UN member states in 2015. It is noteworthy that the goals where social protection emerges most prominently – Goal 1 on ending poverty and Goal 10 in reducing inequality – are especially relevant in the Malawian context. This growing recognition of social protection floors builds on their proven impact on reducing poverty and inequality in a range of countries across all continents.

Strengthening the pension system will be a key priority as Malawi gradually builds a social protection floor. Income security for older people is outlined in Recommendation 202 as one of the four social security guarantees of a social protection floor, along with universal health, and income security for children and persons of working age.¹² This recognises many of the vulnerabilities associated with old age, which are explored in this report in the Malawian context.

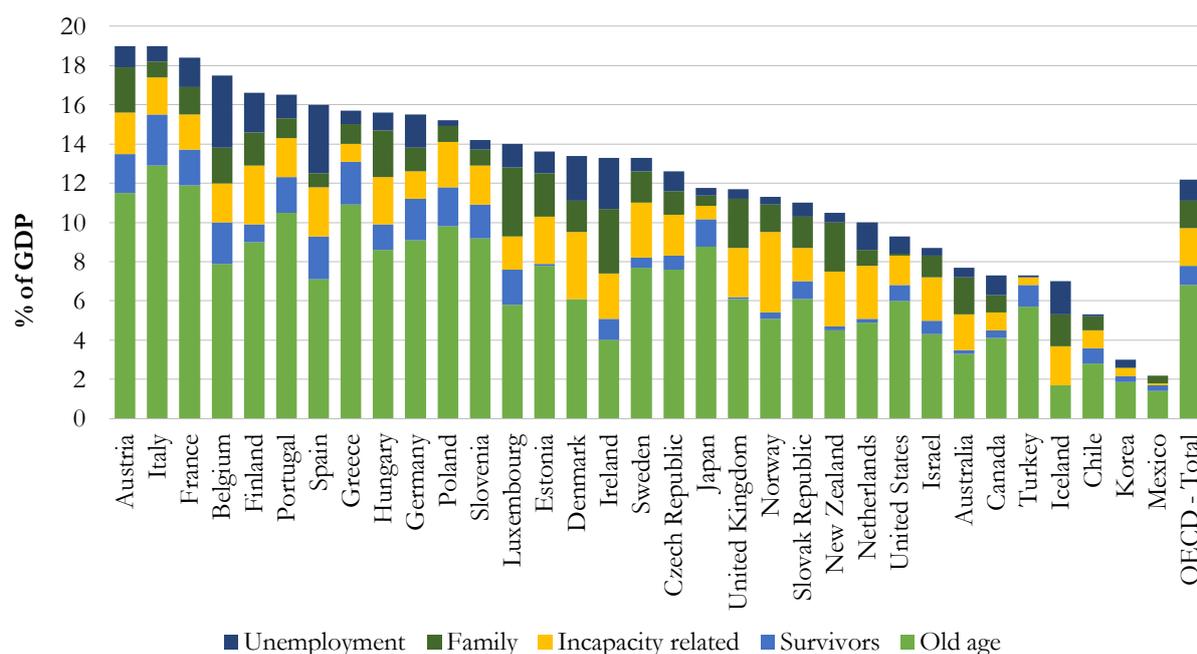
¹⁰ International Labour Organisation, *Recommendation 202 Concerning National Floors of Social Protection*.

¹¹ African Union, “Social Policy Framework for Africa.”

¹² International Labour Organisation, *Recommendation 202 Concerning National Floors of Social Protection*.

In countries that have successfully made progress towards a social protection floor, pensions are commonly the biggest single component of the system. This picture is clearest in higher income countries that have the highest levels of social protection spending. As shown in Figure 2.4, OECD countries spend an average of 12 per cent of their GDP on cash benefits of different kinds. Old age pensions make up over half of this expenditure (6.8 per cent) and significantly more than half in a number of countries. A similar picture has emerged in low- and middle-income countries that have taken steps to building a social protection floor. In South Africa, which has been a leader on social protection policy, the old age grant is the most significant programme – costing 1.26 per cent of GDP – followed by the child support grant at 1.12 per cent of GDP.¹³ Similar trends have been seen in other social protection pioneer countries including Bolivia, Brazil, China, Timor-Leste and Thailand. In many of these countries, pensions were the first policy put in place as a first step to building a wider system.

Figure 2.4: Spending on social protection (cash benefits) in OECD countries, by type



Source: OECDStat <http://stats.oecd.org>

There are strong legislative underpinnings for a more comprehensive social protection system in Malawi. Article 30 of the Constitution of the Republic of Malawi recognises the right to development, including economic, social, cultural and political development and the need to reduce inequalities. The Constitution also recognises in Article 13 the State’s duty to “respect and support the elderly through the provision of community services, and to encourage the participation of the life in the community”. Malawi’s commitment to social protection has been more specifically defined in the current Malawi Growth and Development Strategy 2011-16 (MGDS II) and the National Social Support Policy 2012-2016 (NSSP), which set out the country’s strategy in the area of social protection. The NSSP identifies and guides the implementation of a number of social protection interventions aimed at providing income or consumption transfers, protecting against vulnerability and ensuring that the social status and rights of the ultra-poor and moderately poor are safeguarded.

Older people are identified in such policies as one of the most vulnerable groups along with the chronically sick, Orphans and Vulnerable Children, people with disabilities and destitute families. The draft older people policy also reinstates this commitment to older people for the establishment of appropriate social welfare and social protection systems in old age.

¹³ National Treasury (South Africa), 2016 Budget: Estimates of National Expenditure (Social Development).

2.2 Health and work in old age

Older people are an essential part of Malawi's social fabric. According to population projections produced by the National Statistics Office of Malawi (NSO), there are 727,377 people over the age of 60 in Malawi in 2016. This is equal to 4.5 per cent of the total population of 16.3 million people. Of these, 56 per cent are women and 44 per cent are men and the proportion of women in the older population tends to increase at older age groups (see Figure 2.5). While the population of older people is relatively small, 20 per cent of the population live in a household with an older person. As in many other African countries, older people play an important role in Malawian life, as farmers, caregivers, and leaders in family, community and political life. Older people also act as healers/herbalists, community health advisors, religious leaders, village heads and marriage advisors/guardians. The following quote from an older man in rural Malawi gives an example of how older people continue to contribute to their households:

I am at the prime old person, I have not reached to be very old ... My family benefit from me in many ways. One, they are happy they have a father and they do get support from me. Two, we do assist each other on the work which we undertake in this compound, [because] I act as the foreman.
[Fiskani, male, 61]¹⁴

Malawian older people have also made major contributions to society throughout their lives, working to build the economy that exists today, and contributed in various ways for the independence Malawians have enjoyed since 1964.

Figure 2.5: Size of the older population in Malawi

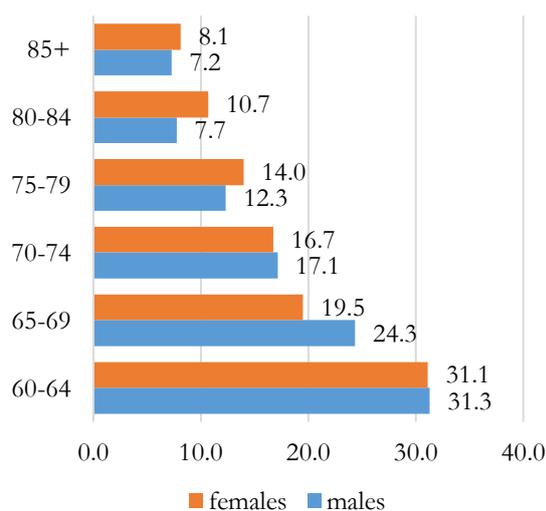
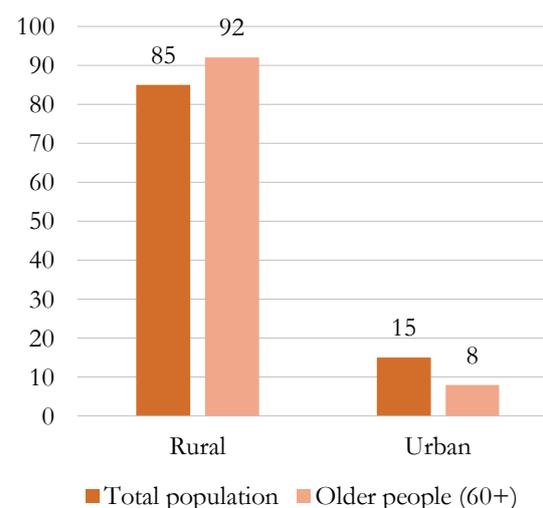


Figure 2.6: Distribution of older population by rural/urban areas



Source: IHS3 (2010/2011)

Older people typically live in the rural areas as smallholder subsistence farmers, and have particularly low levels of formal education. Analysis of the IHS3 shows that over 90 per cent of older Malawians live in rural areas and the vast majority of them (77 per cent) are economically active. While the population of Malawi as a whole is predominantly rural, older people are more likely to live in rural areas than those of younger ages (Figure 2.6). A key reason for this trend is that younger generations are more likely to have migrated to urban areas for work, while older parents stay behind to care for grandchildren and tend to the family farm.

Nevertheless, with old age also come new challenges, particularly in terms of increasing ill health. People aged 60 and over are three times more likely to suffer from a chronic disease than those aged 15-59 years. Nearly one in five (18 per cent) older people have a chronic illness such as asthma or arthritis compared to 5 per cent of people aged 15-59 (Figure 2.7). Incidence of chronic illness is higher among older women (20.4 per cent) compared to older men (14.1 per cent). The prevalence of chronic diseases continues to grow in older age, affecting nearly one-third of over 80 year-olds.

¹⁴ Freeman, "Care and Identity in Rural Malawi."

Figure 2.7: Levels of chronic disease

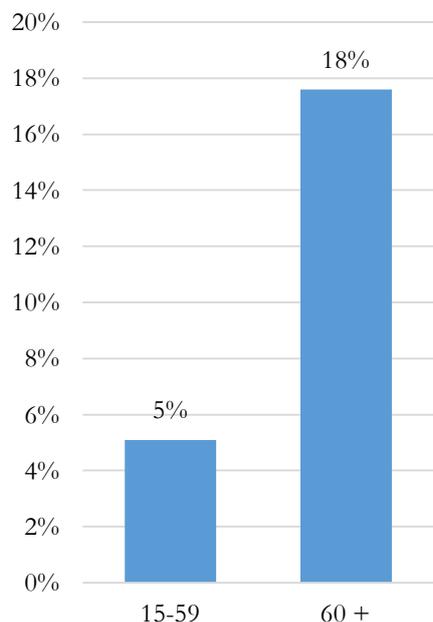
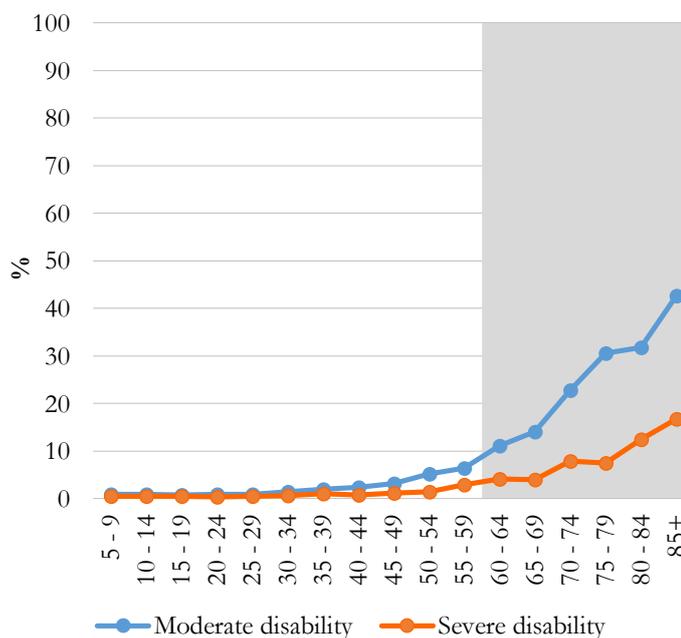


Figure 2.8: Levels of disability by age group



Source: IHS3 (2010/2011)

Similarly, disability is highly correlated with age. Figure 2.8 illustrates this trend using two measures of disability based on questions used in the IHS3 on levels of difficulty experienced with different activities.¹⁵ On average, 7 per cent of people aged 60 years and above have a severe disability, while 14 per cent have a moderate disability. This means that one in five older people (21 per cent) live with some form of disability; the most common forms being difficulties in the functional domains of vision and mobility. Higher disability rates among older people reflect an accumulation of health risks across a lifespan of disease, injury, and chronic illness. The prevalence of disability is higher in rural areas (21 per cent) compared with urban areas (15 per cent) and higher among older women (24 per cent) compared with men (17 per cent).

Access to healthcare is limited, particularly amongst poorer older people. In total, 4 per cent of older people were reported as being hospitalised in the last month according to IHS3 data. While it is not possible to establish whether levels of hospitalisation matched the needs of older people, Figure 2.9 shows that levels of hospitalisation were much higher amongst less poor older people (from quintiles 3-5). Similarly, health expenditure of older people in the poorest fifth of the population (quintile 1) is just MWK 17 per month, compared to MWK 247 for the richest fifth (quintile 5). While the higher costs of wealthier individuals may be due to greater use of private health services, they also suggest lower ability of poorer older people to pay for health related expenditure. Given the low levels of access to health services, it is also likely that levels of illness reported above may be underestimated, with many issues going undiagnosed.

¹⁵ The IHS3 uses the Washington Group Short Set of questions on disability. Further information on the questions can be found at the following link: http://www.cdc.gov/nchs/washington_group/wg_questions.htm

Figure 2.9: Share of older people hospitalised in last month

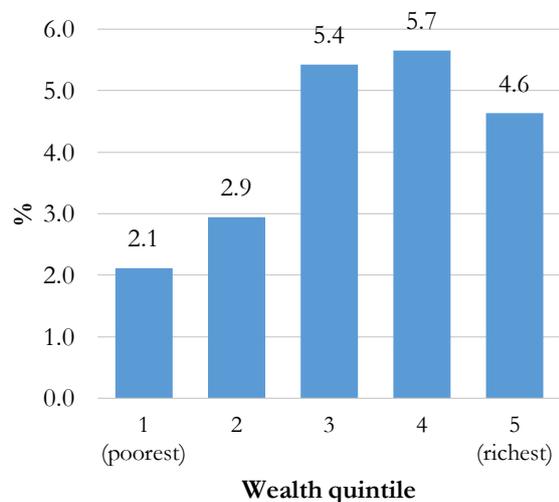


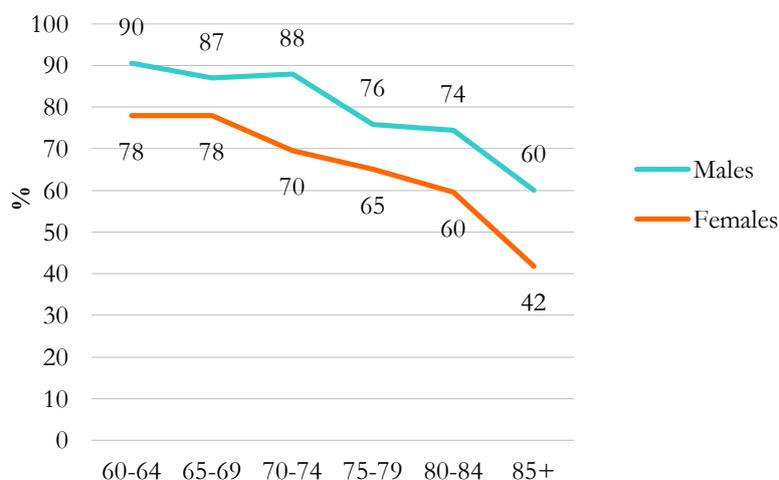
Figure 2.10: Average amount spend on outpatient treatment in last 4 weeks



Source: IHS3 2010/2011

Worsening health is correlated with lower levels of work at older ages, although many older people continue to work despite health issues. Figure 2.11 presents the proportion of older people in the labour force¹⁶ by five year age group. It shows that work declines gradually at older ages. While 78 per cent of women and 90 per cent of men aged 60-64 are still economically active, this falls to just 42 per cent of women and 60 per cent of men for those aged 85+. The decline in labour force participation starts at around 75 years for men and 70 years for women. It is nevertheless, striking to see how many older people continue to work at advanced ages, with a total of 77 per cent of people aged 60 years and above still economically active. It appears that much of this continued work happens in spite of health issues. While levels of economic activity for people with disability are lower than average, half of older people with some form of disability (51 per cent) still remain economically active.

Figure 2.11: Share of older people (60+) who were economically active in the last week



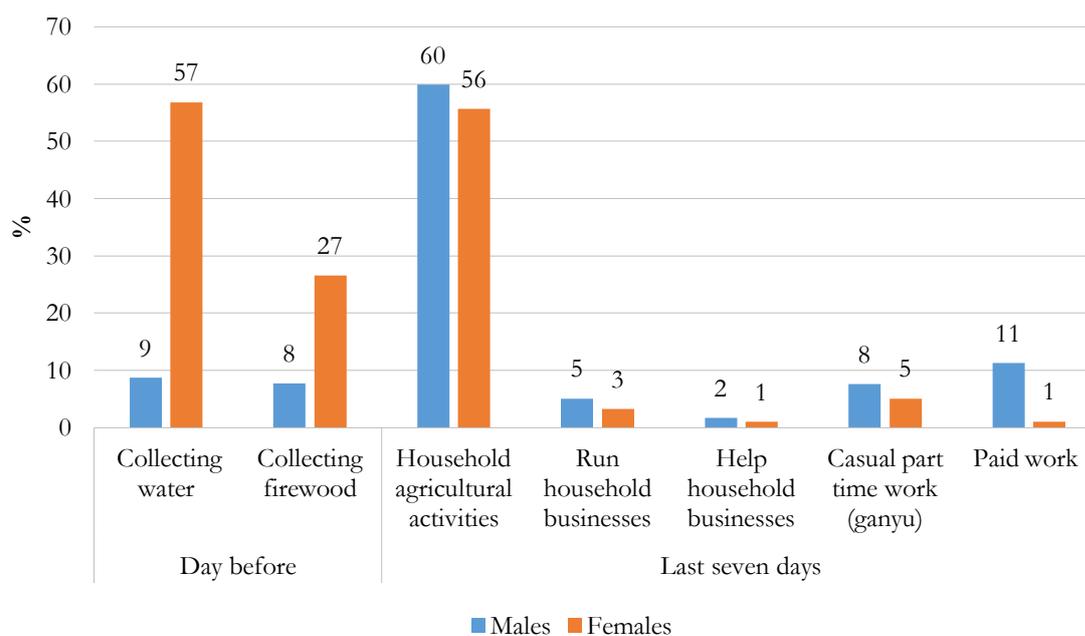
¹⁶ Labour Force Participation is defined as the proportion of the population who are economically active or looking for work.

The physically demanding nature of the work older people engage in, coupled with increasing levels of ill health, increases the challenges faced by older people working in older age. Figure 2.12 shows the main kinds of work that older people engage in, with household agricultural activities emerging as central. Close to two thirds of older people engage in household agricultural activities, with slightly higher levels for men (60 per cent) than women (56 per cent). The graph also shows how many older people (particularly women) engage in household activities such as collecting water and firewood. These are not insignificant activities, with those partaking in these activities spending an average of 45 minutes collecting water, and an hour collecting firewood. The fact many of these activities are physically demanding means older people are forced to undergo them in spite of mobility issues and pain. The following two testimonies from rural Malawi show older people’s experience of working in ill health:

Aaa! I do the work while feeling pain. When I am able to move around I force myself to work...I am able to do my household chores. I also go to the garden and cultivate. For the waist and the eye, they have just started hurting... the arm pains a lot. [Loveness, female, late 70s]

[Since last week] I have met the same problem of failing to walk, pain this side [pointing at his waist]... additional pain is from here [pointing at his chest] ... I have worked a little. I was working while seated ... I had some reeds for weaving and I was just processing it. [Charles, male, around 70]¹⁷

Figure 2.12: Share of older people (60+) engaged in different working activities, by sex



IHS3 (2010/11)

It is also striking that many older people continue to engage in *ganyu* (casual labour) into their old age. Doing *ganyu* constitutes one of the most common strategies used by rural households to deal with stress and shocks, and as such constitutes an important “informal social safety net”.¹⁸ For example, doing *ganyu* in other people’s gardens is often used as a way to cope with hunger.¹⁹ In total, 6 per cent of older people aged 60 and over reported having done *ganyu* in the last week (according to the IHS3). This was higher for men (8 per cent) than for women (5 per cent) (see Figure 2.12). This question was also only asked for the last 7 days, and most likely hides the fact that many more older people use this as a short term strategy throughout the year. While *ganyu* provides an immediate safety net to a family, it arguably

¹⁷ Ibid.

¹⁸ Munthali, *Adaptive Strategies and Coping Mechanisms of Families and Communities Affected by HIV/AIDS in Malawi*.

¹⁹ Munthali, *Hunger, Public Policy and Child Labour: Case Study of Malawi*.

further increases the vulnerability of households in the long run, as work for others can affect own-farm production of food and non-food crops.²⁰

Older people are also more likely to engage in informal employment. Data from Malawi’s Labour Force Survey – conducted in 2013 – show that levels of informal employment are higher than average for older people who are working. For example, for the population aged 60-64, 93 per cent work in informal employment, compared to 89 per cent on average.²¹ Clearly informality remains high across the board, but it is particularly high for those of older ages.

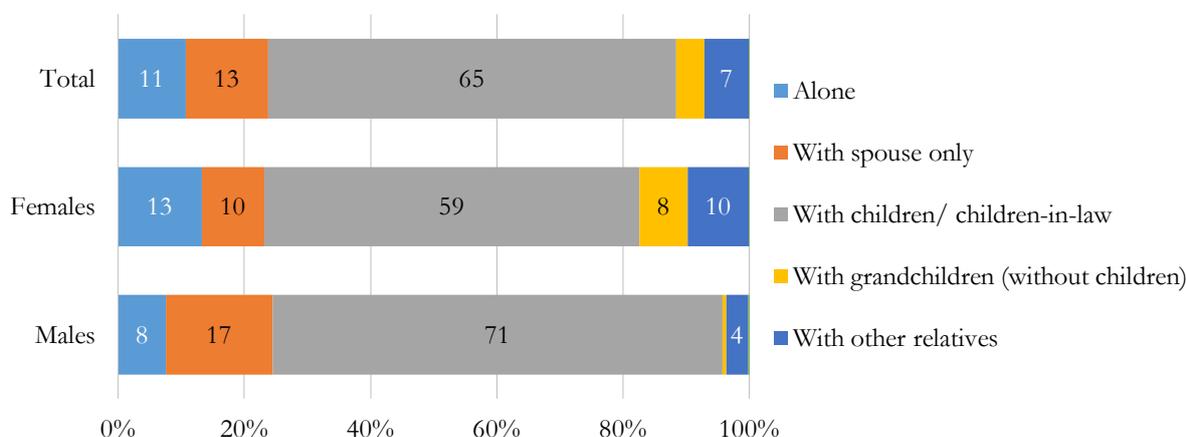
2.3 Family support

As work becomes more of a challenge, older people increasingly have to look to others for financial and material support. In Malawi, in both matrilineal and patrilineal systems of descent, the family remains the most important support system and older people usually look to their families, particularly spouses and adult children, for support.²²

The importance of the family is highlighted by the fact that the majority of older people live with their children. As shown in

Figure 2.13, 65 per cent of older people live in a household with their children, with many more living with grandchildren and other relatives. Even for those living alone or just with their spouses, it is likely that many have strong and regular contact – and exchanges of support – with children and other family members within their communities, and in other parts of the country. It is worth highlighting that exchanges between older people and their families are not only in one direction. For example, when children migrate to urban areas to look for work, it is common for older people to provide care for the grandchildren that are left behind. This caring role creates the opportunity for children (particularly women) to seek better remunerated work, while older people look to children for support with household tasks, such as collecting water and pounding maize.

Figure 2.13: Living arrangements of older people in Malawi



Source: IHS3 (2010/2011)

Spouses play a major role in supporting each other in old age. Marital status of older people has important implications for their wellbeing. Spouses can provide material, social and emotional support as well as personal care in times of illness or frailty. This support is likely to be particularly important for the 13 per cent of older people who live with just their spouses (see Figure 2.13), although it will also be important where couples live within a broader family setting.

Women are, however, much less likely to be able to look to this form of support. While 85 per cent of men over 60 years old are married, the figure is just 34 per cent for women. As illustrated by Figure 2.14 older women are five times more likely to be widowed which helps to explain why they are twice as likely to live alone than older men (see Figure 2.13). Even where husbands are still alive, their more

²⁰ Devereux, “Making Less Last Longer”: *Informal Safety Nets in Malawi*.

²¹ National Statistics Office, *Malawi Labour Force Survey 2013*.

²² Freeman, “Care and Identity in Rural Malawi”; Munthali, Tsoka, and Ndawala, *Final Report on the Feasibility Study on a Universal Pension in Malawi*.

advanced age may limit the extent to which they can support younger wives, as illustrated by the following testimony from a woman in her 50s:

“[My husband] is not working much as compared to those days when he was energetic (...). He is unable to provide us with money. I understand the situation is that he is ageing... so I just say let us just be keeping each other.” [Rhoda, female, 56]²³

Figure 2.14: Marital status of older men and women



Source: IHS3 (2010/2011)

Factors including the HIV/AIDS epidemic have put extra strain on systems of family support, with older people taking on greater caring responsibilities. The HIV/AIDS epidemic has meant many children who would have been expected to support their older parents have passed away. Rather than spending their later years being supported by their children, many older people are taking on greater responsibility for care, either for children living with AIDS or the grandchildren left behind. The latest available data suggests that grandparents are the main caregivers for 62 per cent of double orphans in Malawi. Even for orphans who still have a living parent, grandparents play an important role caring for 23 per cent of those whose father has died (paternal orphans) and 40 per cent of those whose mother has died (maternal orphans).²⁴ This caring role falls primarily on women, which is reflected in the data in Figure 2.13 showing that 8 per cent of older women live in “skipped generation households” only with their grandchildren.

In the meantime, even when children are alive, high levels of poverty in the country mean they often struggle to provide adequate support to older people. The majority of families in Malawi, either living below or close to the poverty line, confront a range of competing priorities in their day to day lives (see section 2.1). These include investment in household livelihoods and children’s education, as well as the cost of regular health and weather-related shocks. It is unsurprising therefore that the household budget will often be inadequate to provide support for older people. Older people themselves are often reluctant to demand care from their children. Field research with older people in Malawi has found that “demanding intensive care from children was understood [by older people] to prevent [their children] from working to improve their own lives”.²⁵ As such the need to support older people can provide additional stress to families and households, already living in poverty. When an older member of the household becomes ill or too frail to work, in addition to a reduction in household labour and income, there are also generally additional health and care costs which further strain household resources.

The greater economic and physical dependence that comes with old age threatens the dignity and empowerment of Malawians towards the end of their lives. As in many societies, support relations in Malawi are strongly underpinned by ideas of reciprocity; that is the notion that care and support must be both given and received. As older people’s capacity to provide for and support their families decline, they fear becoming a burden and losing their adult identity all together.

[Getting older] is not good because you become a child, when a person is old they just wait to be fed, people to do things for them. Eeh, it is a bad thing, because you become a child, and the things you used to do when you were young, you cannot do them because you do not have the strength... it will be

²³ Freeman, “Care and Identity in Rural Malawi.”

²⁴ Beegle et al., *Orphanhood and the Living Arrangement of Children in Sub-Saharan Africa*.

²⁵ Freeman, “Care and Identity in Rural Malawi.”

painful ... because a person can do something for you which you didn't want, in so doing you start remembering what you used to do in the past while you were strong. [Ethel, female, late 80s/early 90s]²⁶

This sense of being dependent often reduces the extent to which older people participate (and are included) in decision making within their families and the community, which in some cases contributes to growing social exclusion of older people.

This social exclusion is an important contributing factor to accusations of witchcraft against older people. Belief in witchcraft in Malawi is still strong with a large proportion of the population reporting that it is practiced in their communities. These beliefs often spiral into accusations and violence against those accused, as vividly exemplified by the murder of four older people in Neno in January 2016.²⁷ Research conducted by Chilimampunga and Thindwa in 2011 found that older people are particularly vulnerable to accusations of witchcraft, with the “typical” witch being an older woman.²⁸ This is strongly associated with the fact that many older people are already socially excluded, with relatively weak social networks, due to their lessened ability to contribute to community life. In the same research, one government official described their exclusion as an important reason why they are victims of witchcraft accusations:

“The elderly are the weakest of social group, and some of them do not have support. It is also because they live longer than expected. They are helpless”²⁹

This resonates with research in Eastern Zambia which found it was “the most marginalised, weakest and poorest among the elderly who were most likely to be accused of witchcraft”.³⁰ As discussed in section 4.2 of this report, there is evidence of how the economic security provided by pension systems has reduced the vulnerability of older people to these accusations and attacks.

²⁶ Ibid.

²⁷ Kumbani, “Mob Kills Four Elderly People in Neno over Witchcraft.”

²⁸ Chilimampunga and Thindwa, *The Extent and Nature of Witchcraft-Based Violence against Children, Women and the Elderly in Malawi*.

²⁹ Ibid.

³⁰ Kidd, “If You Have Only Dust in Your Hands, Then Friends Are Far; When They Are Full, They Come Closer”: An Examination of the Impacts of Zambia’s Katete Universal Pension.

3 EXISTING OLD AGE SOCIAL PROTECTION

The challenges of old age and the limits of systems of family support highlight the need for effective social protection in old age. Nevertheless, to date the social protection system remains limited. This section describes the coverage of key elements of the social protection system, in particular, pensions, the Social Cash Transfer Programme and other forms of social assistance.

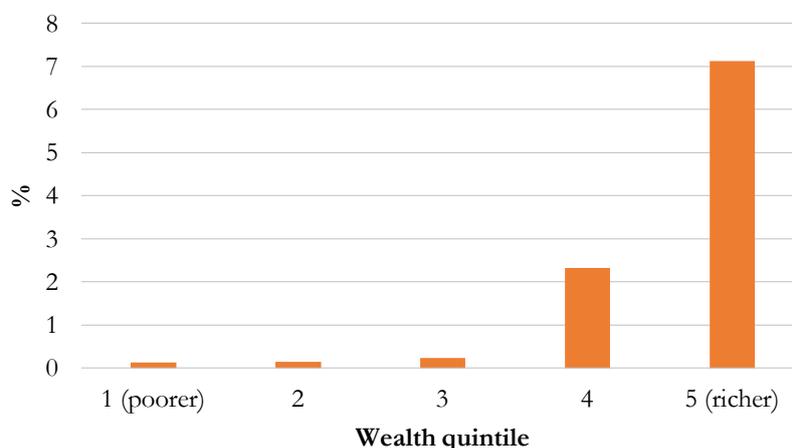
3.1 The Malawian pension system

Malawi has taken various steps in recent years to strengthen the pension system. Most notably, in 2011 the Malawi Parliament enacted the Pension Act with the overall goal of addressing the income insecurity that many Malawians experienced after retirement from work. The 2011 Pension Act provides for mandatory pension for all employees. Employers need to ensure that all employees are members of the National Pension Fund or any other licensed private pension fund. In theory, all employers are expected to provide pension and supplementary benefits for all their employees upon retirement.

Despite this ambition, fewer than 5 per cent of older Malawians currently receive a pension. According to recent analysis of administrative data by the ILO, only around 4 per cent of older people over the age of 65 receive a pension (1.6 per cent government civil service pensions and 2.6 per cent statutory pension in the formal economy).³¹ This low level of coverage is confirmed by analysis of the IHS3 which finds that just 2 per cent of older people live in households that receive a pension. The lower level found in the IHS3 could have been influenced by under-reporting of pension receipt which is a common issue with household survey data.

Notably, the vast majority of pension recipients are in the wealthiest 40 per cent of the population. Figure 3.1 shows the distribution of pension-receiving households with older people, by wealth quintile. Coverage is substantially higher in quintiles 4 and 5, with virtually no older people in the poorest 3 quintiles receiving a pension. This suggests that investments in strengthening the contributory system will have most benefit for those who are less poor. This picture is also of concern given that a substantial proportion of pensioners who are in the public service scheme receive non-contributory pensions that are financed from general revenue (rather than a contributory pension fund).

Figure 3.1: Share of older people living in a household receiving a pension, by wealth quintile



Source: IHS3 2010/11

The proportion of workers currently contributing to a pension also remains low. Contributory pension schemes are key components of a national pension system, and play a critical role in allowing middle and lower-middle classes to more effectively invest in their own retirement, allowing them to enjoy similar living standards which they have been accustomed to in their working years. However, their role in Malawi remains limited, and it is estimated that only 15 to 20 per cent of the adult population are currently contributing to the pension fund.³² Even though the 2011 Pension Act has aimed to address some of the

³¹ van de Meerendonk, Cunha, and Juergens, *A Social Protection Floor for Malawi: Financial Assessment of Existing Social Protection Programmes and Costing of Policy Options - Part 1: Status Quo Assessment*.

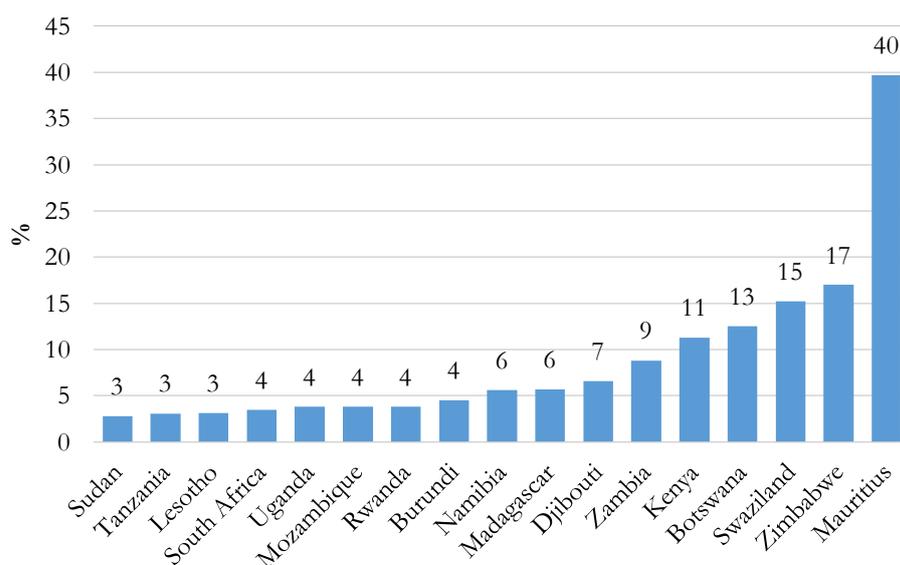
³² Ibid.

inadequacies in the formal pension system, the low coverage of the contributory system remains an on-going issue.

High levels of poverty and informality mean that coverage of contributory pensions is unlikely to increase substantially in future decades. Analysis of international trends by organisations including the World Bank and International Labour Organisation show a strong correlation between coverage of contributory schemes, and levels of poverty and informality.³³ In countries where incomes are lower, individuals have less disposable income to contribute to a pension scheme. Workers in informal employment also have limited access to contributory social security schemes. This is particularly relevant in Malawi where a high proportion of employment is in the informal sector, with 90 per cent of the workforce in the agricultural sector, and 86 per cent in subsistence farming. Yet, the 2011 Pension Act mainly focused on the formal employment whilst ignoring the informal sector, where the majority of Malawians earn a living.³⁴

The low coverage of earnings-related pensions in Malawi reflects the trend in other countries across the region. Figure 3.2 shows the proportion of the individuals aged 15-64 contributing to a pension scheme in a selection of countries in East and Southern Africa. In all countries, fewer than one in five people contribute to a pension, with the exception of Mauritius which is the country in the region with by far the highest income per capita. In this context, while Malawi should continue to invest in strengthening the contributory pillar of the pension system, increases in coverage are likely to be modest in the next few decades.

Figure 3.2: Share of population aged 15-64 contributing to a pension, selected East and Southern African countries



Source: ILO (International Labour Office): ILO Social Security Inquiry; Indicator: old-age contributor ratio: % working age. Available at: http://www.ilo.org/dyn/ilossi/ssiindic.viewMultiIndic3?p_lang=en&p_indicator_code=CP-1b%20A [6 Jun. 2014].

³³ See World Bank, *Live Long and Prosper: Ageing in East Asia and Pacific*. p. 150 and International Labour Organisation, *World Social Security Report 2010/11: Providing Coverage in Times of Crisis and beyond*. p. 48

³⁴ Shawa, *Social Security System Reform: The Case of Malawi*.

3.3 The Social Cash Transfer Programme

The most significant development in social protection for older persons in Malawi in recent years has been the introduction and expansion of the Social Cash Transfer Programme (SCTP). The programme was initially piloted in Mchinji District in 2006 with support from the Global Fund and has the aim of alleviating poverty, reducing malnutrition and improving school enrolment by delivering regular and reliable cash transfers to ultra-poor households that are also labour-constrained. “Ultra-poor” is defined as unable to meet the most basic urgent needs, including food and essential non-food items such as soap and clothing. “Labour constrained” is defined as household with a ratio of “fit to work” members to “not fit to work” members of more than three; a member is considered unfit to work if they are below 19 or above 64 years of age, or if they are age 19 to 64 but have a chronic illness or disability.

The scheme is managed by the MoGCDSW and implemented via District Councils and District Social Welfare Offices (DSWO). Beneficiaries are selected using a combination of community-based targeting and proxy means testing (PMT), with oversight provided by the local DSWO. Finalised beneficiary lists have a target coverage rate of 10 per cent of households in a village cluster. Transfer amounts vary from MWK 1,000 to MWK 2,400 depending on household size, with a top-up for children in school; MWK 300 for primary school and MWK 600 for secondary school.³⁵

By April 2016, the programme was being implemented in 18 districts, with a total of 170,000 beneficiary households, and 755,730 individual beneficiaries. The funding for the SCTP comes mainly from development partners, namely the Germany Government through the KfW (7 Districts), the European Union (7 districts), the World Bank (2 districts) and Irish Aid (1 district). The Government of Malawi contributes approximately 10 per cent to the overall cost of implementing social cash transfers. It has been estimated that a national roll out of the SCTP would require funding of 1.7 per cent of the GDP or 4.2 per cent of the total government budget.³⁶

Older people make up a significant proportion of SCTP recipients. Given the programme has specific eligibility criteria related to old age (disability, chronic illness and labour constraint), it is unsurprising that a considerable number of older people are recipients. In fact, in its pilot phase the programme was referred to as a “programme for older persons” (*pologilamu ya nekhalamba*). The latest recipient data from 2016 suggests that 50 per cent of household heads in the programme are aged 65 and over. The data also suggests that 15 per cent of individuals living in recipient households are 65+.

The impacts of the scheme on recipient households (including those with older people) has also been found to be positive. A number of studies have shown positive impacts on food security and found the scheme to have increased the incomes and consumption of recipient households. Positive impacts on children have included a reduction in the prevalence of under-weight children, and increased school enrolment and retention. Rather than being simply a “hand out” the scheme has had positive productive outcomes. Among recipient households, results have shown a significant accumulation of household and productive assets as well as livestock and agricultural production through the purchase of fertilizers and/or farm labour. Recipients have also been seen to have improved housing quality and an increased ability to handle household shocks. A key impact of the SCTP on older people’s beneficiary households has been to enable them to hire labour to cultivate their land, allowing some of them to reduce their farming work and *ganyu* that they had been struggling to maintain due to failing health.³⁷

However, coverage of the SCTP still remains low, with fewer than one in four Malawian older people living in recipient households. Despite the gradual expansion of the scheme, it still only covers 18 of the 28 districts in Malawi. In total, the 170,150 households receiving the SCTP represent approximately 5 per cent of all households in Malawi.³⁸ Given that the scheme leans towards older-headed households, around 23 per cent of older people aged 65 and over live in a recipient household, with 16 per cent being direct recipients, as household heads.³⁹ Nevertheless, even when combined with coverage of

³⁵ Handa, *Malawi Social Cash Transfer Programme Impact Evaluation: Overview of the Study Design*.

³⁶ van de Meerendonk, Cunha, and Juergens, *A Social Protection Floor for Malawi: Financial Assessment of Existing Social Protection Programmes and Costing of Policy Options - Part 1: Status Quo Assessment*.

³⁷ National AIDS Commission, *Global AIDS Response Progress Report (GARPR): Malawi Progress Report for 2013*; Miller, Tsoka, and Reichert, *Impact Evaluation Report: External Evaluation of the Mchinji Social Cash Transfer Pilot*; de la O Campos, *Empowering Rural Women through Social Protection*.

³⁸ The number of households in Malawi is calculated by dividing the total estimated population for 2016 (16,832,910) by the average household size (4.6) outlined in the IHS3 report (National Statistics Office, *Integrated Household Survey, 2010-2011: Household Socio-Economic Characteristics Report*).

³⁹ The population 65+ is estimated to be 507,131 in 2016.

contributory pensions this means around three quarters of older people aged 65 and over receive no cash transfer at all. Moreover, even if it is assumed the scheme is targeted perfectly, around half of the 47 per cent of older people living in poverty miss out.

Significant challenges have also been found in the process of targeting ultra-poor households.

Targeting of ultra-poor households is very difficult in contexts such as Malawi where the vast majority of the population are either poor, or face high risk of falling into poverty (See Section 2.1). Analysis of community perceptions of poverty and wellbeing in four communities where the SCTP was to be introduced found that they perceived between 45 and 71 per cent of households in the community to be in ultra-poverty, with only 5 per cent considered as non-poor.⁴⁰ This creates major challenges given the quota for SCTP beneficiaries is just 10 per cent of the population. As a result of these issues, various studies of the targeting efficiency of the SCTP have found substantial targeting errors. A study by Matita and Chirwa, for example, found that a high proportion of beneficiaries do not fulfil the criteria, with some households undertaking “strategic restructuring” in order to meet the criteria. Various studies suggest that inclusion errors are estimated to vary between 37 and 58 percent.⁴¹

The issues encountered reflect inherent challenges of poverty targeting documented by international experience, particularly in other low income countries.

For instance, analysis of the Old Age Allowance in Bangladesh which is targeted at the 30 per cent of older people living in poverty found that over half of benefits go to people above the poverty line.⁴² In Kenya, the Orphans and Vulnerable Children Cash Transfer which targeted the poorest 21 per cent of households with OVCs, was found to have reached less than a quarter (24 per cent) of this target group. Finally, a cross-country study of the efficiency of the proxy means testing approach – which is employed in Malawi – found that exclusion errors were between 57 and 71 per cent when targeting the poorest 10 per cent of households.⁴³ These studies, and a wide body of international research, show that it is typical for narrowly targeted cash transfers to miss at least half of the target group.

Worryingly, targeting issues appear to have undermined some of the impacts of the programme, with negative consequences for social cohesion within communities.

The combination of a fixed 10 per cent coverage rate, widespread and deep poverty as well as lack of easily understood eligibility and targeting criteria creates incentives for corruption and jealousy within communities.⁴⁴ One study found that 22 per cent of recipients reported to have experienced more conflict in the community since receiving the transfer, while 32 per cent of household heads thought the targeting process was unfair.⁴⁵

3.4 Other social assistance and the Farm Input Subsidy Programme (FISP)

Other social assistance programmes (including food and cash for work, and school feeding) play a relatively small role in supporting older people. Analysis of the IHS3 shows that only 16 per cent of older people (60+) live in households receiving social assistance. Of these, the main form of support is the school feeding which is received by 9 per cent of households where older people live, followed by free maize (4 per cent) and food/cash for work (2 per cent). While school feeding is primarily targeted at children, it does also provide a Take Home Ration which consists of 10kgs of maize to all girls and orphaned boys in Standards 5-8 during the hunger months of January to March each year.⁴⁶ This can provide an indirect benefit to older people living in households benefitting from this programme by reducing the food expenditure necessary for sustenance in those months. Nevertheless, the scale of the impact of this programme for older people will be minimal, not least as only one in ten older people live in a beneficiary household.

It is also notable that social assistance is rarely received directly by older people. While 16 per cent of older people (60+) live in a household receiving assistance, only 3 per cent of older people are the direct recipients of this support. This means that, although they may indirectly benefit, they are unlikely to have primary control or influence decision making around the support received.

⁴⁰ Abdoulayi and Brugh, *Malawi Social Cash Transfer Programme Impact Evaluation: Community Perceptions of Poverty and Wellbeing*.

⁴¹ Matita and Chirwa, *Targeting in Social Cash Transfer and Farm Input Subsidy Programmes in Malawi: Should They Be Harmonized?*

⁴² Khondker, Vilela, and Knox-Vydmanov, *Old Age Social Protection Options for Bangladesh*.

⁴³ Kidd and Wylde, *Targeting the Poorest: An Assessment of the Proxy Means Test Methodology*.

⁴⁴ van de Meerendonk, Cunha, and Juergens, *A Social Protection Floor for Malawi: Financial Assessment of Existing Social Protection Programmes and Costing of Policy Options - Part 1: Status Quo Assessment*.

⁴⁵ Miller, Tsoka, and Reichert, *Impact Evaluation Report: External Evaluation of the Mchinji Social Cash Transfer Pilot*.

⁴⁶ Kholowa and Nkhoma, *Baseline Survey Report – McGovern-Dole Supported School Feeding Program in Malawi*.

The Farm Input Subsidy Programme (FISP) can be an important support to older people who are still economically active; however, there is limited data on the extent to which it benefits older people. The FISP constitutes one of the primary policies in place in Malawi to support poverty reduction and food security. There are approximately 1.5 million beneficiaries each year and this represents about 34 per cent of rural farmers. Beneficiaries receive vouchers prior to the growing season which can be exchanged for fertilizer and seeds. In 2014/15 the FISP budget was estimated at US\$131 million and this represented 72 per cent of the adjusted budget of the Ministry of Agriculture, Irrigation and Water Development (MoAIWD). At this level of funding the FISP budget represents between 7-10 per cent of the national budget and 2.4 per cent of GDP. Given the fact that most older people continue farming into old age, the scheme is of obvious relevance for older people. Similarly, the criteria for identification of beneficiary household for the FISP include elderly household heads and resource poor households looking after elderly and/or physically challenged persons. There is, however, limited data available on the extent to which older people actually benefit from the programme.⁴⁷

Nevertheless, it appears that some older people – particularly those living with HIV/AIDS – are excluded from the scheme as they are perceived to be unproductive. The following testimonies gathered from fieldwork undertaken in rural Malawi with older people living with HIV/AIDS highlight the issue.⁴⁸

One day I went to where people were registering families for subsidy fertiliser coupons, and when my name was mentioned someone said remove that name, Abiti Salmon is a sick person she can't farm, someone within their group said but she has a son who farms, they said no, just remove the name.

[Mary Salmon, older woman in her late 60s with HIV/AIDS]

We are not given [coupons]. They say we are sick people, so we fail to apply fertilizer in our crops and therefore cannot get a good yield and end up having hunger. Please let the people know that we also need the coupons, we are also human beings! **[Richard, older man in his late 60s with HIV/AIDS]**

The reason why they say this [we should not get coupons] is, because when someone has HIV or Edzi, they think they are people who get sick very often, and they are weak, they are not useful, they feel if they give them a job to do, they will not do it properly, and they will not do it as open as others would do, that is why we are sidelined, and left behind, but we are now strong since we take ARV's no one can think that we have [the virus] because of the way we look, on our own we feel we are strong, since we know how we are now. **[From focus group discussion with HIV support group]**

⁴⁷ Mvula et al., *Evaluation of the 2010/11 Farm Input Subsidy Programme: Challenges of Access to Farm Input Subsidy by Most Vulnerable Groups in Malawi.*

⁴⁸ Taken from Freeman, "Older Adults' Experiences of Ageing, Sex and HIV Infection in Rural Malawi."

4 RATIONALE FOR A UNIVERSAL PENSION

4.1 The role of social (and universal) pensions

Given the large remaining “coverage gap” in social protection for older people, there is a strong logic for Malawi to explore the scope for a dedicated social pension. Social pensions are tax-financed cash transfers paid regularly to older people, regardless of whether they have formally contributed to a pension in the past.⁴⁹ Eventually, a comprehensive pension system needs to combine effective contributory schemes along with tax financed elements. However, social pensions are of particular relevance in countries like Malawi where the scope for expanding coverage of contributory pensions in the near future is low. A social pension could be seen as a way to rapidly increase coverage of the pension system, providing a foundation for longer-term efforts to strengthen the contributory system. A dedicated social pension would also create space for the SCIP to have a sharper focus on labour constrained and vulnerable households not headed by older people.

Social pensions have emerged as an increasingly prominent approach to expanding pension coverage in low and middle income countries, and particularly in Africa. The last two decades have seen a sharp rise in the popularity of social pensions. Of around 100 countries with social pensions today, around half were introduced since 1990, and a third since 2000.⁵⁰ The map in Figure 4.1 shows the countries in sub-Saharan Africa that currently implement a social pension scheme. Countries in red are those with social pensions, while Malawi has been coloured in orange for reference. The most striking feature of the map is the cluster of countries in the southernmost part of Africa. The oldest of these schemes is the Old Age Grant in South Africa that was introduced in 1927/8, followed by Namibia in 1942, and then Botswana (1996), Lesotho (2004) and Swaziland (2005). Small island states such as Mauritius and Seychelles also have long standing social pensions – introduced in 1950 and 1979 respectively – with Cape Verde joining them in 2006. In East Africa, Kenya and Uganda have both introduced social pensions in the last decade which have been increasing in coverage gradually. The newest addition to the list is the Zanzibar archipelago (part of the United Republic of Tanzania), which began implementation of a social pension in April 2016 (Box 2). Proposals for social pensions are currently on the table in Tanzania (mainland) and Mozambique.

Box 1: The new universal pension in Zanzibar

Zanzibar introduced a universal pension in April 2016 making the scheme the newest social pension in Africa. The scheme provides a monthly benefit of TSH 20,000 (US\$ 9) to all older people aged 70 years and over. In a short period of implementation, the government has been able to roll out the scheme to the vast majority of eligible recipients. By May 2016, approximately 86 per cent of the 25,000 older people in the country were receiving the pension. It is likely that those currently missing from the scheme will be reached over the coming months as sensitization around the pension continues. The fact that a low income country such as Zanzibar has had such success in rolling out such a scheme, highlights administrative simplicity as one of the advantages of universal pensions.

It is too early to know the detailed impacts of the scheme, but initial feedback from older people gives a preliminary indication of how it is changing their lives. One older male recipient, aged 97 explained his current economic situation, and how he expected the pension to change things:

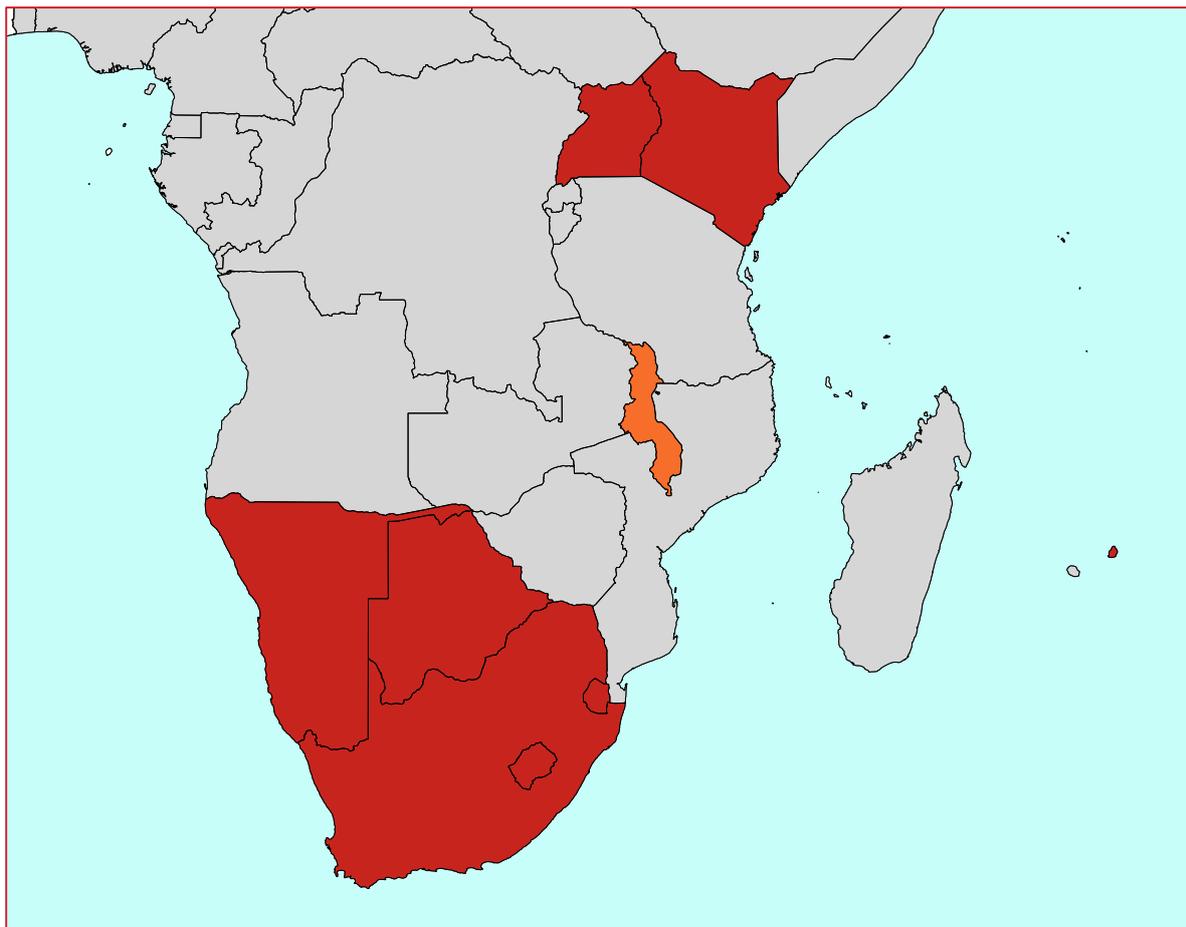
“Some passers-by throw some coins at me which I use to buy food and drugs to treat my regular chest pains. Once in a while some of my neighbours bring me food, however, there are times when I live on an empty stomach for days”

“But now I am very happy that the Government has decided to give us a monthly pension of 20 thousand shillings. This is enough money for my needs. I really thank the Government for this special consideration, as it is my only reliable source of income. I will surely live happier in the remaining days of my life”.

⁴⁹ Palacios and Knox-Vydmanov, “The Growing Role of Social Pensions: History, Taxonomy and Key Performance Indicators.”

⁵⁰ HelpAge International, *Global AgeWatch Index 2014: Insight Report*.

Figure 4.1: Map of social pensions in sub-Saharan Africa



Universal, or near-universal, pensions have been a particularly popular approach in the region. Of the countries mentioned above, Botswana, Namibia, Mauritius, the Seychelles and Zanzibar all provide a universal pension to older people over a given age regardless of income or assets. Mauritius’s pension – which was made universal in 1958 – is one of the earliest countries in the world to implement this approach. While the country is now one of the richest in Africa, the scheme was introduced when it was still a low-income monocrop economy. Indeed, the IMF has recognised the contribution of the pension to the country’s “economic miracle” over the last half century.⁵¹ Lesotho and Swaziland implement near-universal schemes which only exclude beneficiaries of other pension schemes, while South Africa implements an “affluence test” which attempts to exclude older people with significant income and/or assets.⁵² In Uganda, around 125,000 older people in certain regions of the country receive a universal pension, with the government currently taking steps to roll out the scheme across the country.⁵³ In Zambia, there is also a small pilot universal pension being implemented in Katete which provides some very relevant experiences for what a universal pension would look like in the Malawian context.⁵⁴

Universal pensions have particular advantages over means-tested approaches in terms of impact, administration and incentives. Key benefits of a universal approach include:

- **They are effective at reaching the very poorest older people:** The fact that all older people are eligible for a universal pension means that they are effective at reaching the very poorest older people, who are often excluded from poverty targeted programmes such as the SCTP (see Section 3.2). The high coverage of the new scheme in Zanzibar is a case in point (Box 1).
- **They are administratively simple to implement at national scale:** Universal pensions only require a very limited level of administration. They avoid the administratively intensive process of

⁵¹ Subramanian and Roy, *Who Can Explain The Mauritian Miracle: Meade, Romer, Sachs, or Rodrik?*

⁵² The means test in South Africa only excludes individuals with relatively high levels of income or assets. Income is verified by checking whether individuals receive money from investments in banks, government pension funds, unemployment insurance fund and in the Receiver of Revenue. Immovable assets (housing) is verified with Register of Deeds.

⁵³ “Bravo on Senior Citizens Grants [Editorial].”

⁵⁴ Knox, *A Social Pension in Zambia: Perceptions of the Cash Transfer Pilot in Katete.*

poverty targeting that entails various costs of both government staff and community members. They also avoid the regular retargeting processes, only requiring a method to de-register beneficiaries when they pass away. In Zambia, the universal pension pilot was found to be much simpler than other more poverty targeted approaches used in other pilots that followed the same model as the SCTP in Malawi. Administrative costs for the universal pension were estimated at 5 per cent of transfer costs, compared to 15 per cent for targeted schemes (not accounting for the unremunerated time of community volunteers).⁵⁵ These factors mean that they are much simpler to rapidly scale up to national scale, which remains a pervasive issue in poverty-targeted schemes.

- **They avoid perverse incentives to work, invest and save:** An important challenge for any means test is that the process of excluding people with assets and savings from a cash transfer can create an incentive against accumulating those assets and savings in the first place. This can apply to small assets such as goats or chickens in a poor community, but is also relevant to wider pension policy. Excluding individuals who receive contributory pensions from a social pension could damage the incentives to save into these schemes just at a time when Malawi is seeking to expand them. The challenge of perverse incentives created by means testing is one of the key reasons that South Africa is moving to expand its Old Age Grant to all older people by 2017.
- **They gain high levels of political and social acceptability:** The potential for any social protection scheme to be invested in and sustained in the long term is strongly influenced by the level of political support, and willingness for citizens and governments to allocate resources towards them. Universal pensions have the potential to create a broad base of political support as they provide an entitlement that every citizen can one day expect to benefit from. They can also be seen as the hallmark of a caring nation, which recognises all forms of contribution by its citizens across all ages with the potential to reduce the abuse and discrimination of older people in society. Poverty-targeted schemes tend to gain less political support as those who benefit are often those with least political voice, meaning that budgets are lower and outcomes are less prioritised. The Nobel Prize winning economist and philosopher Amartya Sen put it in simple terms “Benefits meant exclusively for the poor often end up being poor benefits.”⁵⁶ On the other hand, universal schemes which gain strong political support often end up having the greatest impact for the poorest. The administrative challenges of poverty targeting, along with the unease it can cause at a community can also damage their political popularity.

4.2 Impacts of a universal pension in Malawi

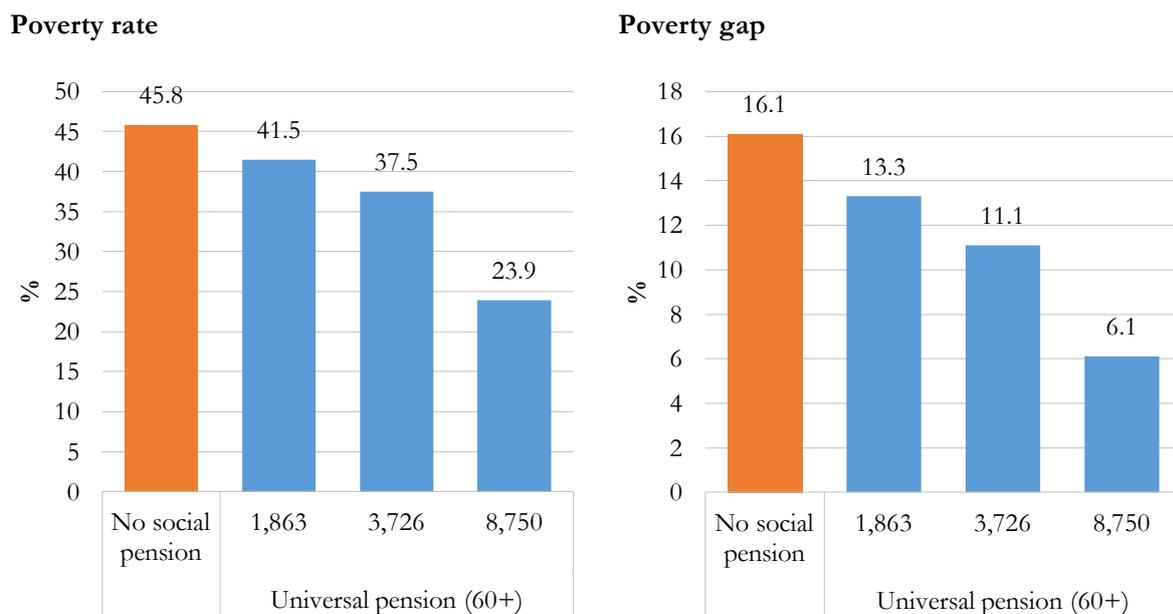
Analysis from Malawi and elsewhere demonstrates how a universal pension could reduce poverty and inequality, and have an impact on a range of other development indicators. This section highlights these impacts, based on both micro simulation using the IHS3, and a summary of relevant evidence from national and international literature.

A universal pension could lead to significant reductions in the poverty of households with older people. Figure 4.2 shows the impact of three pension scenarios on the poverty rate and poverty gap – which is a measure of the depth of poverty - of households where there is an older person. Three scenarios are tested with different benefit levels, all provided to older people 60+ universally. The benefit level of MWK 8,750 per month is an estimation of the national poverty line in 2016, a benefit of MWK 3,726 is equal to 20 per cent of GDP per capita, and a benefit of MWK 1,980 is equal to 10 per cent of GDP per capita. All benefit levels are in 2016 prices. The analysis shows that a universal pension at 8,750 would nearly halve the level of poverty in households with older people, from 45.8 per cent to 23.9 per cent. A smaller benefit of MWK 3,726 would reduce the poverty rate by around one fifth, to 37.5 per cent, while the 1,863 benefit would have the smallest impact. The impacts on the poverty gap are even greater. Even the scenario with the lowest benefit would reduce the poverty gap by nearly a fifth (from 16.1 per cent to 13.3 per cent), while a benefit at the poverty line would reduce the depth of poverty by over 60 per cent.

⁵⁵ Ibid.

⁵⁶ Sen, “The Political Economy of Targeting.”

Figure 4.2: Impact of a universal pension on poverty of households with older people



Source: Microsimulation using IHS3 data

A universal pension would also have an important impact on reducing the national poverty rate. Reducing poverty in Malawi will be a long term process with no simple magic bullet. Nevertheless, by redistributing resources from richer to poorer people in the country, a universal pension in Malawi would make an important contribution to poverty reduction efforts. A pension for over 60s at the poverty line (MWK 8,750) would reduce the total poverty rate by 3.1 percentage points, and move a similar proportion of people out of extreme poverty. This would equate to over half a million Malawians (520,000) being lifted out of poverty. It would also lead to the depth of poverty in Malawi reducing by 10 per cent. A more modest benefit of MWK 3,726 would reduce the poverty rate by 1 per cent. These gains may seem modest on the face of it but are relatively significant given that poverty in Malawi only reduced by 2 percentage points in the full 6 years between 2004 and 2010. An important function of a universal pension is that it would also continue to be a mechanism to systematically share the benefits of growth amongst the wider population over time.

A universal pension would result in “multiplier effects” that go beyond the immediate impacts. The methodology used in the simulations above simply estimates the impact of increasing the income of recipient households by a given amount, and the corresponding impact on poverty. However, in reality, cash transfers create “multiplier effects” within communities that further increase the impact. For example, cash transfer recipients are able to employ people to work on their farms. They are also able to spend their income in local shops, increasing the takings of shopkeepers. There has been a substantial amount of research undertaken in Malawi to estimate the scale of these multiplier effects. An analysis of the Dowa Emergency Cash Transfer found a multiplier of between 2 and 2.5, while specific analysis of the SCTP found a multiplier of 1.9. If the same multipliers are found with a universal pension, this would suggest the total impact would at least twice the size of the actual cash transfer.⁵⁷

Looking beyond Malawi, international evidence from the region and the world suggests a broad range of impacts on older people, their communities and the wider economy and society. These would support the country to achieve the ambitions MGDS II and the global Sustainable Development Goals. Some important impacts of universal pensions include:

Empowering older people within communities and society: As described in section 0, having to depend fully on children or community members for care and support can compromise the dignity and empowerment of older people. In extreme cases (especially where they have little family support) social exclusion of older people can be linked to accusations of witchcraft. Social pensions have been shown to transform the situation of older people from one of being dependent, to empowered members of the community. For example:

⁵⁷ Davies and Davey, “A Regional Multiplier Approach to Estimating the Impact of Cash Transfers on the Market: The Case of Cash Transfers in Rural Malawi.”

- In communities receiving the universal pension in Katete, Zambia, there was consensus amongst community members that accusations of witchcraft had reduced (see Box 2)
- A rigorous quantitative study in Mexico found that the universal pension there had a significant positive impact on empowerment, increasing older people's participation in household decision making.⁵⁸

Box 2: Empowerment of older people in Katete, Zambia

Since 2007 the Government of Zambia has been implementing a universal pension pilot in ten of the 24 wards of the Katete district in the East of the country, a little over 100km from the Malawian border. A number of studies have found that the scheme has had notable impacts on older people and their families, and particularly in terms of strengthening the role of older people within the community.

By putting cash in the hands of older people, the scheme had transformed their situation from powerless dependents to decision makers in their households and the community. One female pensioner explained: *"If you have only dust in your hands, then friends are far; when they are full, they come closer"*. Another female pensioner told how, *"when a villager sees one of us they shout out, '60 years! 60 years!'"* a respectful reference to the age of eligibility for the pension and an acknowledgement of how it has helped not just them but the village. Another mentioned that, *"the village is very proud of us, they call us 'bosses' now."*

There was also consensus that the frequency of witchcraft accusations against the elderly had fallen. This is due to older people's transformed appearance and behaviour as well as the perception that older people are contributors to society. They were able to invest in clothes and soap, had better houses, while begging significantly decreased. The pension, therefore, enabled the elderly to behave more like the ideal of an elderly Chewa and, as a result, they were less of a target for witchcraft accusations. This was in stark contrast to nearby villages not receiving the pension where witchcraft accusations continued to be a major issue.

Based on Kidd, S. (2016) and Knox, C. (2009)

Catalysing rural development: It is well established in the international literature that the impacts of social pensions go well beyond older people as the direct recipients. First, pension money is commonly pooled by households to invest in farming and livelihood activities. Research on the pension pilot in Katete found that 20 per cent of the pension was spent on small business and saving and 18 per cent on agricultural investment.⁵⁹ This reflects positive impacts of the SCTP on livelihoods strengthening and asset accumulation, including more crop production and increase in the possession of livestock.⁶⁰

Second, as discussed above, money from the pension creates multipliers in the wider community, likely doubling the impact of the cash alone. As a concrete example of this, there is strong evidence of how cash transfers to older people allow them to purchase day labour to support their own agricultural activities, rather than undertaking *ganyu* themselves. Two studies of the Kwa Wazee pension pilot in Tanzania have found that recipients – particularly older women – reported that they less often had to undertake poorly paid day labour and instead could hire people themselves for strenuous work and thereby invest in their own land.⁶¹

Improving child wellbeing and schooling: A number of studies of social pensions across the world have confirmed a major positive impact on schooling of children. Cash from pensions not only allows families to pay for school related costs (such as fees, books and uniforms) but also reduces the pressure on children to work. A study of Bolivia's universal pension found that in households with pensioners school enrolment was 8 percentage points higher, while child labour was a corresponding 8.4 per cent

⁵⁸ Salinas-Rodríguez et al., "Impact of the Non-Contributory Social Pension Program 70 Y Más on Older Adults' Mental Well-Being."

⁵⁹ Knox, *A Social Pension in Zambia: Perceptions of the Cash Transfer Pilot in Katete*.

⁶⁰ Abdoulayi et al., *Malawi Social Cash Transfer Program: Midline Evaluation Report*.

⁶¹ Heslop and Hofmann, *Towards Universal Pensions in Tanzania: Evidence on Opportunities and Challenges from a Remote Area, Ngenge Ward, Kagera*.

lower.⁶² Similar trends have been seen in Brazil and South Africa, as well as in the implementation of the SCTP.⁶³

Pensions can also contribute to a major reduction in the poverty of children across the board. In Georgia, the universal pension in the country is responsible for 69 per cent of the reduction in child poverty from the social protection system as a whole.⁶⁴ This reduction in poverty can also lead to positive impacts on the wellbeing of children. In the Kwa Wazee programme in Tanzania children in households receiving pensions not only had improved nutrition, but felt they had more time to play, study, read and talk to friends.⁶⁵

A core tool to reduce inequality: In countries with well-established social protection floors, pensions are commonly one of the primary tools used by government to reduce inequality. This is of utmost relevance to Malawi given the rising levels of inequality in the country. The main reason for the impact of pensions is that they provide a simple – and often the biggest – mechanism to redistribute wealth from richer to poorer sections of society. For example, in European countries where social protection has a major impact on reducing inequality, pensions commonly make the single biggest contribution to this trend.⁶⁶ Similar trends are emerging in low and middle income countries. In Brazil – a country which has had some success in tackling very high levels of inequality - the pension system has contributed to a 12 per cent reduction.⁶⁷

⁶² Mendizabal, *Redistribution of Wealth and Old Age Social Protection in Bolivia*.

⁶³ Edmonds, “Child Labor and Schooling Responses to Anticipated Income in South Africa”; de Carvalho Filho, “Household Income as a Determinant of Child Labor and School Enrollment in Brazil: Evidence from a Social Security Reform”; Abdoulayi et al., *Malawi Social Cash Transfer Program: Midline Evaluation Report*.

⁶⁴ Kidd and Gelders, *Child Wellbeing and Social Security in Georgia: The Case for Moving to a More Inclusive National Social Security System*.

⁶⁵ Hofmann et al., *Salt, Soap and Shoes for School: Evaluation Report*.

⁶⁶ Knox-Vydmanov, *Why “The Poor” Don’t Exist (And What This Means For Social Protection Policy)*.

⁶⁷ International Social Security Association, *Social Security Coverage Extension in the BRICS: A Comparative Study on the Extension of Coverage in Brazil, the Russian Federation, India, China and South Africa*.

5 AFFORDABILITY

5.1 Cost of a universal pension

The cost of a universal pension is influenced by two key factors: the size of the population targeted, and the benefit level. The size of the eligible population for a universal pension is determined solely by the age of eligibility. Benefit levels are usually identified according to different benchmarks of adequacy that are relevant in the national context – such as the poverty line. A third factor which influences the cost of any cash transfer is administrative costs. However, as discussed in Section 4.1 these tend to be very low in the case of a universal pension.

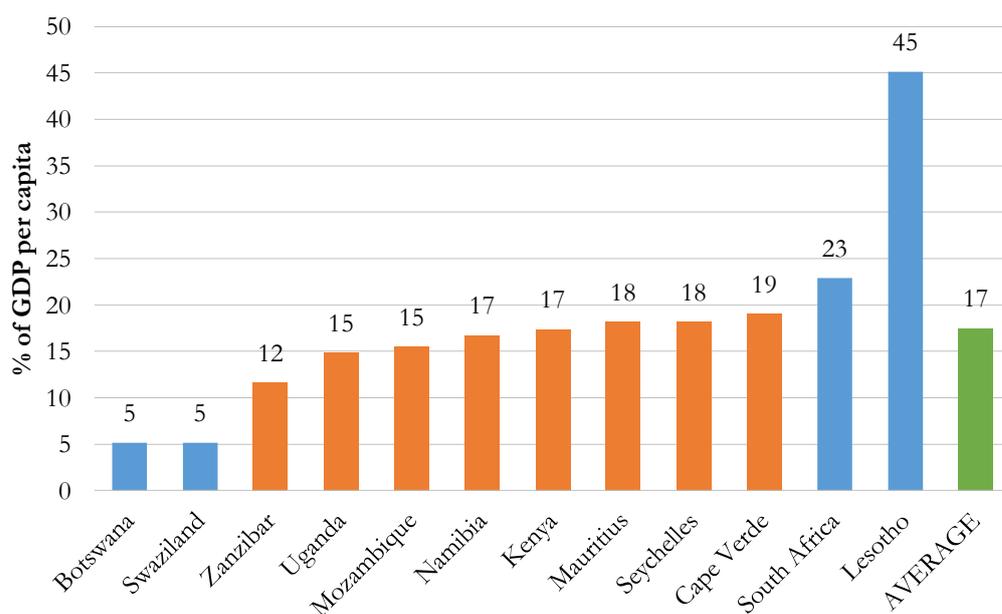
There is a strong case for using a relatively low age of eligibility for a universal pension in Malawi. Globally, a number of rapidly ageing and high income countries are exploring options to increase the age of eligibility for their pension schemes. Given the low life expectancy in Malawi, however, a low age of eligibility (for example, 60 years) would be more appropriate. According to United Nations population projections, life expectancy at birth is 64 years. This low level is somewhat misleading as it is influenced by high levels of child mortality. In fact, a child of 10 who has passed these early vulnerable years can expect to live to nearly 71, while someone of age 60 can expect to live to the age of 79.⁶⁸ Nevertheless, life expectancy still remains relatively low.

A higher age of eligibility would, however, provide a pragmatic starting point for progressively rolling out the programme. Many low and middle income countries have chosen to gradually reduce the age of eligibility for a universal pension over time, starting from a relatively high starting point. Nepal – a low income country – introduced its universal pension in 1995 for older people aged 75 and over, but reduced the age to 70 in 2008 (and 60 for certain ethnic minorities, and for a very poor region of the country). Bolivia introduced its universal pension for all older people 65+ in 1997, reducing the age to 60+ in 2008. Other countries including Mexico, Vietnam, and also high income countries such as Canada, have all followed a similar path in the past. Zanzibar's new universal pension also targets older people 70+ with a view to reduce the age of eligibility as more revenue becomes available.

A benefit level between 10 and 20 per cent of average income would be in line with most other countries in the region. Figure 5.1 shows the benefit level of other social pensions in sub-Saharan Africa as a proportion of average income (measured in GDP per capita). The majority of countries have social pensions somewhere between 10 and 20 per cent of GDP per capita (coloured in orange), with the average being 17 per cent. Botswana and Swaziland both have lower benefits (5 per cent of GDP per capita) while South Africa has a benefit slightly above the average (23 per cent). Lesotho's social pension, at 45 per cent of average income, is one of the highest in the world. The average in Africa is comparable to other regions, at 17 per cent of GDP per capita in Latin America, and 15 per cent in Asia.

⁶⁸ UN Population Division, *World Population Prospects: The 2015 Revision*.

Figure 5.1: Benefit levels of social pensions in Africa as a proportion of average income (GDP per capita)



While the benefit level for a universal pension would ideally be set at the poverty line, it may take some time to reach this ambition. A benefit level at the poverty line (which currently stands at approximately MWK 8,750 per month) would be equal to around 47 per cent of GDP per capita. Although there are some other schemes with benefit levels of this value (e.g. Lesotho) it could be argued that this would not be the most pragmatic approach in Malawi. In reality, it would involve providing a benefit to older people that would be above the average earnings of many younger workers, particularly in rural areas.

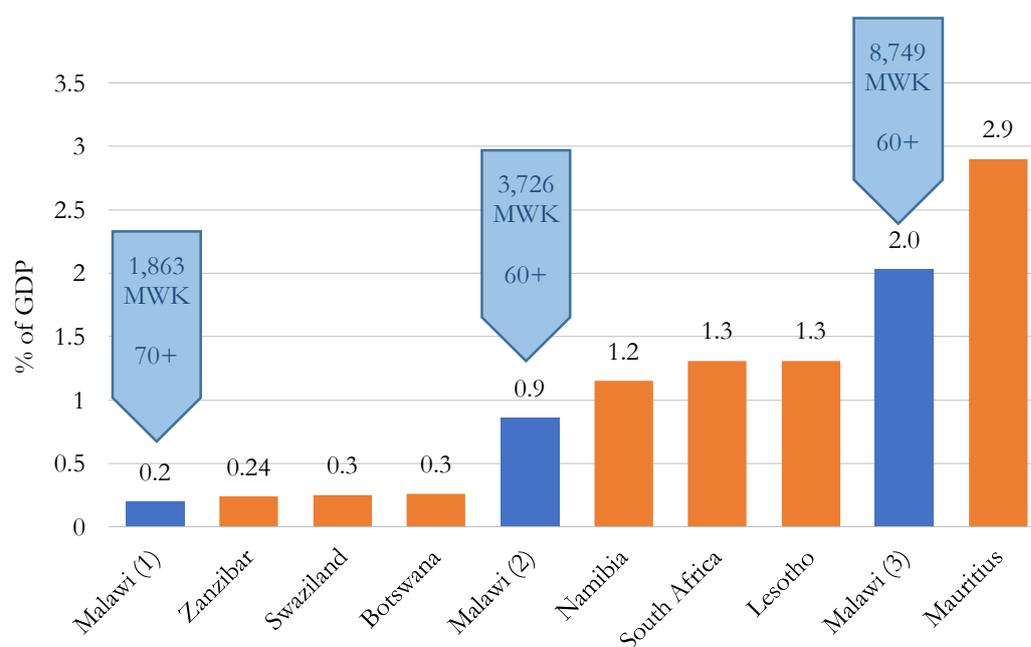
The cost of a universal pension would vary significantly depending on the parameters chosen. Table 5.1 presents the cost of a universal pension in 2016 prices, calculated using population projections for 2016 (from the NSO) and economic data from the IMF World Economic Outlook database. The results show that – depending on benefit level and age of eligibility, the costs will vary substantially. At one end of the scale, a benefit at the poverty line (MWK 8,750) to all over 60s would cost MWK 76.4 billion, or 2.03 per cent of GDP. At the other end of the scale, a benefit of MWK 1,863 (10% of average income) to over 70s would cost just MWK 7.5 billion, or 0.2 per cent of GDP.

Table 5.1: Cost of a universal pension (2016 prices)

Monthly benefit level		Age of eligibility	Cost		
MWK	% of GDP per capita		MWK (billion)	% of GDP	% of govt expenditure
8,749	47%	60+	76.4	2.03%	8.16%
		65+	53.2	1.41%	5.69%
		70+	35.4	0.94%	3.79%
3,726	20%	60+	32.5	0.86%	3.47%
		65+	22.7	0.60%	2.42%
		70+	15.1	0.40%	1.61%
1,863	10%	60+	16.3	0.43%	1.74%
		65+	11.3	0.30%	1.21%
		70+	7.5	0.20%	0.81%

The scale of cost in these scenarios matches the variety in levels of expenditure on universal pensions across the Africa region. Figure 5.2 takes three different scenarios from the costings in Table 5.1 and compares them to expenditure on universal pensions by other countries where they already exist. The most limited scenario (MWK 1,863 to over 70s) would be similar to levels of expenditure on social pensions in Zanzibar, Swaziland and Botswana. A middle scenario of MWK 3,726 to over 60s would be similar to what Namibia, South Africa and Lesotho spend on their social pensions. Finally, a benefit of MWK 8,749 (at the poverty line) to all over 60s would be higher than most countries in the region spend, but still less than Mauritius, which spends 2.9 per cent of GDP on its universal pension.

Figure 5.2: Spending on universal pensions in Africa, compared to Malawi costings



5.2 Financing

Identifying which scenarios are feasible in the short, medium and long term means taking account of the potential to create “fiscal space”. While a benefit with lower age of eligibility and an adequate benefit level would be optimal, it may take some time for Malawi to be in the position where it can afford such a scheme.

The economic situation in Malawi does create a challenging fiscal context. As discussed in Section 2.1, Malawi faces a number of economic challenges, and these in turn have had a knock on effect on the fiscal situation. An important priority identified for the short term is to reduce the current government budget deficit, in part created by the withdrawal of support from development partners.

Nevertheless, options exist to create fiscal space for a universal pension in the coming years. As noted by recent IMF analysis, the recent rebasing of GDP means that the economy is actually larger than previously thought, meaning there is greater scope for revenue mobilisation. In fact, recent consultations between the IMF and Malawi agreed that “greater revenue mobilization is needed to respond to the rising demand for public services from a rapidly growing population and to meet Malawi’s sustainable development goals.” Current plans to reduce the level of subsidy on the FISP can also create greater fiscal space. The IMF has recommended that between 0.5 and 0.7 per cent of GDP currently spent on the FISP be allocated to increase cash transfers.⁶⁹ Even if shared with other programmes such as the SCTP, this would create sufficient revenue for making first steps in rolling out a universal pension.

Given the fiscal situation, a reasonable ambition for Malawi in the medium term would be a universal pension at 20 per cent of GDP (MWK 3,726) to all older people aged 60 and over. Such a scheme costing 0.86 per cent of GDP, or MWK 32.5 billion would constitute just 4 per cent of current government revenue (which is anticipated to grow). This appears to be a reasonable proportion of the

⁶⁹ International Monetary Fund, *Malawi: Staff Report for the 2015 Article IV Consultation*.

budget to spend given the major impacts such a programme would have immediately, and in the long term. It would also avoid squeezing the budget for other critical expenditure such as health and education, and other cash transfers such as the SCTP. It is also worth noting that a universal pension would take some of the case load of the SCTP, thus allowing it to reach more extremely poor people.

In the short term, a scheme at the same level (MWK 3,726) for older people aged 70 and over would be a pragmatic place to start. The cost of this scheme – MWK 15.1 billion or 0.4 per cent of GDP – is well within the levels of scale of revenue that the IMF has said could be generated in the short term. Such a scheme would allow Malawi to begin rolling out a universal pension on a relatively small scale in order to put adequate administrative systems in place. In the coming years, the country could then seek to expand the scheme gradually as more revenue becomes available. It would also leave substantial space for parallel expansion of the SCTP. Alternative low cost options also exist such as providing a smaller benefit (MWK 1,863) to over 60s. However, such scenarios of giving very small benefit to a larger number of people may mean that administrative costs would be relatively higher due to the higher case load.

In the long term, the cost of a universal pension is actually set to fall over time. Figure 5.3 provides projections of cost with two key scenarios. The first is where a benefit is indexed to average income (GDP per capita) meaning that it would remain at 20 per cent of GDP per capita into the future. The second scenario is where a benefit is indexed to prices, taking into account changes in inflation. Projections indexed to inflation are affected by the rate at which the economy grows, therefore two sub-scenarios are presented. The first is where growth in per capita income remains similar to the last 15 years (trend growth) and the second is where growth is half that rate (low growth). Both are lower than the rate of growth projected for the next five years by the IMF. For all scenarios, the cost of a universal pension will fall over the next decade. For the scenario when the benefit is indexed to average income, the reason for the fall is that the population of older people is expected to fall very slightly. For the scenarios where the benefit is indexed to prices, the cost falls further. The reason for this is that the economy is set to grow faster than prices, meaning that a benefit indexed to inflation will decrease relative to average incomes.

Figure 5.3: Projected cost of universal pension, 2016-2025 (20% of GDP per capita for 60+)

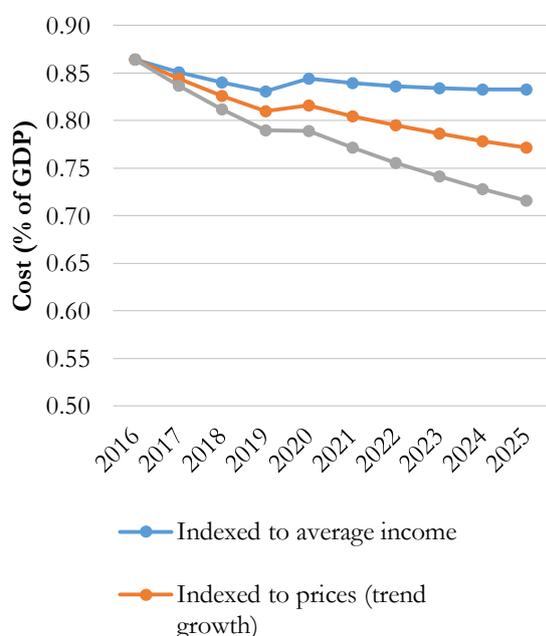
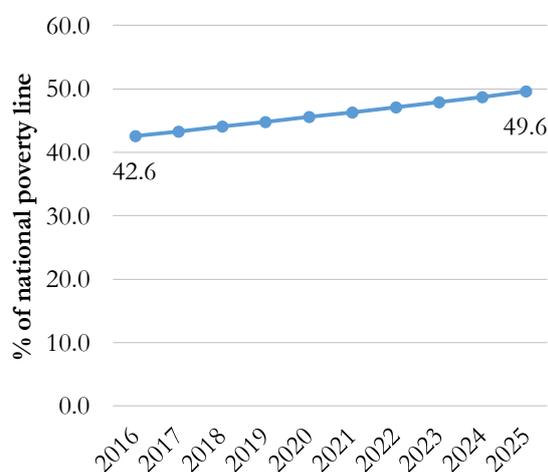


Figure 5.4: Absolute value of benefit level (20% of GDP per capita) as share of poverty line, 2016-2025



This trend will create extra space to increase the adequacy and impact of a universal pension, without increasing the cost. For example, in the case where the benefit level remains constant at 20 per cent of average income, the absolute value of the benefit will increase. The reason for this is that – according to current growth projections – average incomes will gradually increase, meaning a benefit tied to average income will do the same. The result is that – assuming trend growth – a benefit of 20 per cent

of average income would grow in value from 43 per cent of the poverty line in 2016 to 50 per cent of the poverty line in 2025. As the economy grows, the impact of a universal pension on poverty will also grow. This dynamic again highlights how a universal pension can be an instrument to systematically share the benefits of growth across the whole society.

6 CONCLUSION

In sum, a universal pension would transform the lives of older people in Malawi, and make a major contribution to the achievement of wider development goals. By providing a minimum income to all older people, a universal pension would support them to meet their basic needs while strengthening their role as active contributors and decision makers within their families and communities. It would also provide a cash injection to the households and communities where they live, boosting food security, catalysing rural development and increasing the life chances of children. At a macro level, a universal pension would make a major contribution to reducing rates of poverty as a whole, while providing a mechanism to ensure that the proceeds of economic growth are more fairly shared across the population as a whole.

A universal pension is administratively feasible, and would provide a concrete step towards a social protection floor in the country. Despite the important contribution of the SCTP to tackling poverty and food security amongst recipients, an effective social protection system in Malawi will demand a package of approaches rather than one magic bullet. Universal pensions have emerged as a popular policy approach across the region as a popular and administrative simple scheme to expand to national level. A scheme of this nature in Malawi would complement the SCTP and – by potentially reducing the caseload – allow the cash transfer to cover more ultra-poor households. In the meantime, a universal pension could provide a foundation to the pension system upon which contributory schemes can be strengthened in the longer term.

There are affordable options for Malawi to begin expanding a universal pension in the coming years. Various scenarios exist for universal pensions costing a fraction of GDP, which could be financed through wider efforts to increase revenue for social protection spending. Malawi could then seek to increase the coverage and adequacy of a universal pension as more revenue can be secured, and as the economy grows. The path chosen will depend on the political will of the government, but a potential option would be:

- Make a start but introducing a relatively low cost scheme, such as benefit of MWK 3,720 to over 70s (a cost of 0.4 per cent of GDP). This would be in line with current levels of fiscal space, and would also allow for administrative systems to be developed gradually before rolling out to national level.
- As soon as possible, expand the scheme to all older people aged 60 years and over. This would recognise the relatively short life expectancy in Malawi, and that many of the challenges of old age can kick in relatively early.
- In the longer run, move towards a benefit level at the level of the national poverty line (approximately MWK 8,750 in 2016 prices), to ensure that no older person lives in poverty. This higher level of adequacy can be achieved both through growth of the economy, and also by devoting increased revenue to the scheme.

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