

# Universal Social Protection

## Universal pensions in Lesotho



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## Universal pensions in Lesotho

The Old Age Pension (OAP) is a tax-based scheme for all older persons. This non-contributory social pension also benefits other household members, particularly children.

With around 4 per cent of its population above the age of 70, Lesotho has a larger share of older people than many countries in sub-Saharan Africa. All citizens of Lesotho over 70 years of age, with the exception of retired civil servants and war veterans, are entitled to a monthly pension benefit of 550 Lesotho Maloti (LSL), equivalent to US\$40. The OAP was introduced to lift older persons out of poverty and is the largest regular cash transfer in Lesotho, covering 83,000 persons (around 4 per cent of the population). While coverage of eligible persons is universal, it is estimated that many more benefit indirectly.

Prior to the OAP's introduction, only war veterans and civil servants received a pension, covering less than 3 per cent of older persons in Lesotho.

### Main lessons learned

- The high prevalence of HIV/AIDS in Lesotho often leads older persons to become the main caregivers for their orphaned grandchildren. In such cases, the Old Age Pension also benefits children.
- Lesotho's implementation of the Old Age Pension shows that high coverage is possible even in difficult geographic conditions.
- The OAP has always been fully funded and administered by the Government, which is proof that even a country with limited financial resources can afford a universal programme.
- Regular adjustments in benefit amounts indicate the continued commitment from the Government.
- Lesotho's OAP experience shows that a universal social protection scheme which has high coverage can help garner political support among people and can be a key factor in the re-election of a government.



### 1. Why is the OAP needed?

Lesotho's share of elderly people is larger than in other sub-Saharan African countries. This can be attributed to the fact that Lesotho like the rest of Southern Africa is further ahead in the demographic transition process, as well as to outmigration of young people and decreased longevity due to HIV/AIDS. Life expectancy is only 48 years and an estimated 360,000 children have lost either one or both parents to the HIV epidemic. Often, older Basotho become the primary caretakers of their grandchildren. In rural areas, 8 per cent of households are skip-generation households.

Furthermore, the incidence of poverty is high with 56.2 per cent of 1.9 million Basotho living on less than \$1.25 a day. Households with people above 59 years of age experience higher food poverty than the general population (39.3 per cent compared to 34.2 per cent).

Against this backdrop, the Government of Lesotho introduced the OAP in 2004 to provide a basic income guarantee for older persons with the ultimate objective of lifting them out of poverty. Thereby, Lesotho has provided universal benefits for older citizens in sub-Saharan Africa.

From the beginning, the OAP has been an entirely national effort. The main drivers behind the OAP are the political will and commitment of the Government. The OAP played a significant role in the election outcome in 2007. In post-election surveys, voters indicated that the introduction of the old-age pension was a strong motivation to vote for the then governing party.

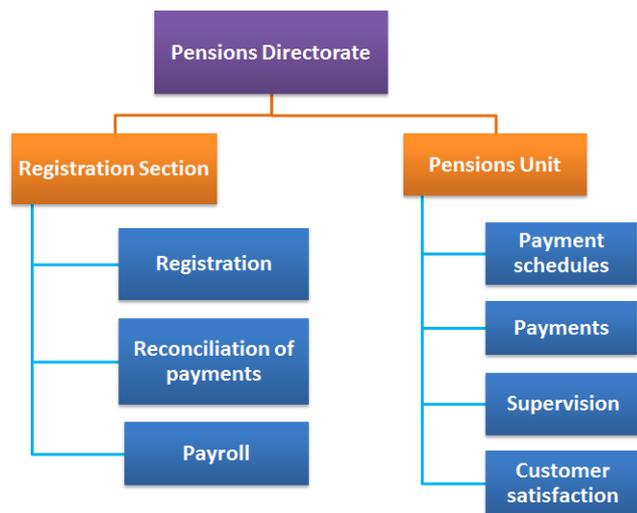
## 2. How is the OAP implemented?

Upon registration, pensioners receive a monthly payment of LSL550 (\$40). The amount is announced in the annual budget by the Ministry of Finance.

At the outset of the OAP, in 2004, a village-by-village registration and sensitization of communities was carried out by the District Administration, traditional village chiefs, and Members of Parliament. Following this initial registration process, new applicants now have to submit completed application forms at local government offices.

**Registration and payment process:** Application forms are available at local government offices. Applicants must provide official proof of identity (national identity card, passport, or voter card). If the beneficiary is unable to provide such a proof or a birth certificate, a letter from the village chief attesting their age is accepted. This and the fact that the applications are not cross-checked with the Home Affairs database to leave out non-eligible pensioners (including retired civil servants) leads to the possibility of fraud and the creation of "ghost beneficiaries".

Figure 1. Overview of the OAP institutional set-up



Applications are then sent to the Registration Section in the Pensions Directorate in the Ministry of Finance. The Registration Section approves the applications and enters the details of successful applicants into the payroll on a monthly basis. The

process of registration is paper-based and centrally-managed.

The Pensions Unit in the same Directorate transfers funds to around 300 payment points across the country on a monthly basis. These funds are physically carried by the armed forces to the payment points. Successful applicants are paid monthly at their preferred payment point by pension officers from Maseru. They are identified and verified using their identity card. They then confirm receiving the payment with their signature or thumbprint. Payment points are located throughout the country while in rural areas, mobile pay points are employed.

On a few occasions, remote payment points were served by helicopter because of weak road infrastructure. The national army provides security at service points and while transferring the money. Due to the manual nature of the entire process from registration to payment, there have been concerns over safety and opportunities for fraud. The operating costs also remain high necessitating a reform of the system towards process automation.

Random checks of payment points are conducted on a regular basis to ensure beneficiary satisfaction with service delivery. Due to the mostly manual nature of the OAP management information system and the absence of checks on whether the beneficiaries are still alive, a sizable number of ghost beneficiaries claim the OAP benefit through proxies who collect the money on their behalf.

Reconciliation of payments is done manually against the payroll. Because this process is cumbersome there are some doubts as to whether it takes place systematically at the end of each month.

**Financing:** The OAP is financed by general taxation, which largely comes from revenues of the Southern African Customs Union. The total cost is estimated at about 2.5 per cent of GDP.

Although OAP utilizes existing structures and government actors, the administrative costs are estimated to be quite high at around 20 per cent.<sup>1</sup>

<sup>1</sup> This excludes the cost of the services provided by the Armed Forces.

**Other services and transfers** provided as part of the national social protection system include subsidized or free primary health care at government health centres and government hospitals, free anti-retroviral treatment medication for HIV/AIDS patients, as well as the “Public Assistance” cash grant administered by local governments for those deemed needy, which includes OAP beneficiaries too.



### 3. What is the OAP's impact on people?

Though rigorous and recent impact evaluations of the OAP are hard to find, it is observed that the OAP not only benefits older persons, but also their grandchildren in numerous skip-generation households. Studies estimate that beneficiaries spend as much as 20 per cent of the benefit amount on dependent and orphaned children.

A large portion of the pension is spent on food, which has had a positive effect on food security. The number of beneficiaries who say they rarely or never had enough food declined from 20 per cent to 10 per cent after the introduction of the OAP.

Beneficiaries also reported spending on heating material, clothes, and education-related costs, such as school uniforms, shoes, and books (Thulo and Croome, 2006). Beneficiaries are also able to make purchases on credit from local merchants using future OAP payments as guarantees.

Finally, the OAP has contributed to empowering older persons by improving their financial status in the household and giving them a feeling of dignity (Wahenga, 2007).

### 4. What's next?

Lesotho has made considerable progress in building its national SPF. However, there is room for improvement.

- Keeping in mind the financial cost and administrative aspects of the OAP, lowering of the eligibility age is also needed to ensure that it benefits all older people.
- Coordination between implementing agencies could be improved, such as between the Ministry of Social Development and the Pensions Directorate. Improved coordination could also facilitate case management and referral of OAP beneficiaries to other government services.
- The OAP system could benefit from a modernization and automation process to improve its effectiveness and efficiency. This is a current priority in the country. In future, all OAP beneficiaries could be included in the National Information System for Social Assistance (NISSA) to improve the application, verification and payment processes.

*This Universal Social Protection brief was produced by Thea Westphal of the ILO. It was reviewed by Lucilla Maria Bruni and Ana Ocampo of the World Bank, and Isabel Ortiz, Valérie Schmitt, Betina Ramirez-Lopez, James Canonge and Loveleen De of the ILO.*

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