OVERVIEW

The aim of a pension scheme is to ensure that recipients have a minimum level of income during their old age. Contributory pensions generally help to maintain consumption in old age at a similar level as during the recipient’s working life while non-contributory pensions (often called social pensions) are usually aimed at preventing older people from falling into poverty. It is increasingly clear that pensions can also mitigate the negative impact of shocks on the elderly and their families and that they are used by older people to promote the wellbeing of all family members, particularly children.

Pensions in Africa

Even though most African countries have a relatively youthful demographic profile, traditional family-based support systems for older people are weakening in Africa. A World Bank study of formal contributory pension programs in a sample of 37 African countries found that only a median of 4.8 percent of those aged 15 to 19 actively contributed to a mandatory pension scheme (see table). Most countries have occupational schemes specifically for civil servants. Median pension spending was about 0.9 percent of GDP in the late 2000s, with large variations between countries depending on the design, coverage,


Coverage of Social Security Schemes in Sub-Saharan Africa

Coverage of the Working Age Population

0% 5% 10% 15% 20% 25% 30% 35%

Burkina Faso
Central Africa Rep.
Mozambique
Nigeria
Guinea-Bissau
Gambia, The
Chad
Burundi
Tanzania
Lesotho
Rwanda
Senegal
Sudan
Madagascar
Benin
Sierra Leone
South Africa
Togo
Kenya
Mali
Niger
Ghana
Botswana
Namibia
Congo, Rep.
Uganda
Zambia
Guinea
Cote d’Ivoire
Mauritania
Congo, Dem., Rep.
Swaziland
Cameroon
Zimbabwe
Cape Verde
Mauritius
and target replacement rates of the schemes. Pension spending is projected to rise as contributory schemes mature, life expectancy after retirement increases, and system dependency rates increase.

These formal pension schemes are often characterized by very limited coverage both of workers and older people, high administrative costs, unreliable services for beneficiaries, and the mismanagement of pension reserves. As a result, pensions systems administered by governments in Africa have little credibility.

Non-contributory pension benefits are provided in eight countries (Botswana, Mauritius, Namibia, Seychelles, South Africa, Lesotho, Swaziland, and Cape Verde), while there are pilot programs in four additional countries (Uganda, Nigeria, Zambia, and Kenya). Social pension levels in Africa range from 4 percent (Botswana) to 34 percent (Lesotho) of per capita GDP. This evolving experience with social pensions in Africa has had several important outcomes (see box to right).

**Key Design Elements**

The experience of implementing pension schemes in Africa has yielded several key lessons:

- **Changes to pension regimes** entail several reforms such as the establishment of mandatory contributory schemes for private sector workers as in Ethiopia and Malawi, the consolidation of public service and mandatory private sector schemes as in Cape Verde, and the replacement of defined benefit schemes with defined contribution or hybrid schemes as in Nigeria and Ghana.

- **Parametric reforms** to civil service schemes have improved equity and increased adequacy and affordability as in Senegal and Zambia. These reforms, that involve changes to the benefits formula, have included automatic wage and/or price indexation, extending the wage reference period to lifetime wages and indexing the reference wages, including non-wage allowances in the pensionable wage base, increasing the retirement age, and adjusting the accrual rate to reflect the long-term cost of anticipated benefit promises.

- **The management and supervision of pension reserves** has been improved by outsourcing investment management to licensed investment managers, as in Botswana and Namibia, or by establishing independent pension regulators, strengthening the regulatory authority, and improving oversight as in the case of Kenya’s Retirement Benefits Authority.

- **Extending pension schemes to the informal sector** has been achieved by allowing flexibility in terms of contributions and withdrawals, targeting those who are capable of making extra savings and providing them with incentives to do so, and using a broad range of service providers appropriate to the informal sector, as exemplified by Ghana’s Informal Sector Fund.

- **Social pensions** can be resource-tested, pension-tested, or universal. There are tradeoffs between each of the design options and considerable debate over which is optimal. Benefit levels can be set based on the average poverty gap or relative to wages or income levels.

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**Impact of Social Pensions in South Africa**

Social pensions have had a range of productive effects. For example, in South Africa, the social pension has had a positive effect on the health and nutritional status of other members of the recipient’s household. Girls in these households have significantly better weight-for-height indicators than do girls in non-transfer households.

There is also evidence that, when an older South African begins receiving a social pension, the likelihood of the working age adults living in the same household being employed increases. This is because social pensions provide resources that enable these adults to migrate in search of work and to pay for care for the children who remain in the household.

South Africa’s social pension has reduced the poverty gap by 54 percent among households that include older people, while the poverty gap has almost disappeared among older people living alone. At the same time, the country’s comprehensive system of cash transfers has doubled the share of national income that the poorest 20 percent of the population receives.
COUNTRY EXAMPLES OF PENSION PROGRAMS IN AFRICA

**South Africa’s Social Grants Program** is the largest social pension program in Sub-Saharan Africa. It includes several types of means-tested grants targeted to the elderly, poor families with children, foster families, the disabled, and war veterans. The old age grant, which applies to poor people over 60 years of age, covers a little over 2 million people. The basic grant is currently about US$140 per month and is means-tested for individuals earning less than $5,800 annually or below a certain asset level. These old age grants have been proven to have a positive impact on human development and poverty reduction (see box above).

**Extending Pensions to the Informal Sector in Ghana.** With roughly 80 percent of Ghanaian labor force in the informal sector, there is a strong demand for retirement savings schemes for informal workers. Therefore, the Social Security and National Insurance Trust (SNNIT) established the Informal Sector Fund (SIS) in early 2008, based on the success of a pilot started in 2005. The SIS is a voluntary contributory pension scheme with no fixed rate contributions. Contributions are credited in equal parts to two individual member sub-accounts: (i) the Occupational Scheme Account (OSA) and (ii) the Retirement Account (RA). Members may make periodic withdrawals from the OSA after they have made five months of initial contributions, provided that the account has a credit balance. The RA funds are only accessible in the event of old age, disability, or death. The SIS, in partnership with The HFC Bank and a microfinance institution, offers attractive retirement savings options to informal workers as well as valuable financial services. The SIS had 90,000 members by late 2011 and is expected to reach its targets of 2 million members by 2013 and 5 million by 2015.

**Reforming Senegal’s Pensions for Long-term Financial Sustainability.** Social security legislation in Senegal requires that all employers offer pension plans to their employees. The Social Security Fund supports: (i) the Social Insurance Institute for Old Age Pensions (IPRES) covering private employees and roughly one-sixth of civil servants and (ii) the National Retirement Fund (FNR) covering all remaining government employees. By 2003, the accumulation of significant arrears threatened the sustainability of the system. In 2004, the Government of Senegal began reforming the pension schemes to ensure their financial sustainability. The reforms restructured the contribution and benefit rules, raised the retirement age from 55 to 60 years, decreased the accrual rate, increased the averaging period, and changed the employer and employee contribution rates. Other reforms were enacted in 2006, including indexing the pensions to inflation and opening a notional account for the current defined benefit schemes. To further strengthen the governance of the system, the government established an Interim Supervision Committee to oversee the Social Security Fund and an oversight agency for the funding process. As a result, the deficit of the Social Security Fund was eliminated by early 2008.

**Cape Verde’s Multi-pillar Approach.** Cape Verde has a social insurance system with one of the highest coverage rates in Sub-Saharan Africa. In 2006, Cape Verde established a social pension by merging two existing non-contributory pension schemes. It is a means-tested scheme, managed by the National Center of Social Pensions (CNPS), for the elderly (60 years of age or older) and the disabled. Accountability in the social pension system has been increased with the introduction of identification cards. The amount of benefit is currently about US$65 per month. The pension currently covers 23,000 people, or more than 90 percent of the target population, at a cost of 0.4 percent of GDP. The contributory pension is part of the social insurance scheme managed by the National Social Security Institute (INPS). The public and private social security schemes have merged, which is likely lead to greater efficiencies in social security in the future and to encourage an increase in the availability of long-term resources needed for investment. Moreover, the INPS has made significant investments in computerizing its operations, which has resulted in improvements in management. The INPs currently supports 60,000 retirees.
CHALLENGES AND OPPORTUNITIES

Policymakers seeking to provide social protection for older Africans should:

- **Consider the long-term fiscal affordability of public service pension provisions.** The age profile and benefit design of pension schemes in several Africa countries suggest that fiscal costs will be rising substantially over time, potentially crowding out other fiscal priorities. Civil service pensions can only be reformed within the context of overall civil service compensation. In addition, many schemes have provisions that put limits on the preservation of a worker’s pension rights or otherwise create strong incentives against labor mobility. Remedies for these issues can be developed through parametric reforms to public service schemes and/or measures to harmonize and integrate such schemes with equally reformed schemes for private sector workers.

- **Redesign mandatory earnings-based contributory schemes.** These schemes should aim to provide pensions at earnings replacement levels that are affordable for employers and employees alike. Regardless of their design, mandatory contributory earnings-based schemes will only be able to achieve reasonable levels of coverage of the labor force if the contribution rates are sufficiently affordable for employers and employees and if these schemes deliver what they promise.

- **Investigate the possibility of expanding the coverage of the pension system to the informal sector.** Strengthening voluntary savings arrangements is probably the best way to increase coverage and adequacy alike, though other design and implementation options are only just beginning to be explored.

- **Consider implementing a social pension to close coverage gaps and improve the welfare outcomes of the elderly.** Careful assessment is needed of the behavioral and distributional consequences of different kinds of social pensions, including of the choice between providing social assistance to poor households or to categorical groups such as the elderly. Targeting methods need to be carefully evaluated, including for any possible unwanted behavioral effects. Programs should take into account fiscal realities.

- **Develop a reliable information system and evidence base to guide reform options.** A reliable database should be developed to keep accurate records of existing members and of liabilities, particularly if policymakers are aiming to reform the pension system. An actuarial model such as PROST can be used to systematically evaluate the intergenerational effects and the costs and benefits of both current provisions and different reform options.

**Additional Resources and Readings:**


Further guidance and toolkits on design and implementation issues regarding pensions can be found on the World Bank’s Social Protection and Labor website: www.worldbank.org/sp.