



DEMOGRAPHIC CHANGE AND ITS IMPLICATIONS FOR THE FINANCING OF DEVELOPMENT

BY UNITED NATIONS POPULATION FUND (UNFPA)

Key messages

Demographic change is one of the most powerful yet largely neglected factors shaping financing for sustainable development. It not only has implications for the expenditure side of public and private budgets, but also for the revenue side, and for public debt. Furthermore, it affects dependency ratios – the ratio of net contributors to social systems, relative to net beneficiaries – and has important implications for private and social transfers.

On the expenditure side of budgets, demographic change shapes the demand for essential goods and services – such as education, health, care, pensions, housing, and infrastructure – and it thus determines the need for public and private finance for sustainable development. For instance, National Transfer Accounts show the sensitivity of public and private spending on education and health in response to demographic change.¹

On the revenue side of budgets, demographic change affects labor markets, household incomes and government revenues, and can affect labor productivity and economic output. If countries can realize a demographic dividend, this can help to accelerate economic growth, if not, demographic change can negatively affect economic growth in real, per-capita terms.

The effects of demographic change on the financing for development are further exacerbated by its interactions with other megatrends, most notably digitization and climate change.

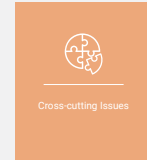
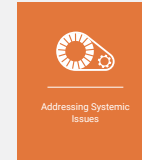
Problem statement

Unfolding megatrends increase the demand on social protection systems

The world population reached 8 billion in 2022 and will continue to grow for decades to come. However, this global trend masks a growing demographic diversity between countries. Population size has already peaked in 63 countries and areas, containing 28 per cent of the world's population in 2024. Over the next

1. National Transfer Accounts (NTA) show how population growth and changing population age structure influence economic growth, gender and generational equity, public finances, and other important features of the macro-economy. For more information, see Lee, R and Mason, A (2011): Population Aging and the Generational Economy: A Global Perspective, Edward Elgar Publishing, Northampton, MA, as well as the National Transfer Accounts Project Website at <https://www.ntaccounts.org/web/nta/show/>, as well as the UN DESA Population Division (2013): National Transfer Accounts Manual: Measuring and Analysing the Generational Economy, UN, New York, NY at <https://desapublications.un.org/publications/measuring-and-analysing-generational-economy-national-transfer-accounts-manual>

RELEVANT ACTION AREAS



ABOUT THIS SERIES

The Financing Policy Brief Series has been prepared by the Inter-agency Task Force on Financing for Development to inform the substantive preparations for the Fourth International Conference on Financing for Development (FfD4), to be held in Sevilla, Spain, from 30 June to 3 July 2025.

The Inter-agency Task Force on Financing for Development is comprised of more than 60 United Nations Agencies and international organizations. The policy briefs in this series were not subject to review by Task Force Members, and represent the views of the authoring organizations.

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30 years, 90 percent of global population growth will be attributed to only twenty-six countries – mostly in Sub-Saharan Africa and South Asia – while 76 countries and areas will experience population decline².

Over the past decades fertility rates have declined in all countries of the world, even in the poorest countries where the total fertility rate remains high. Fertility decline, paired with a notable increase in life expectancy, is resulting in rapid population ageing. While population ageing is most advanced in high-income countries it is happening at the fastest pace in middle-income countries. Furthermore, in an increasing number of countries, low and falling fertility rates are contributing to a decline in the population. Today, almost 70 per cent of the world population already live in countries that have a total fertility rate below the replacement level of approximately 2.1 children per woman. In many countries, population decline has been further exacerbated by high net emigration. This is particularly apparent in Eastern Europe, but also in small island developing states, and conflict-affected countries, which are effectively leading the world into a new phase of the demographic transition.³

In the poorest countries, where older persons typically rely on support by other household members rather than the state, population ageing increasingly relies on informal care. In most cases, the burden is highest on women, who are often the primary caregivers. At the same time, rural-to-urban migration, as well as international migration are challenging such informal, intra-household support systems, and are calling for the creation of more formal, social protection systems. Although a notable rise in personal remittances over the past decades has helped to support family members at home, the reliance on personal remittances to support ailing parents is not always a viable option as not all migrants readily find remunerative and productive employment.

The growing demand on social protection resulting from demographic changes – notably population ageing and population decline, but in some cases also from urbanization and migration – are further exacerbated by other megatrends that are unfolding at the same time. Digitization has already fundamentally altered the world of work – contributing to a rise in platform work, more precarious employment, and less stable income – and it will fundamentally alter professional and personal life paths. The traditional, linear life path from school to work and ultimately retirement will increasingly give way to more varied life paths. People will be more likely to move between schooling, work and leisure, and, professionally, between employment, self-employment and entrepreneurship. Instead of holding a single job and relying largely on a single income source, many will be engaged in a portfolio of economic activities and dependent on several different income streams. In many ways, platform workers and digital nomads are exemplifying the difficulties and vulnerabilities that come with greater flexibility in the world of work.

The uptake of robotics, machine learning and artificial intelligence, as well as the transition to greener, low carbon-economies imply deep structural changes of economies. These structural changes do not need to have negative net effects on economic growth. By contrast, they can help to accelerate economic growth, and ensure more sustainable development pathways. However, in the short-term, these structural changes will come with transition costs in the form of higher unemployment. A just transition will require that those who are disadvantaged by this transition are afforded adequate social protection.⁴ In short, profound demographic changes and their interactions with other megatrends add up to major challenges as regards the financing of social protection, and the financing of other public goods and services more generally.

2. Own calculations based on United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects 2024, Online Edition.

3. See for example UNFPA (2024): Demographic Change and Sustainable Development, ICPD30 Think Piece Navigating Megatrends: The ICPD Programme of Action for a Sustainable Future, UNFPA, New York, NY ; see also Brzozowska, Z. Zhelenkova, E. Gietel-Basten, S. Herrmann, M. Prettnner, K. Sánchez-Romero, M. (2023) Vienna Yearbook of Population Research 2023, Special issue "The causes and consequences of depopulation (Vol. 21), Vienna: <https://www.oeaw.ac.at/vid/publications/serial-publications/vien-na-yearbook-of-population-research/vypr-2023-vol-21#:~:text=The%202023%20volume%20of%20the,its%20causes%20and%20consequences%2C%20or>

4. For example: UNFCCC (2023): Financing Fair, Inclusive and Just Transitions to a Sustainable Future, August at <https://unfccc.int/news/financing-fair-inclusive-and-just-transitions-to-a-sustainable-future>; ILO (2023): Social protection for a just transition, Just Transition Policy Brief, January 2023 at file:///C:/Users/herrmann/Downloads/wcms_867426.pdf; see also additional ILO resources at <https://www.ilo.org/topics/just-transition-towards-environmentally-sustainable-economies-and-societies> and UN resources at <https://www.unglobalaccelerator.org/>



... while creating a challenging fiscal environment

While population ageing implies a growing cohort of older persons who rely on social protection systems, it will also eventually lead to a shrinking cohort of workers who contribute to these systems. Furthermore, there are concerns that associated ageing of the labor force can undermine labor productivity, negatively affecting output growth and resulting in growing budget deficits and public debt.⁵ In the private sector insurance and reinsurance companies have long paid attention to the implications of demographic changes, and are now being followed suit by other companies such as credit rating agencies.⁶

Policy solutions

The strengthening of social protection systems

While a growing number of countries are concerned about the economic, financial and social implications of demographic changes, few are systematically considering demographic change in the broader discussion on financing for development. The response to demographic anxieties are often focused on reducing the financial burden on pension funds, health insurance, or care systems, by increasing contributions, decreasing benefits, or restricting beneficiaries of these systems. A key element in these reforms is generally the postponement of the retirement age, which is seen as a means to both counteract a shrinking of the labor force and increase pension system contributors while decreasing active beneficiaries.

Although reforms of social protection systems in response to new demographic realities and other megatrends are essential, past reforms were often fragmented and ad-hoc in nature. For instance, the postponement of the retirement age might have mustered greater support if it had come with greater flexibility for older workers. While many people might not be prepared to do the same job in the same

way for additional years, many might well be prepared to continue working in new roles and with another schedule. The postponement of the retirement age would ideally not be undertaken in isolation from efforts to promote active and healthy ageing that take a life course perspective from cradle to grave.

Furthermore, efforts to engage and integrate older adults should be complemented by efforts to tap other, underutilized and inactive parts of the labor force. In many countries, the labor force participation rate of women and formal employment among migrant workers remains low; minority groups remain often excluded from labor markets; and many young people require special support to develop their skills and enter labor markets. In most countries the share of youth neither in employment nor education is high, and so is the rate of youth unemployment.

... should be complemented by a stronger focus on social policies, human capital development and more inclusive economies

A holistic response to demographic challenges, will need to undertake deeper and broader, as well as more coherent reforms of country social systems. There is a need to better link the reform of individual elements of the social protection system (pension, health, care, active and healthy ageing, etc.), as well as a need to better link the reform of social protection systems with broader social policies (health, education, skills development, etc). Finally, these reforms must be complemented by efforts to create less discriminatory and more inclusive labor markets, economies, and societies at large.

As population ageing and decline are often attributable to falling fertility rates, a growing number of countries seek to address associated economic and social challenges by raising fertility levels. Some governments have spent considerable resources on policies aiming to increase fertility rates, but generally with no, or limited and temporary effects.⁷ In other advanced economies,

5. See for example Hong, G.H. and Schneider, T. (2020): Shrinkonomics: Lessons from Japan, IMF Finance and Development, March at <https://www.imf.org/en/Publications/fandd/issues/2020/03/shrinkonomics-policy-lessons-from-japan-on-population-aging-schneider>; Shirakawa, M. (2012) Macroeconomic Performance: Japanese Experiences – Opening Remarks by the Governor of the Bank of Japan, in Monetary and Economic Studies, November at <https://www.imes.boj.or.jp/research/papers/english/me30-2.pdf>

6. See for example: <https://www.ekathimerini.com/economy/1245200/moodys-demographic-alarm/>

7. See for example: <https://www.theguardian.com/world/2024/feb/28/south-korea-fertility-rate-2023-fall-record-low-incentives>, and <https://www.wsj.com/world/birthrate-children-fertility-europe-perks-family-04aa13a0?st=xpSeK8>



immigration has been seen as a more direct and timely response to labour and skill shortages, and slowed or compensated for a negative natural change of the population over the past decades. Immigration can further add to the demand on social systems, where immigrants are not effectively integrated in the local labor markets, but it can also ease the pressure on social systems, as they become net contributors.⁸ Furthermore, any effort to shape demographic futures must be complemented by efforts to prepare for, build resilience to, and take advantage of unfolding demographic changes.⁹

In short, demographic changes (including population growth, population ageing, population decline, urbanization and migration) as well as other megatrends (especially digitization, robotics, machine learning, artificial intelligence and climate change), prompt profound structural changes of economies. These changes do not have to have negative effects on economies but will come with transition costs and new vulnerabilities, and they will increase and change the demand on social protection and social policies. Addressing the associated challenge of financing is essential as social spending represents the single largest item in public budgets, and because social spending is of critical importance for more sustainable, more inclusive and greener development pathways, as underscored by the preparation for the 2nd World Social Summit to be held in Qatar in November 2025.

Specific recommendations for FFD4

With a view to help countries respond to demographic change and megatrends, and build more resilient economies, it is desirable that countries:

- Undertake Demographic Resilience Reviews, which show how projected changes of the population affect the demand for, and spending on critical goods and services. These reviews cover, among other things, the changing demand for pensions, health, care, education, medical professionals, teachers, housing, transport,

energy, and water, as well as waste management, and thus provide valuable guidance for ministries of planning and finance, for example.

- Ensure that economic assessments of countries include analysis of demographic changes and other megatrends and their implications. Thereby, attention should be paid to structural changes and transition costs; the emergence of new vulnerabilities and dependencies; the changing demands on social protection systems and social policies; and the implications for public budgets and public debt, among others.
- Adopt a long-term perspective to ensure timely and comprehensive reforms of social protection systems and social policies, in ways that ensure not only their fiscal viability but also their fundamental social objectives. This also requires that the reforms of individual elements of social protection systems are better coordinated, and that these reforms are better linked to social policies more broadly. Efforts to extend safety nets for people must be complemented by explicit efforts to empower the participation of all people in the economy.
- Support the creation of more flexible approaches to retirement and address the barriers to the full and productive engagement in labor markets of women, migrants and other underemployed groups. The inclusion of women in labor markets, which calls for a better work-life balance and family friendly policies, is one of the most strategic responses to demographic challenges.¹⁰
- Efforts to create more inclusive economies and enlist underemployed resources should be complemented by investments in life-long learning and upskilling of the labour force, to help realize opportunities that can come with technological progress and artificial intelligence, while counteracting the effects of job displacement by automation.

8. While it is challenging to measure the net fiscal impact of migration, OECD has developed coherent estimates for the OECD countries. The estimates show that while the fiscal impact is mixed in most countries, it is strong and positive in some: OECD (2021): International Migration Outlook 2021, Paris at <https://www.oecd-ilibrary.org/docserver/29f23e9d-en.pdf?expires=1728986790&id=id&accname=guest&checksum=ACA3C5B8BFEE04E3CE10D0B95B5AC37E>

9. To support countries to these ends, UNFPA has built its Demographic Resilience Programme: <https://eeca.unfpa.org/en/decade-demographic-resilience>

10. See for example: Jiajia Gu, J. Kolovich, L.L. Mondragon, J. Newiak, M. Herrmann, M. (2024): Promoting Gender Equality and Tackling Demographic Challenges, IMF Gender Notes, June, IMF, Washington, DC at <https://www.imf.org/en/Publications/gender-notes/Issues/2024/06/10/Promoting-Gender-Equality-and-Tackling-Demographic-Challenges-549916>