

## The (limited) time of the so-called “demographic bonus”



The Government is not taking advantage of the so-called “demographic bonus,” which offers a historic development opportunity in the next 20 years. Since the share of the population that is under 18 years is falling each year, now is the time to invest in educating the new generation so that it can increase per capita income levels. Development planning should prioritize public education and allocate at least 7% of Gross Domestic Product (GDP) to this sector over the next 10 years in order to achieve basic education goals. If Nicaragua does not invest in education now it will be too late.

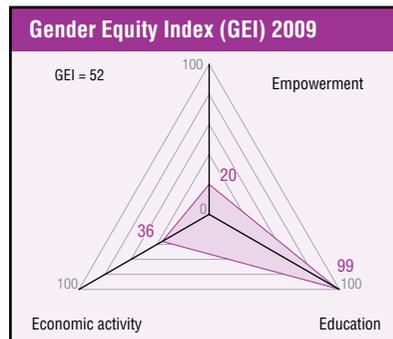
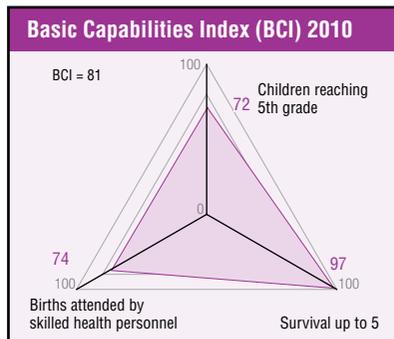
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The education system in Nicaragua is very backward not only in terms of coverage but also in terms of quality. Only 86% of school age children actually enrol in primary school and only 40% of those who enter first grade reach sixth grade.<sup>2</sup> A mere 45% of young people of secondary school age enrol at this level and only 44% who do so manage to complete their studies.<sup>3</sup> When we consider that completing secondary education is the minimum necessary threshold to begin to rise above the poverty line, there is only one possible conclusion: Nicaragua is not preparing its people for the life that they should have.

This has very negative consequences for the country's development, especially in view of the current demographic situation. According to the 2005 population census,<sup>4</sup> the working age population (aged 15 to 59) is increasing rapidly. From 1995 to 2005 this group grew by an unprecedented 29.2%, with an annual rate of increase of around 2.6%, far above the average of 1.78% growth for the total population. In 1990, some 46% of Nicaraguans were under 15 years old, 49.3% were of working age and only 4.8% had reached retirement age. That is, for every child under 15 there were 1.1 adults of working age.

However, today the under-15 population is much lower as a percentage of the total, and this is a fall in absolute terms. In 2005 only 34.6% of the population were children under 15, and at the same time the working age population had increased to 56.5% of the total and people over 60 years of age made up the remaining 5.6%. This means that in 2005 for every child under 15 there were 1.53 people of working age.

The most important aspect of this demographic shift is that while the dependent child population is



shrinking fast as a percentage of the total, the number of people coming of age and joining the labour pool is increasing at a tremendous rate.

### The “demographic bonus” and poverty reduction

It is estimated that an average of 118,000 young people in Nicaragua reach working age every year, the greatest increase in the working age population in the country's history. This process is known as “the demographic bonus” (or “demographic dividend”), and it is taking place not only in urban areas but in rural areas as well, although in the latter it is not quite so marked.

In macroeconomic terms, if this burgeoning workforce can find high productivity jobs, the country's rate of economic growth may increase. If this happens, while the population growth rate is falling the people's average or per capita income will go up, and because there are fewer and fewer children this raises the possibility of increasing investment in education per child. Thus more rapid economic growth could be combined with a significant reduction in poverty.

An example where this policy has been implemented is South Korea. In the 1950s this country was poorer than most countries in Latin America, but in just a few decades it has almost completely eliminated poverty.

However, a necessary condition for taking advantage of this “demographic bonus” is not just that the working population should grow rapidly but also that a higher percentage of this population should in fact join the labour market. One of the most serious restrictions on this in Nicaragua, is the low level of women's participation in the labour market due to their need to take care of dependent children. Only 36.7% of working age women is in the labour mar-

ket.<sup>5</sup> This means that 63% of working age women lack any source of income earnings, which limits their autonomy along with their ability to influence how household resources are used.

But if the country is to take advantage of this “demographic bonus” in order to reduce poverty, as Southeast Asian countries have done relatively quickly, working age people must receive suitable education and training to be able to do high productivity jobs that are well paid. In addition, the formal sector must be able to effectively provide this kind of work.

### Bonus or social catastrophe?

In Nicaragua, most people who are or soon will be of working age have had a low level of education and one which is also of poor quality. This is evident when we consider that the average years of schooling in this age group, in the lowest income distribution strata, is between 3.2 and 5.1 years.<sup>6</sup>

According to the latest World Bank “Report on Poverty” in Nicaragua, people who have not completed secondary education, that is, those with less than 11 years of schooling, are almost certainly condemned to a life below the poverty threshold.<sup>7</sup> It is only when individuals have 11 years of schooling, that is, have completed secondary school, that their job earnings begin to (just about) rise above the poverty threshold.

1 Coordinadora Civil is made up of some 600 NGOs, networks and individuals throughout Nicaragua.  
2 IPS, “A la caza del último analfabeto,” 20 July 2007. Available from: <www.ipsnoticias.net/nota.asp?idnews=41582>.  
3 La Prensa, “Nicaragua con bajo acceso a educación secundaria” (Nicaragua has low access to secondary education), 14 March 2010. Available from: <www.laprensa.com.ni/2010/03/14/economia/19086>.  
4 National Census and Statistics Institute, *VIII Censo de Población y IV de Vivienda*, May 2006. Available from: <www.cies.edu.ni/documentos/censo2005/Informe%20Resumen%20del%20Vill%20Censo%20de%20Poblacion.pdf>.

5 “Nicaragua desperdicia sus mejores años,” *La Prensa*, 16 July 2010. Available from: <www.laprensa.com.ni/2010/07/16/nacionales/31702>.  
6 Adital, “Nicaragua en la encrucijada de la ‘transición demográfica’,” 3 November 2009. Available from: <www.adital.com.br/site/noticia.asp?lang=ES&cod=42527>.  
7 See “7% del PIB a Educación nos sacará de la pobreza,” *El Nuevo Diario*, 12 March 2010. Available from: <www.impreso.elnuevodiario.com.ni/2010/03/12/nacionales/120649>.

Some 76% of the under-18 population, that is, most of the country's young people, live in the 60% poorest households. This means that the vast majority of young people have very low levels of schooling. Taking to account the strong correlation between average education levels and work earnings, this means that most of these people will work in precarious jobs in the informal economy for the next 50 years, never rising above the poverty line.

An analysis of the structure of the labour market in Nicaragua shows that nearly 70% of the jobs in the informal sector are precarious. Today some 65% of employment is accounted for by the self-employed or people who work in small economic units that may be individual or family, urban or rural, that have no access whatsoever to resources, and that employ only 1 to 5 people. This reflects a national profile in which most households have to undertake some kind of economic activity on their own account just to survive.

This situation is the result of the development model based on "comparative advantage" that has prevailed in the country for over two decades, in which there is a comparatively abundant supply of labour but which is also very low-skilled, making for rock bottom wages. One consequence is that poverty and inequality are inevitably passed on from one generation to the next.

The greatest working age population increase in the country's history could potentially provide an opportunity to reduce poverty levels within a relatively short time. But this opportunity is not being seized, primarily for the two reasons mentioned above. First, because most young people who reach working age have very low levels of schooling, which condemns them to poor quality jobs. And second, because only 53% of the working age population are actually in the labour market, owing to the very low level of female labour force participation.

The effects of this failure to take advantage of the demographic bonus go far beyond the immediate or even middle term consequences. Nicaragua is not only wasting this opportunity, it is also sowing the seeds of future socio-demographic catastrophe.

### **The bonus and the demographic disadvantage**

In Nicaragua, only 20% of the labour force participates in the social security system, so when 80%

of the working population reach retirement age they have no savings or support and have to depend on family members or on public assistance in order to survive. This dependence could be exacerbated by the pension system in which current payouts are mainly covered by contributions from working people. In the years ahead the number of retired people, and the amounts paid out in benefits, are going to increase until the point at which the contributions from working people will not be enough to cover payout obligations.

According to the limited information available, starting in approximately 2016 the Institute of Social Security (INSS) will no longer be able to cover payouts with current contributions causing a payments deficit which will steadily increase. To meet its payout obligations, the INSS will have to use the technical reserves it has accumulated, but it is estimated that these reserves will only last until about 2020. There have been proposals to "reform the parameters," but the best this might do is enable the system to last for 20 more years.

If this situation does not change, within 25 or 30 years, when the ageing population trend really begins to bite, people who reach retirement age are going to have to depend more and more for their survival and basic needs on people of working age. But by then the percentage of the population in this age bracket will have started to decrease.

When the majority of working age people reach retirement age they will probably be in informal and precarious employment and thus condemned to poverty. The "demographic bonus" will have passed its peak as the percentage of working age people stops increasing compared to the dependent population and in fact starts to decrease. As the proportion of dependent people (mainly older people) increases, there will be progressive reduction in their labour income earnings, causing per capita household income too fall. Thus the demographic bonus will give way to one of accentuated "demographic disadvantage."

### **The future must change now**

According to Jorge Campos, with the UNFPA in Nicaragua, "The demographic opportunity that is opening up will only happen once and it will last for a limited period of time. In order to take advantage of

it, the State will have to invest sufficient funds in the right way starting now. In addition, there will have to be suitable public policies to ensure that young people can enter the labour market and that they can do so with good levels of education, training and health. If the country does not do this in time, in other words starting today, the opportunity will mutate into a social catastrophe with high levels of unemployment and citizen insecurity, and mass emigration that will no doubt aggravate the situation."<sup>8</sup>

An investment of at least 7% of GDP in the public education system is needed to reach basic education goals<sup>9</sup>, including:

- 100% net enrolment in primary education.
- An 80% completion rate for primary education.
- A 75% completion rate for secondary education.
- An average of nine years of schooling among the population as a whole.

In order to reach an investment level of 7% of GDP the current budget allocation to the Ministry of Education needs to be doubled, or least brought up to the equivalent of 6% of GDP. But according to official budget projections, the budget for this Ministry, which in 2009 amounted to 4% of GDP,<sup>10</sup> will not only stop increasing but will actually decrease in the years ahead; in 2013 it will come to only 3.55% of GDP. This dismal situation will arrive only two years before the deadline for reaching the Millennium Development Goals (MDGs).

The MDGs target is that by 2015 all children should be able to complete the primary education cycle. At present this deadline is totally unrealistic; a massive investment effort in education is needed to bring about a radical change in this scenario for the future. Sadly, this bleak outlook seems inevitable as the country is not making even the least effort to rectify the situation.

The proportion of young people in Nicaragua's population is decreasing; there are fewer children and adolescents to invest in, and these are the people who could pull the country out of poverty. The time to invest in the young population and change the country's prospects is now. If this is put off till tomorrow it will be too late. ■

<sup>8</sup> Adital, *op. cit.*

<sup>9</sup> El Observador Económico, "Sociedad civil demanda 7% del PIB para educación", 4 September 2009. Available from: <[www.elobservadoreconomico.com/articulo/846?](http://www.elobservadoreconomico.com/articulo/846?)>.

<sup>10</sup> *Ibid.*