**The implementation of Micro Pensions in developing countries to combat old-age poverty**

Finding opportunities to implement micro pensions through EuropeAid

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Source: HelpAge International

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# Preface

The interest for researching the participation of the EU towards the implementation of micro pension schemes in the developing world has to do with personal previous experience with non-profit organization Worldgranny. Their ambition and passion to strive for empowerment of elderly, in particular women, and reduce extreme poverty led to more curiosity by the author of this thesis about the current living situations of elderly in developing countries. In order to help Worldgranny to continue their activities, The Hague University provided areas to host a lecture about poor elderly in the developing world, exhibit pictures of empowered elderly provided by HelpAge international, and allowed students to collect money to support WorldGrannys’ activities. The author decided to research if there are more direct and effective ways to help elderly in developing countries.

There is little global knowledge about the effects of global ageing, especially about the situation of poor elderly in developing countries. There is literature available about the impact and the current health and social care systems, however, there is no specific research conducted about the role of the European Union in relationship with micro pension schemes in developing countries. This report will provide a clear overview of aspects that must be considered before the European Union participates in providing funds for the implementation of micro pension schemes.

# Acknowledgements

This report was prepared by Lynn Slippens, under the direction of M. van den Haspel, senior lecturer in European Law at The Hague University. This collaboration was very pleasant. Special thanks for her guidance, advice, time and patience during the process of this dissertation.

The publications of non-profit organizations WorldGranny and the Pension & Development Network have provided insights in the effects of global ageing, micro pension schemes and its institutes. Special thanks to C. van Dullemen, director of Worldgranny, partner of the Pension & Development Network. Dullemen provided information that helped understanding the uniqueness of micro pension products and its contribution to reduce old-age poverty. The motivation and pride of the Pension & Development Network is impressive and the experience researching their activities was highly valued.

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# Abstract

The effects of global ageing are mostly felt in the developing world. Older populations are experiencing extreme poverty and cope with financial difficulties that obstruct their access to public health and social care (Shah, 2011). Governments of emerging economies manage the multi pillar system that includes state provision, collective and individual savings. According to the Pension & Development Network (P&D Network), current state provisions are not nearly enough for maintaining standard living conditions (The Pension & Development Network, 2009). The largest group of workers in developing countries have informal jobs that include not paying taxes or any form of governmental monitoring and exclusion of the gross national product, which does not make them attractive for banks and pension providers, this leaves this group in a critical financial situation (Schwarz, 2003, p. 8). Micro pension schemes are a good alternative that allow poor people to save small amounts of money over a long period of time, which in turn provides a steady income after their retirement. Since 2008, the P&D Network has launched micro pension projects that educate local micro finance institutions on to provide pension schemes to its clients (The Pension & Development Network, 2009). In order to increase more awareness and maintain the provision of micro pension products in the developing world, sponsorship needs to be taken to a higher level. Since the European Union is the largest institutional aid provider worldwide (European Commission), the institute could play a key role in proving funds to implement micro pension schemes on a larger scale.

**Keywords:** Global Ageing, Old-age Poverty, Micro Pension schemes, Multi Pillar System, Micro Finance Institutes, EuropeAid, Dependency Ratio

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# Abbreviations

* P&D Network

*Pension and Development Network*

* EU

*European Union*

* EC

*European Commission*

* MFI

*Microfinance Institute*

* Emerging economy

*Economy that is progressing toward becoming advanced*

* DESA

*Department of Economic and Social Affairs*

* DG

*Directorate General*

* DEVCO

*Development Committee*

* MDG

*Millennium Development Goals*

* MS

*Member States*

* EEAS

*European External Action Service*

* Formula Dependency Ratio

*(number of children 0-15) + (number of pensioners, >65 years) ] / (number of working population, 15-65)*

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# 1. Introduction

One of the most distinctive demographic issues of the twenty-first century is the increasing number of elderly worldwide. According to the Department of Economic and Social Affairs of the United Nations (DESA), worldwide demographic transition is caused by low birth rates and increasing longevity (United Nations, 2001, p. 5). The transition in longevity involves many challenges for today’s and future societies, both for developed, as well as for developing countries. Governments and experts need to provide information, as knowledge is essential to assist policy makers to define, formulate and evaluate goals and programmes and to raise public awareness and support for the changes that have to be made. (United Nations, 2001, p. 6)

On March 26 2013 a conference initiated by HelpAge USA and Pfizer Inc., was held to discuss the effects of global ageing. Dr Jose Miguel Guzman, chief populations and development branch of the United Nations Population Fund (UNFPA), explained that 90% of the increase of elderly, indicating 1.2 billion people, takes place in developing countries (HelpAgeUSA, 2013).

The Pension & Development Network, a non-profit organization that strives to diminish old-age poverty in developing countries, has initiated a cooperation of experts such as pension advisors, micro finance institutes and banks to implement micro pension schemes. These schemes allow people to save money over a long period of time and build up a pension provision for their retirement (The Pension & Development Network, 2009). The Network has launched micro pension projects in India, Mongolia, Nepal and other developing countries facing old-age poverty. Results of P&D Network’s projects have indicated that micro pension schemes improve the financial status of elderly and help to cope with the challenges older populations face by the demographic transition (The Pension & Development Network, p. 1).

The network aspires more involvement of international institutions in order to continue the implementation of micro pension products in the developing world (Dullemen, 2013). This research aims on finding opportunities for the European Union to support micro pension schemes through European Unions Directorate General (DG) for Development and Cooperation – EuropeAid. In order to find opportunities for the European Union to participate in the implementation of micro pension schemes, the successes and benefits of micro pension schemes to reduce old-age poverty in developing countries, the impact of global ageing and the structure of European Union’s development aid will be analysed. The results are based on academic reports provided by experts in the fields of micro finance, micro pension schemes and humanitarian aid. In order to assist the literature study, C. Dullem of the P&D Network was interviewed. All information will lead to answer the central research question: “*How can the EU use development aid to generate micro pension products for elderly in developing countries?”*

# 2. Problem analysis

People are getting older worldwide; the birth rate numbers and death rates have dropped over the past 60 years. It will be the first time in history that older people will outnumber the number of children. Both developed and developing countries show an increase in longevity and experts predict this will continue over the upcoming years. Within most populations, people aged 80 or above form the fastest growing group of society. Longevity brings many challenges along such as a smaller working population, pressure on national and international budgets and increase of chronic non-communicable diseases (U.S. National Institute on Aging, 2007).

In March 2007, the United Nations, U.S. Census Bureau, and Statistical Office of the European Communities, regional surveys and scientific journals, the U.S. National Institute on Aging (U.S. NIA), with input from demographers, economists, and experts on aging, identified nine emerging trends in global aging:

1. The overall population is ageing
2. Life expectancy is increasing
3. The number of oldest old is rising
4. Non-communicable diseases are becoming a growing burden
5. Some populations will shrink in the next few decades
6. Family structures are changing
7. Patterns of work and retirement are shifting
8. Social insurance systems are evolving
9. New economic challenges are emerging

Source: (U.S. National Institute on Aging, 2007)

In 2009 the Department of Economic and Social Affairsstated the following:

*“In 1980, there were 378 million people in the world aged 60 or above. In 2010 that figure has doubled to 759 million, and it is projected to more than double again in the next 40 years rising to 2 billion by 2050.”* (DESA, 2009, para 1)

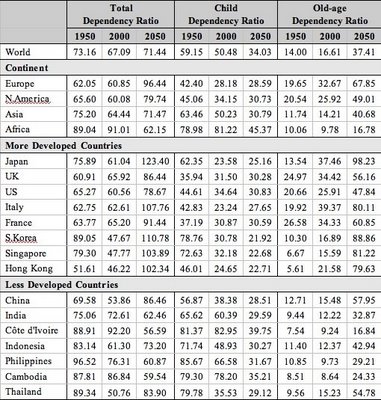
The following figure, provided by United Nations, shows the rapid increase of the world population rates from 1950 to 2010 throughout the world.

Figure 2.1. Population estimates, density of the world

Source: (United Nations, 2009)

The United Nations researched the old-age support ratio, which measures the rate of dependency of elderly on potential workers. The number of persons aged between 0-15 and the persons older than 65 years old are considered to be the unproductive people. People aged between 15 and 65 are the working population (United Nations, p. 104). Table 2.2 shows that the number of old-age dependency ratio was set at 14 in 1950 with an estimated ratio of 37.41 in 2050.

Table 2.2 Dependency Ratio of the World



Source: *World Population Prospects: The 2006 Revision* and *World Urbanization Prospects* (United Nations, 2009)

The largest increase of older populations appears in developing countries with an estimated increase of more than 250% in 2050 (United Nations, 2009, para 1). The developing world is ageing faster than western societies due to falling fertility rates, and increased life expectancy from improvements in health care (The United Nations Population Fund, section 1). Figure 2.3 shows the increasing populations of more developed, less developed and least developed countries.

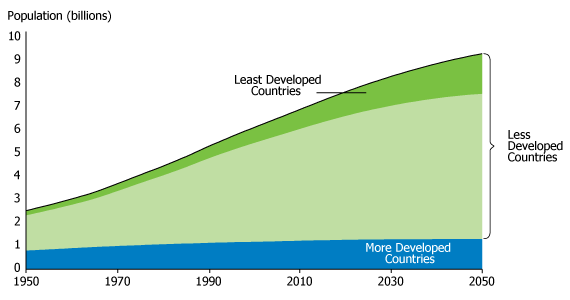


Figure 2.3 Populations of more developed, less developed and least developed countries United Nations Population Division, World Population Prospects: The 2010 Revision (Department of Economic and Social Affairs, 2012)

According to Dr Ajay Shah, Senior Fellow at the National Institute for Public Finance and Policy in India, the majority of developing countries does succeed in the provision of social and universal health care. The main reason for developed countries to stay behind has to do with the lack of resources and management of available funds. Current systems are accessible for the persons who can afford it; the poor are not eligible for traditional provision systems (Shah, 2011, p. 3).

The economical crisis of 2008 pushed these countries even deeper into poverty even more. According to the United Nations, the current group of extreme poverty increased with a group between 47 million and 84 million people. Poor people, in particular the elderly, adapt to the current economical situations by changing their expenses. Due to economical uncertainty, elderly are more likely to make cutbacks in their pattern of expenditure which can have a great impact on health, social and educational systems. If households continue to adopt coping strategies, it will have a negative influence on their offspring in terms of deficits. The United Nations emphasizes that the increased levels of poverty, hunger and unemployment will continue to affect billions of people for the upcoming years (United Nations, 2011, p. 16).

## **2.1 Aim and research question**

This research is based on the challenges in the developing world due to global ageing. This research emphasizes the importance for policymakers to create new policies and programs and the support for external initiatives to cope with the effects of increasing older populations. However, the main focus lies within the financial challenges poor elderly in developing countries are facing. The implementation of micro pension systems in developing countries by the P&D Network has raised the knowledge of self-efficiency for poor elderly and will be researched as an alternative to the current pension provision system. The aim of this research is to outline what the cooperation between non-profit organisations, MFI’s and the European Union could mean for poor elderly in developing countries. This research is limited to find funds through the European Union that can be used for the implementation of micro pension products in developing countries. Therefore, the central research question is “*How can the EU use development aid to generate micro pension products for elderly in developing countries?”*

**2.2 Method**

The method used during this study is a procedure of collecting and analyzing data provided by the United Nations, the Pension & Development Network, the European Union and online literature studies concerned with old-age poverty and micro finance. Despite the fact that the information provided by the these institutions was sufficient to capture the challenges of global ageing and its impact on the developing world, one expert in the field of micro pension products was interviewed to support the literature study about the implementation of micro pension schemes in the developing world and the possible participation of the EU.

This research is conducted in three phases. The first phase of the research involved a literature study to understand global ageing, its causes and effects on societies. Furthermore, data about the numbers of elderly, incomes, social security and the living conditions of older populations in developing countries were collected. During this phase the extent of the challenges and its future perspectives became clear.

The second phase consisted of gathering knowledge about micro pension products and the efficacy of such products in developing countries. In this phase, activities by non-profit organizations, micro finance institutes and governmental institutions to reduce old-age poverty were examined. The focus of this phase lies within possible cooperation of the accessible funding of the P&D Network to continue the implementation of micro pension products and current activities of the EU concerning global ageing and her budget.

The third phase brings all provided information of the first two phases together to understand the situation of poor elderly in the developing world and the contribution of micro pension products. In this phase, results will indicate if there are possibilities for the EU to fund micro pension schemes and if their contribution is beneficiary.

The literature study has been the main method used during this research. Online reports published by the European Commission, United Nations, The Pension & Development Network and individual experts have contributed to finding possibilities for the EU to fund micro pension schemes in the developing world. To assist the literature study, one expert in the field of micro pension schemes was interviewed. Caroline Dullemen, director of Worldgranny, partner from the P&D Network provided relevant information in order to make well founded recommendations.

## **2.3 Participants**

Caroline van Dullemen is a sociologist and writer and has worked as a journalist for the NRC Handelsblad, as secretary of the National Advisory Council for development cooperation and three years as the director of the Office of Scientific Greens. In 2004, Dullemen founded Worldgranny. WorldGranny is dedicated to empower elderly, in particular grandmothers, in developing countries. WorldGranny is partner of the Pension & Development Network, which is committed to help poor elderly by providing micro pension schemes in developing countries. Dullemen provided her insight and knowledge concerning the implementation of micro pension schemes and possible funding by the European Union.

# 3. The effects of global ageing in developing countries

In order to comprehend the issues presented by global ageing, the main challenges are divided in three themes: improved public health services, medical advancements and economic developments. These developments have led to higher life expectancy numbers throughout the world, therefore, global ageing itself, could be explained as a successful development. (Kinsella & Phillips, 2005, p. 5). However, the process of global ageing brings many challenges along which transforms the world radically, the main challenge for societies entails the ability of governments and communities to provide resources for their elderly.

Firstly, the health care industry will be affected, as more elderly will suffer from chronic diseases such as dementia, Alzheimer, arthritis and cancer. Medical research about disease patterns and prevalence calls for more attention (U.S. National Institute on Aging, 2007, p. 4). Secondly, national and international budgets will be stressed. Current social insurance and pension systems require revisions since they are not designed to cope with life expectancy as it is and will be in the future. Thirdly, global ageing has fierce affect on economical growth, trade and migration (U.S. National Institute on Aging, 2007, p. 7).

# 4. Micro pension schemes

Worldwide, governments and societies are developing strategies and policies to cope with the demographic transition. According to U.S. NIA, countries need to intensify their efforts since the working population is shrinking and more elderly are devoted to social insurance income. Nations that have experienced successful implementations with programs and reforms that addresses to the issues of global ageing, are already sharing their knowledge with other countries. However, creating more awareness, international research regarding health and developing policies are necessary to address the challenges of global ageing, while the financial and social costs ask for more urgent measurements. According to U.S. NIA, one of world’s priorities regarding global ageing must be preparing financially for longer lives (U.S. National Institute on Aging, 2007).

According to the P&D Network, micro pension products offer a simple and effective means to cope with the financial situation of poor elderly in developing countries. For most people, the concept of micro pensions is new. They might have heard of micro credit, micro savings and micro insurance however; most people are not familiar with the difference between such products in comparison to micro pensions. The P&D Network defines a micro pension as an old age income security, enabling voluntary savings for elderly with low incomes. Micro pensions generate capital growth by enabling the working poor to invest in diverse assets. A micro pension scheme is in principle the same system as a traditional pension product as it is a fixed system of contributions with participants that save voluntarily during a long period of time with the purpose to allow elderly and disabled to retire from work to provide for their old days. The uniqueness of a micro pension scheme lies in the fact that the product is designed for people with low incomes. Dullemen explains that the micro pension schemes are developed to connect with the third pillar of the multi pillar system, which will be explained further in the chapter, to provide a stream of income after retirement for their own old-age welfare. The built up savings are invested by a professional asset manager and can be collected as a lump sum, in phases or on a monthly basis as an annuity. Often, a combination of these methods is used (Dullemen, 2013).

A Micro Pension system is based on the following aspects:

* Voluntary savings scheme
* Accumulated over a long period of time
* Administration and distribution mainly by MFIs
* Contributions invested by a professional fund manager
* Defined contribution (in principle)
* Benefits depend on investment returns
* At agreed withdrawal date the accumulated capital can be paid in lump sum or periodically via an annuity  
  Source: (The Pension & Development Network)

Other experts such as Amos Gitau Njuguna, author of Critical Success Factors for a Micro-Pension Plan, who has studied the effects of micro pensions, defines micro pension schemes as follows:

*“Micro-pension plans are meant to insulate low income earners against old-age poverty and are the next step in microfinance provisions. Micro pensions provide elderly with the ability to take care of them selves, which decreases the dependency of their family and the state”* (Njuguna, 2012, p. 1)*.*

To clarify Njuguna’s statement, the traditional pension provision system will be explained. Governments and experts use different pension systems to measure differences in provisions between countries. This report focuses on the three pillar systems designed by the World Bank in 1998 that has proven to be more effective than the single view of state provision as emphazied by other systems. There are many types of pensions that are merged into the three-pension pillar system. Basically, there are three sources of pensions: governmental schemes, occupational schemes and individual savings.

The three sources are outlined as follows:

* First pillar  
  Non-contributory/State provision 🡪 basic coverage with the primarily focus on reducing poverty
* Second pillar   
  Contributory/A funded system that recipients and employers pay into 🡪 pension funds and defined contribution accounts/plans
* Third pillar  
  Contributory /Voluntary private funded accounts🡪 individual savings, insurance etc.

The first pillar focuses on anti poverty, which entails a minimum income for elderly financed by the government. The first pillar is a protection tool from the government with the main objective to protect the citizen of pensionable age, regardless of income, wealth or occupation history, from extreme poverty. Micro pensions do not fit into this pillar; since most governments, due to national budgets, are not even able to ban extreme poverty. The second pillar is defined as the forced savings pillar that provides benefits to the contributors. This pillar used to be a public provision; nowadays it is partly privatized and prefunded. The World Bank encourages employers to prefund in order to shift management from the public to the private sector. Nevertheless, there is still much discussion around privatising these provisions. Micro pensions also cannot be grouped with the second pillar because it contains forced savings and most benefits are for those who contribute most. The third pillar exists of voluntary savings. Benefits are often drawn as a lump sum or as a series of withdrawals beginning at a specified age. The third pillar covers micro pensions as this pillar focuses on voluntary savings. This pillar is accessible for everyone who wishes to supplement his or her retirement income in addition to the first two pillars (Willmore, 2000, pp. 3-8).

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# 5. The Pension & Development Network

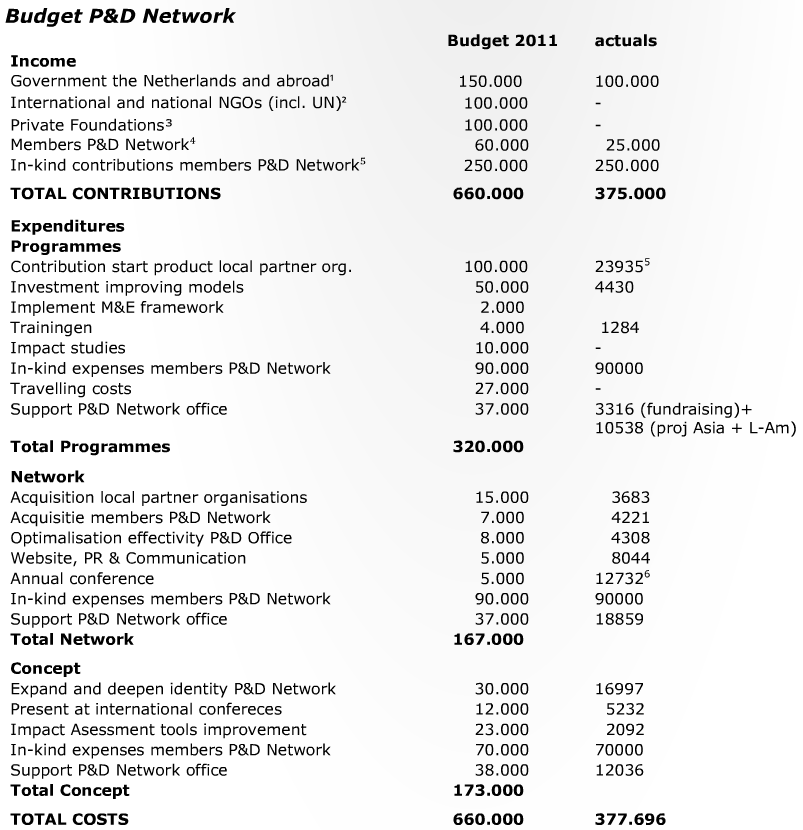
The P&D Network, managed from Worldgranny office in Amsterdam, is a network of Dutch organisations specialized in pension products, international non-profit organizations active in the fields of development and microfinance and local partners that strive to improve the accessibility of elderly in developing countries to save through micro pension schemes. In January 2011, the P&D Network launched a 5 years strategic plan for 2011 to 2016 with the main objective to give 1 million people access to micro pension provisions. Despite the fact that micro pensions schemes are a relatively new development, the P&D Network was not the first organization committing to the implementation of micro pension products. Several countries throughout the world have implemented micro pension schemes to reduce old-age poverty (The Pension & Development Network).

WorldGranny is a non-profit organization in the Netherlands and directs the P&D Network through intermediation between pension providers, governmental organizations, micro finance institutes, NGOs and banks. Dullemen, explained that Worldgranny had already been in contact with several current partners of the P&D Network before the institutions in 2008 came together and formed the P&D Network (Dullemen, 2013). The network strives to help microfinance institutions in developing countries to set up micro pension schemes. According to the network, the only structural solution to ageing is the implementation of micro pension schemes (May 2, 2011 The P&D Network).

## **5.1 P&D Network Funds**

In order for the P&D Network to build bridges between pension experts, MFI’s and other associated organizations; the Network has various steams of income. The Dutch Ministry of Foreign Affairs is sponsoring the P&D Network since the start in 2009. Additional sponsors are coming from non-profit organizations such as the United Nations and donors. The P&D Network wishes to find partnerships in Latin America, Sri Lanka, Vietnam and the Philippines (Dullemen, 2013). Table 4.1.1 demonstrates the financial accounts of 2011.

Table 5.1.1 Financial Accounts P&D Network 2011



Source: (Pension & Development Network, 2011)

This table shows that the Network estimates an income of 660.000 euros. However, in reality the Network was only able to collect 375.000 euros. These numbers indicate that more funding is necessary to accomplish their activities.

## **5.2 The management of micro pension schemes**

The P&D Network wants to make saving with micro pension schemes as accessible as possible, community-based development institutions like self-help groups and credit unions, commercial and state banks, insurance and credit card companies, wire services, post office and other points of sale. A micro pension provision engages a long-term commitment between a non-governmental organization or a microfinance institute and its clients to make it possible for informal workers to enter the long-term savings market. As mentioned before, a professional asset manager will invest the savings (The Pension & Development Network, p. 1).

## **5.3 Example: Project Madurai, India**

With 1,236.7 billion people, India is the second most heavily populated country in the world (World Bank, 2012). Although health conditions have improved and life expectancy has more than doubled, literacy rates have quadrupled. These combinations require adequate measurements since 100.2 million of the total population is aged 65 or over. The large number of 59,4 million of these elderly even live below poverty line. India is expected to become the country with the highest number of elderly by 2020 with an elderly population of 142 million (HelpAge International, section 1).

Indian culture has always emphasized filial piety and it was considered normal that elderly were taken care of by their children en grandchildren. According to HelpAge international, the position of elderly in India is changing as families struggle to make ends meet. A side of the financial strain, many families cope with the difficulties of the emotional aspect that is involved with taking care of older people. In addition, westernisation has led to changing views on the traditional affairs and many families do not desire to take care of their parents and grandparents ( (HelpAge International, section 1)).

Shepherd is a local NGO active since 1990 helping poor women in rural areas of India. In 2007, the organization launched a micro pension programme supported by the government, which was received with great enthusiasm; 5100 enrolled in the programme. In 2009, the tide turned with the withdrawal of governmental support due to budget costs. Shepherd contacted the P&D Network to assist them with the realization of self-support and expanding their growth. Together with the DHAN Foundation, a development organization helping more than 700.000 poor families who are working in the informal sector in Tamil Nadu, India, and HelpAge India, the P&D Network decided in 2010 to address the needs of a rapidly ageing Indian population and their families by launching a micro pension project. One of the first projects launched by the P&D Network was the Madurai project in India (The Pension & Development Network, 2009).

More than 95% of the working poor is excluded by formal pension provisions. Micro pension schemes brought a significant change for the future of many elderly. At the end of 2012, Indian women were asked about their experiences with the micro pension project. (DHAN Foundation, 2012) Indian women had little faith in their siblings to take care of them; hence they do not want to rely on their children. Besides this, their cultural pride pushes and forces them to be financial independent at an older age. Most women know it is essential to save money for their old days and are happy with the micro pension system. Especially since they work in the unregistered sector and are aware of the possibility to be unemployed the next day. Their savings, in the form of micro pensions, give a brighter perspective on the future (Invest India Micro Pension Services).

# 6. European Union’s development aid

After individual sponsors, the EU is worlds’ largest aid provider of development assistance worldwide. In 2012, the EU provided collectively 50% of official development assistance worldwide, indicating 55.2 billion euro’s. The European Commission (EC) is responsible for the management of aid per year. The EU focuses on two main areas to help create growth in developing countries in order to lift these countries out of poverty: good governance such as human rights and democracy, and sustainable growth of human development. In order to meet these priorities, the EU targets specific areas such as social protection, health, education, employment and world markets (DEVCO, para 2)

The EC consists of several departments and services that are known as Directorates-General (DGs). Each DG has a specific area of interest such as Justice, Education and Culture and Economic and Financial Affairs. In the research towards European Union’s DGs, micro pensions projects comply with DG Development and Co-operation - EuropeAid (DEVCO) (European Commission, 2012). The objectives, budget and structure of EuropeAid will be the focal point in the upcoming chapters

Global ageing is high on the EU agenda. Each year the EU addresses to a certain issue. 2012 was the European Year for Active Ageing and Solidarity between Generations, and was primarily devoted to raise awareness of the contribution of elderly to societies. The main objective of the EU was to encourage governments and stakeholders to cope with the impact of global ageing (European Union, 2013, para 2).

Despite these efforts of the EU, Worldgranny states that European countries have not adopted key development issues to address old-age poverty in developing countries. Worldgranny wants to involve the EU and in 2010, Worldgranny approached the EU for support to create appropriate measures to help improving lives of poor elderly in developing countries. In 2011, the EU provided a three-year grant for the joint collaboration of Worldgranny, HelpAge Deutschland, Foundation Sue Ryder in Poland and the Global Initiative on Psychiatry in Lithuania. The grant is used to raise awareness and get involved with effect of global ageing in the four countries of the collaborated countries. Although this contribution was helpful to support this project, sustainable funding by EU could reach a broader audience and contribute to the implementation of micro pension schemes in countries were, as described previously in this report, current pension provisions are insufficient to ban old-age poverty.

## **6.1 The Directorate-General for Development and Cooperation – EuropeAid**

EuropeAid came into action on the third of January 2011 by a merger of the EuropeAid Cooperation Office, the DG for General Development and Relations and African, Caribbean and Pacific Group of States (ACP states). By this merger, the European Commission aims on creating one focal point for development and its implementation. The DG plays an important role in challenges that today’s and future societies face (Commission, European, p. 1).

EuropeAid formulates EU development policy and defines policies in the field of external aid. The main objective of DEVCO is to reduce poverty in the world and to protect its citizens. Furthermore, EuropeAid fosters external relationships and desires to contribute to the well being of citizens outside of the EU. The views between Member States concerning development cooperation needs to be equal and based on good relationships (European Commission, 2012)

## **6.2 Main activities EuropeAid**

The six main activities of EuropeAid’s activities are:

1. Maximizing the value and impact of aid funding by making sure support is provided in a manner which complies with EU development objectives and the United Nations' MDGs
2. Implementation of EU’s external aid instruments
3. Coordination of dialogue on development
4. Ensuring the contribution of the Commission to negotiations at international development forums
5. Contact on development issues with non-state actors - defining and implementing cooperation measures
6. Establishing of sectoral development strategies and instruments in coordination with the MS

The main activities of EuropeAid are connected to the millennium development goals set in the year 2000. 191 countries have signed the United Nations Millennium Declaration. The aim is to accomplish the goals in the year 2015 (United Nations, para 6).

The eight millennium development goals (MDG):

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development  
   Source: (United Nations Development Programme)

## **6.3 Types of distribution**

EuropeAid distributes aid through: specific projects, via a sector approach or by budget support to governments. The project approach is used to support initiatives outside the public sector such as trough civil society and the private sectors. This type of funding aims on a project with specified objectives within a defined time period and budget.(DEVCO, 2012, para 1).  
 The sector approach gives partner governments greater ownership of development policy and financing. This approach focuses on a medium-term financing framework that is set within realistic medium-term budget expectations sourced from all funds, coordination process amongst the donors in that particular sector. The process is monitored by government, a harmonization and alignment of coordination processes and agreed performance-monitoring system, which includes a systematic client consultation mechanism (DEVCO, 2012, section 1).

Budget support is distributed to strengthening country ownership, financing national development strategies, including poverty reduction strategies, and promoting transparent public finances. Budget support involves the direct transfer of funds to a partner country’s budget where they can be managed using national systems. (DEVCO, 2012, para 1, 2)

The relevance of illustrating these types of distributions is related to the research where micro pension would fit. On the surface, micro pension schemes could be grouped within all approaches, however it is most likely DEVCO will categorize micro pension schemes into the project based approach. Micro pensions are mainly launched as projects and managed by non-profit organizations, pension advisors and banks. The projects entail a specific target group, identified stakeholders, defined coordination, management, financing and monitoring of performances, which are required by the EC. Furthermore, in order to convince the European Union to systematically funding micro pension products, it more profound to participate in a project with specified objectives within a defined time period and budget (DEVCO, 2012, para 1).

## **6.4 European Budget and the European Development Fund**

Since 1970, the European Union finances their expenses with the following resources: percentage of GNI, agricultural duties, custom duties and VAT based resources. Most of the budget is generated of the GNI based resource that indicates a standard percentage on the GNI of each Member State.

The European Development Fund (EDF) spends most of its funds on development programs for African, Caribbean and Pacific (ACP) countries. Between 2003 and 2007, €15.2 billion was spent on programs in the ACP countries. The estimations for 2008 to 2013 are even higher with €22.7 billion.

The EU wants to stimulate third parties that are active in external aid activities by providing funds to programs that comply with the external aid programs of the European Union. If the program is equivalent with EU’s aid programs, the Contracting Authority, authorizes an agency to incur obligation before the associated appropriation has been passed, awards a contribution to the organization. To ensure the quality, transparency and effectiveness of EuropeAid’s activities, the European Budget and the EDF finance all activities of EuropeAid. DEVCO decides their expenditure in accordance with strategy papers and annual action programs. EuropeAid delivers funds through budget support, grants and contracts (DEVCO, 2012, para 1).

## **6.5 External aid instruments**

EuropeAid states that grants are awarded as donations to third parties that are engaged in external aid activities. For the 2007 to 2013 financial perspective, the EU has adopted a package of new instruments for the implementation of external assistance. External action is mainly based on three geographical instruments:

1. Development Cooperation Instrument (DCI)

DCI covers geographic programs supporting cooperation with 47 developing countries in Latin America, Asia and Central Asia, the Gulf region and South Africa. Inter alia, devoted to the achievement of the MDGs, providing education, health, social cohesion and employment. Institutions, such as non-state actors, international organizations and EU agencies can apply for funding under this instrument (DEVCO, 2012, para 1).

2. European Neighbourhood and Partnership Instrument (ENPI)

ENPI covers the support of European Neighbourhood Policy and represents the strategic continuity with the objective to assist to the former cooperation programs for the Eastern European countries and Mediterranean countries. The ENPI has strategic objectives such as supporting democratic transition and promoting human rights, the transition towards the market economy and the promotion of sustainable development. Institutions, such as international and regional organizations, decentralized institutions, international financial institutions and non-governmental institutions are eligible for funding (DEVCO, 2012, section 2).

3. European Development Fund (EDF)

Supports activities in the ACP and OCTs countries such economic, social and human development, and regional cooperation and integration. All grants are supervised by the EC (DEVCO, 2012, section 2).

The thematic instruments are used for the thematic development programs and are designed to help developing countries meet the millennium development goals. These instruments focus on specific themes and could be describes as supplementary to the geographical instruments

On October 13, 2011, a new communication was adopted, which outlines the future approach to EU budget support to third countries. The key development challenges that were discussed are promoting human rights, improving financial management, fight against corruption and fraud, and improving domestic revenue mobilization and reducing dependency on aid. The EC requires strict conditions under witch they provide budget support, if the conditions are not met, budget support is not disbursed (EuropeAid, 2012, section 1, 2).

The so-called eligibility conditions include the following criteria:

* A well-defined national or sectoral development or reform policy and strategy
* A stability-oriented macroeconomic framework
* A credible and relevant program to improve public financial management
* Transparency and oversight of the budget, with public availability of budget information

Source: (European Commission)

# 7. Conclusion

The conclusion of this study indicates that the effects of global ageing are severe and societies have to adapt to the changes caused by the demographic transition, especially, considering the fact that the process of global ageing is still developing. Due to falling fertility rates, increased life expectancy and improved healthcare, one in five people in poor countries will be over 60 in 2050.

The number of older populations will continue to grow rapidly, especially in the developing world. The United Nations estimates that 80% of the total number of elderly will be living in developing countries. This increasing number of elderly has a great impact on the formal and informal social support systems. Most elderly in developing countries have no regular income and little savings, which leaves them in extreme poverty. Since the cost of waiting may become insurmountable, the urgency to cope with the changes that have to be made in social security services is high

Governments worldwide try to cope with the increasing number of elderly by reforming and creating policies. Most activities are based on providing knowledge and introducing new policies and reforms, however, research showed that these approaches do not contribute to the urgent need for alternative pension provision schemes to help poor elderly in developing countries. Most activities focused on the financial independence of elderly, comes from non-profit organizations and initiatives of experts in the fields of microfinance and pension provisions.

The first pillar of the multi pillar pension provision scheme, provided by the state, is insufficient to make ends meet. In the absence of adequate pension provisions for poor people, alternatives mechanisms must be developed to provide income security in old age. The P&D Network provides such an alternative: micro pension schemes. These systems have proven to reach a broad group of poor elderly who seek ways to save a part of their income and receive guidance from experts such as MFIs, pension advisors and banks. Micro pension products have contributed to reducing old-age poverty in developing countries where micro pension schemes already have been launched. However, the results show that the Network does not meet the budget they expect to need in order to continue their activities; the actual income barely covers their expenses.

As the world’s largest aid provider, the EU supports projects across the world to reduce poverty. The millennium development goals, which were set by the United Nations in 2000, have formed a basis for the EU to provide more targeted aid worldwide. Although global ageing is not listed within the MDGs, the issue is high on EU agenda. Nevertheless, this research indicates that the main activities are based on creating awareness and informing governments to reform and create policies to cope with the effects of older generations. The results also show that the EU has supported external programs that deal with old-age poverty, however there does not exist a structural form of aid.

This research about EuropeAid’s operations, show the possibilities to cover micro pension products with their activities. Furthermore, there is a large budget available for external development programs that could also be deployed to help organizations involved in micro pension schemes.

The following statements provide insights in reasoning why micro pension schemes fit to the objectives of EuropeAid.

Activity:

Maximizing the value and impact of aid funding by making sure support is provided in a manner that complies wit EU development objectives and the United Nations' MDGs.  
In agreement with:  
 One of EU development goals is to create growth and help people to lift themselves out of poverty. Micro pension schemes enable people to provide for their old days which does not make them rely on state provision and family. In addition, micro pension schemes comply with the first millennium development goal, *Eradicate extreme poverty and hunger.* Micro pension products give elderly a structured income that allow them to provide for their own needs.

Activity  
Implementation of EU’s external aid instruments  
In agreement with:  
Many countries covered by DCI, ENPI and EDF countries, are coping with old-age poverty. Different country projects, aimed on providing elderly with micro pension projects, can be grouped under these instruments. It is just a matter of specific project details.

Activity:  
Coordination of dialogue on development  
In agreement with:  
This activity is essential to involve EuropeAid with the implementation of micro pension products. The EU can coordinate dialogue between governments, societies, policymakers and experts in the field of micro pension schemes. Dialogue creates awareness and understanding of the lack of sufficient pension provision, which will stimulate the understanding of alternative pension mechanisms such as the micro pension product.

Activity:  
Ensuring the contribution of the Commission to negotiations at international development forums  
In agreement with:  
This activity emphasizes on the engagement of the EU in development programs. Micro pension schemes are a development program designed to cope with issues caused by demographic transition. Therefore, micro pension projects are in agreement with EuropeAid’s main objectives.

Activity:  
Contact on development issues with non-state actors - defining and implementing cooperation measures   
In agreement with:  
Currently, there are no governments implementing micro pension schemes to enable their older populations to save for their old days. Micro pension projects are launched by non-govermental actors which can educate the EU about the workability of such programs. Dialogue between EuropeAid and non-state actors contributes to a well-defined program that will address to this specific area caused by global ageing.

Activity:  
Establishing of sectoral development strategies and instruments in coordination with the MSs  
In agreement with:  
Micro pension product pertain to sectoral development strategies and is an instrument specially designed to reduce old-age poverty. Furthermore, “in coordination with the MS”: the more countries understand the degree of problems poor elderly in developing countries are facing, the better.

# 8. Discussion

Previous studies, done by economics, have indicated that the effects of global ageing are most threatening for developing countries. The majority of developing countries does not succeed in the provision of social and universal health care. The main reason for developed countries to stay behind has to do with the lack of resources and management of available funds. Current systems are accessible for the persons who can afford it; the poor are not eligible for traditional provision systems (Shah, 2011).

The P&D Network strives to empower poor elderly by helping them to save money with a micro pension scheme. This research proves that micro pension schemes are a good alternative and can cope with old-age poverty. However, the Network is active in the non-profit sector and depends on sponsorship. The organization receives support from governments, private institutions and individuals who make it possible for the Network to continue the launch of new micro pension projects in developing countries. As for each non-profit organization, fundraising is essential in order to keep continue their activities. Although the Network has a broad range of income, the contributions are relatively low. Hence, it will not secure a certain height of income that can be used for future projects. Especially considering the fact that citizens and organizations are financially struggling due to the effects of the current economical crisis; the non-profit sector has seen their donations drop.

Currently there is no sustainable support for the implementation of micro pension schemes by the EU. There are opportunities for the EU to participate in building bridges between pension experts, MFI’s and other organizations that set the goal to reach as many poor elderly worldwide and provide them with access to micro pension schemes. Support from the EU would make the accessibility of the Network wider.

Before the EU can decide if micro pension projects comply with EU development aid, detailed dialogue with Member States is a necessity. When there is an agreement about the workability of micro pension schemes to reduce old-age poverty, a detailed programme and specific budget ad for the intended country needs to be developed.

# 9. Recommendations

There is growing need for institutionalized old-age provisions in developing countries.   
Global ageing is high on European’s agenda and emphasizes that the EU should not lose sight of the fact that elderly suffer from the lack of opportunities to remain employed and get new jobs when they become unemployed. The EU acknowledges the challenges for welfare systems, public finances and labour markets and the resulting pressure compounded by the present economic crisis and its social impacts*.* However, they do not act by providing support for organizations that implement micro pension schemes, which has proved to help poor elderly to support for their old days.  
 Due to the fact that micro pension schemes are a relatively new development and governments have not adopted such systems into their national policies it is difficult to assume that the EU is unwilling to participate in providing funds for the implementation of micro pension products. The key issues concerning the central question lies within the fact that there has not been sufficient dialogue between the EU and experts in the field of micro pension provisions. Furthermore, insufficient data was available about the required resources that clearly state how much the EU needs to contribute. Dullemen clarified that it is difficult to require for a certain amount since the amount of support depends on the country where the micro pension schemes will be implemented. Therefore, more research needs to be conducted in developing countries with high numbers of poor elderly. Country profiles will assist both parties to estimate how much money is required to implement a micro pension project successfully.

The EU might be interested to test the workability of a micro pension project by funding a pilot project in an area where no micro pension systems have been launched before to deal with extreme poverty. During this pilot, the commission’s life cycle will indicate if the performances match the criteria to be eligible for a more structured and long-term commitment from the EU.

This research did not provide one specific recommendation since no literature is written about EU funding a micro pension schemes. In addition, there are not many experts that could be questioned about their thoughts on the participation of the EU. More research is required to give more elaborate recommendations.

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## **Interview appendix**

Dullemen, C. (2013, August). Participation EU in regarding to Micro Pensions. (L. Slippens, Interviewer)

# 11. Appendix

## **Interview C. van Dullemen**

Thesis Lynn Slippens, December 2013

Interviewee: C. van Dullemen, Director WorldGranny, partner of the Pension & Development Network

This interview forms a basis for the research towards the possibilities to implement Micro Pension systems in developing countries by the European Union, through EuropeAid. The main objectives of this research are finding possibilities for the European Union to fund Micro Pension schemes, create an understanding of the Micro Pension system, its stakeholders and funds. The interview is divided in three different parts: The foundation of Micro Pension schemes and its participants, Management and potential risks and Micro Pensions and Public Institutions.

The results of this interview will be processed into the thesis written by Lynn Slippens, student of The Hague University of Applied Sciences. The results will be presented to professors of The Hague University of Applied Sciences.

In advance I would like to thank C. van Dullemen for her time and participation in this research.

**Part I. The foundation of Micro Pension schemes and its participants**

1. According to the website of the Pension & Development Network, the initiative comes from several Dutch financial companies and institutions, all experts in the field of pension provisions and MFIs or NGOs active in the microfinance sector on a local level. How came these institutions together?

***Dullemen:*** *There was already a collaboration with stakeholders in the field of pension provisions in the developing world. The P&D Network desires to keep dialogue going with experts. In 2008, this collaboration designed a micro pension project pilot for Indian elderly that was launched in 2009.*

1. For who is the Micro Pension scheme created? Please amplify your answer with the following themes:

* Micro Pension schemes are intended to collect savings at an early age, what do you define as an early age?
* Is there a maximum or minimum salary required to sign up for a Micro Pension account?
* Does the family structure play a role in the periodically amount of savings and is it possible to share one Micro Pension account to ensure a regular stream of savings?

***Dullemen:*** *Each person, regardless of age, can participate in micro pension projects and is able to save for their old days. Micro pension schemes are designed for people who are working in the informal sector; there is no minimum or maximum salary required. Micro pension schemes are not created to share, each member of the family manages its own account.*

1. What is in your opinion, the success of Micro Pension schemes in comparison with traditional pension schemes?

Dullemen: *Micro pensions generate capital growth by enabling the working poor to invest in diverse assets. A micro pension scheme is in principle the same system as a traditional pension product as it is a fixed system of contributions with participants that save voluntarily during a long period of time with the purpose to allow elderly and disabled to retire from work to provide for their old days. The uniqueness of a micro pension scheme lies in the fact that the product is designed for people with low incomes. Furthermore, micro pension schemes are developed to connect with the third pillar of the multi pillar system, which will be explained further in the chapter, to provide a stream of income after retirement for their own old-age welfare.*

4) The partnership consists of non-profit organizations and commercial institutions. Can you explain where the funds come from and how all participants make a benefit of their investments?

***Dullemen:*** *Dutch government and sponsors that feel connected with the issues of global ageing, generate our main income.*

5) According to the United Nations, decreasing fertility along with lengthening life expectancy has reshaped the age structure of the population in most regions of the planet by shifting relative weight from younger to older groups. This indicates that there a challenges concerning ageing populations worldwide. Are Micro Pension schemes only applicable in developing countries?  
***Dullemen:*** *The main focus are poor elderly in developing countries which are active in the informal employment sector. Nevertheless, micro pension schemes could be implemented in the developing world. Research needs to show how and in what form these schemes need to be provided.*

6) Microfinance is defined as financial services for poor and low-income clients offered by different types of service providers. It refers to loans and other services from providers that identify themselves as “microfinance institutions” (MFIs). The administration and distribution of Micro Pensions are mainly managed by these MFIs. Microfinance is a broad category of services and one important aspect is savings, what are the differences between saving through Microfinance institutes and saving with a Micro Pension scheme?

***Dullemen:*** *Micro finance institutes provide loans and micro pension schemes allow people to save their own income.*

**Part II. Management and potential risks**

7) As mentioned on the website of the Pension & Development Network, Micro Pensions are the next step in microfinance provisions. Participants save voluntarily over a long period. If the system improves the financial situation of poor elderly in developing countries, are there possibilities to obligate elderly to take a Micro Pension account?

***Dullemen:*** *It is not necessary to obligate people to enrol in a micro pension scheme. People want to improve their financial situation in order to take care of themselves in their old days. Poor people are pleased to hear there is a structured scheme that allows them to provide for their own needs.*

8) The Netherlands has a surviving dependents’ pension, surviving partners receive payments after his or her partner died. What happens with the savings when a person with a Micro Pension passes away?

***Dullemen:*** *This works the same way as in the Netherlands. The pension will be dedicated to relatives*.

9) As mentioned on the website of the Pension & Development Network, Micro Pension schemes facilitate domestic saving among informal workers that are divided into several groups: micro-entrepreneurs, small-business owners, non-salaried and low-income workers. How are the variable income streams of the informal workers controlled and managed?

***Dullemen:*** *Local partners and a professional asset manager control the streams of income.*

**Part III. Micro Pensions and Public Institutions**

10) It is difficult to categorize the Pension and Development Network in terms of non-profit activities or commercial activities. There is few governmental input mentioned on the website. Are there possibilities for local, national or international governments to fund and participate in offering Micro Pensions? For example, EuropeAid, a Directorate-General (DG) of the European Commission is responsible for designing EU development policies and delivering aid through programs and projects across the world. Are there possibilities for this DG to provide grants and knowledge to improve the lives of poor elderly worldwide?

***Dullemen:*** *We aspire participation of the European Union. Our stream of income is limited and with funding of the EU we the P&D Network is able to implement micro pension schemes in more countries coping with extreme old-age poverty.*

11) If the European Union decides to fund programs that develop Micro Pension schemes, what do you think is a proper amount that will help the Network to elaborate their activities?

***Dullemen:*** *It is difficult to name a certain amount. First there needs to be a dialogue between the EU and the P&D Network. Each country has different points of attention.*

12) In addition to question 9, what could the potential role of the European Union be concerning the management of Micro Pension savers?

***Dullemen:*** *To educate societies of the workability of micro pension schemes and comply these schemes within their policies.*