If Nigeria’s 59.6 million informal sector workers had put aside N100 weekly in 2016 as pension contributions, what would have been the potential value of the micro pension industry?

Cooperatives and/or unions. These workers are generally uneducated and will need sustained educational campaigns to understand the concept of pension, why it is necessary and significant. They will also need some level of handholding.

The informal sector plays an important role in world economics as it creates jobs, boosts entrepreneurial activity, minimizes unemployment and underemployment, alleviates poverty and contributes to economic growth. It is crucial in income generation and poverty reduction.

In Nigeria, however, the National Pension Commission is currently in the process of setting up an appropriate micro-pension structure.

What is the Informal Sector?

There is no universally accepted definition of the Informal Sector; however, the International Labour Organization (ILO) defines it to be “very small-scale units producing and distributing goods and services, and consisting largely of independent, self-employed producers in urban and rural areas of developing countries, some of whom also employ family labour and/or few hired workers or apprentices, which operate with very little capital or none at all, which utilise a low level of technology and skills, which therefore operates at a low level of productivity; and which generally provides very low and irregular income and highly unstable employment to those who work in it”.

The informal sector is divided into four main components:

1. The informal sector in Nigeria covers three (3) key subgroups;
   a. The unorganised informal sector
   b. The semi-formal sector
   c. The organised informal sector

2. The semi-informal sector is primarily made up of Micro, Small and Medium Enterprises (MSME) with a steady flow of income. They are usually more financially informed than the other informal sector groups and belong to organized cooperatives and/or unions. They are mostly self-employed which provides more than 3 people mostly family members and/or lowly paid artisans. They would easily understand the concept of pension but may be unwilling to register due to the cost implications. However, Employers in the informal sector which have more than 15 employees are mandated to register their staff due to the cost implications.

3. The informal sector operates at a low level of productivity; and which generally provides very low and irregular income.

Who should micro pension cover in Nigeria?

The informal sector in Nigeria covers three (3) key subgroups:

- The semi-informal sector
- The semi-informal sector
- The organised informal sector

Overcoming Implementation Challenges

There will be challenges faced in implementing a micro pension scheme which will range from creating awareness and understanding to operational difficulties. However, it is crucial to provide a pension arrangement peculiar to their economic profile due to their low and irregular income.

Conclusion

Nigeria has the right indices to consider a micro pension scheme. Key considerations for implementing a micro pension scheme include:

1. Define micro pension coverage parameters and determine who it should cover in Nigeria.
2. Identify key players within the Nigerian micro pension industry and closely study their role. Possible players have been identified as the scheme, cooperative societies, trade unions, microfinance banks, pension fund operators as well as collectives and payments service providers.
3. Realize there will be challenges faced in implementing a micro pension scheme. Therefore, sustained communication and education campaigns will be required to overcome them.
4. Government needs to consider a social assistance programme to provide for the poorest elderly on a non-contributory basis using a means tested or universal approach.
5. Most implementation challenges can be overcome through sustained communication and education campaigns as well as the development and implementation of an appropriate micro-pension framework. Mass sensitization and awareness can be achieved through innovative and cost-effective platforms such as social media while utilizing a robust technological platform (mobile apps) that would effectively support the provision of customer services to the target population.

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About the authors

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Probable Micro Pensions Players

There are seven probable players within the Nigerian micro pension industry

- Micro Pension Sponsors
- Private Pensions
- Micro Pension Coordinating Committee
- Micro Pension Sponsors
- Private Pensions
- Micro Pension Coordinating Committee
- Micro Pension Sponsors
- Private Pensions
- Micro Pension Coordinating Committee
- Micro Pension Sponsors
- Private Pensions
- Micro Pension Coordinating Committee

Potential Value of the Micro Pension Industry

If Nigeria’s 59.6 million informal sector workers had put aside N100 weekly in 2016 as pension contributions, what would have been the potential value of the micro pension industry?

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