

# Advisory Outlook

pwc

## Micro Pensions: The New Frontier

### Introduction

Governments around the world have historically been plagued with the challenge of providing financial and social support for the elderly. This has resulted in the introduction and implementation of various retirement benefit schemes which have evolved with various reforms into the global pension landscape as we know it today. Despite the success of some of these schemes, extending pension coverage to those who have worked in the informal sector has remained a herculean task. In Nigeria, coverage of pension in the informal sector is non-existent, 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 Organisation (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 which also employ family labour and/or few hired workers or apprentices; which operate with very little capital or none at all; which utilize 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 plays an important role in world economies as it creates jobs, boosts entrepreneurial activity, minimizes unemployment and underemployment, alleviates poverty and contributes to economic growth. The impact of the informal sector has been however constrained by its inaccessibility to a wide range of financial services such as micro-credit, micro-savings, micro-insurance, remittance products and micro-pensions. Moreover most informal sector workers have limited understanding and awareness of such financial services products and as a result pension coverage is usually limited to the formal labour market. Today, over 80% of the working population in Sub Saharan Africa are not covered by any pension arrangement due to general unemployment, low income, poor saving culture and pension arrangements which typically favor workers in the formal sector. This scenario becomes even more precarious when it is considered based on analysis that by 2050, the majority of retired/aged people in the world would be in Africa.

Nigeria has a large and fluid informal sector with over 59 million workers growing at a rate of 3% p.a. which makes up approximately 70% of Nigeria's total labour force while its contribution to GDP has been estimated to be 57.9% hinting at the earning power available. Nigeria has the right indices for a strong micro pension industry to thrive which include a well-developed financial services system with total assets of over N37.3 trillion, an internet and mobile penetration rate of approximately 81% - the highest in West Africa and mobile payments exceeding a total value of N381.4 billion in July 2016.

### The Concept of Micro Pension

A micro pension scheme is a voluntary, defined contribution, individual account plan for the informal sector (or low income earners). It has no plan sponsor and allows for voluntary savings to be accumulated over a long period of time. Micro pension schemes are usually long term savings products or hybrids between pension schemes and savings products.

Informal sector workers do not formally retire as in the case of employees in the organized sector, however there is still a need for them to prepare for the reduction in earnings capacity that accompanies old age primarily as a result of decline in health. It is also crucial to provide a pension arrangement peculiar to their economic profile due to their low and irregular incomes.

### Who should micro pension cover in Nigeria?

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

#### The semi-formal sector

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 sole proprietors which employ 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 come under the formal contributory pension scheme or register their staff due to the cost implications. However, Employers in the informal sector which have more than 15 employees are mandated to comply with the provisions with the PRA 2014.

#### The organised informal sector

The organised informal sector just like the semi-informal belong to organised cooperatives and/or unions however they are mostly self-employed workers with relatively less stable flow of income compared to semi-informal sector workers. Their businesses generally have low start-up costs and sometimes short life-spans, however, they do require some specialist skills. These self-employed workers will understand the concept of pension but may procrastinate making contributions due to current income conditions.

#### The unorganised informal sector

The unorganised informal sector workers are characterised by very low and unstable income. They are generally employed by the other informal subgroups as well as the formal sector and mostly do not belong to organized 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 handholding.

### 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 which was invested by the pension industry at a real rate of returns of 4.5% p.a., Nigeria's micro-pension industry will be worth approximately N61.1 billion in real terms at the end of 2017 and grow to be about N1.7 trillion by 2020.



### About the authors



#### Mary Iwelumo

Mary Iwelumo is a partner in our Advisory practice and has vast experience in strategy formulation and management. She heads the Strategy team in PwC's West Market Area and regularly writes and speaks on issues concerning business in West Africa. Mary can be contacted through [mary.iwelumo@pwc.com](mailto:mary.iwelumo@pwc.com)



#### Tobi Olanipekun

Tobi Olanipekun is a chartered accountant with experience in Strategic Planning and Finance & Accounting. She is focused primarily on the Pension Industry and works with clients in all spheres of the industry. She can be contacted through [tobi.olanipekun@pwc.com](mailto:tobi.olanipekun@pwc.com)

#### Our Advisory Practice

We use local and global knowledge to deliver strategies and solutions that are specific to you. Our teams bring experience and insights in Business Reviews / Restructuring, Change Management, Expansion Strategy, Human Capital Development, Investment / Fund Raising, M&A / Disposals Market Penetration, Organisation Structuring, Process Optimisation, Profitability Enhancement, Regulatory Compliance, Risk management / Controls, Tax Efficient Capitalisation, Technology Enhancement, Vertical Integration, and Viability Assessments PwC

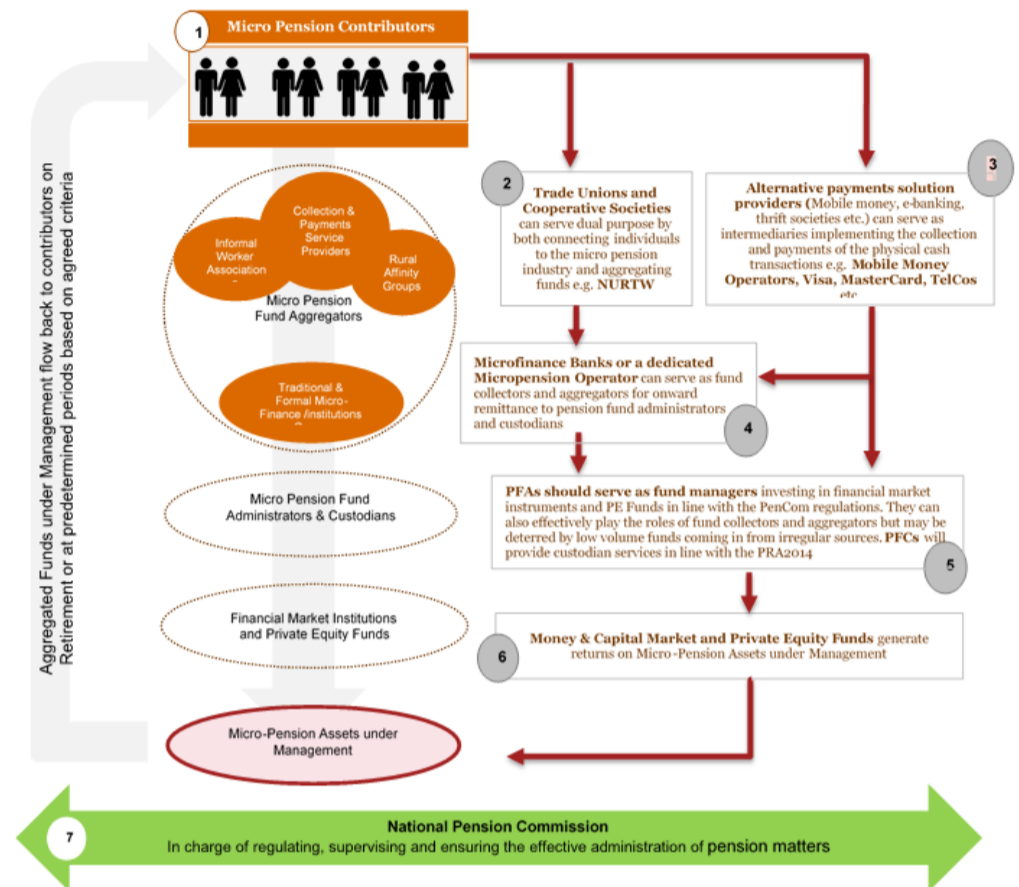
#### About PwC

At PwC, our purpose is to build trust and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more by visiting us at [www.pwc.com/ng](http://www.pwc.com/ng)

© 2017 PricewaterhouseCoopers Limited. All rights reserved. In this document, PwC refers to PricewaterhouseCoopers Limited (a Nigerian limited liability company), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

### Probable Micro Pensions Players

There are seven probable players within the Nigerian micro pension industry



### Overcoming Implementation Challenges

There will be challenges faced in implementing a micro pension scheme which will range mostly from creating awareness and engendering trust to operational difficulties. Nigeria should learn from the success stories of other developing countries such as Kenya, Indonesia, Vietnam and Jamaica which have put in place strong institutional structures for micro pension to facilitate fund administration and made use of technological platforms including mobile money to increase coverage, remit pension contributions and pay retirement benefits.

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.

However, there is a segment of Nigeria's population whose main challenge is to meet basic needs e.g. food, clothing and housing and it would be very difficult to bring these individuals into a formal micro-pension scheme. An important Government policy might be the creation of a social assistance programme to provide for the poorest elderly on a non-contributory basis using a means tested or universal approach. Countries like Australia, Spain and Greece have introduced multi-pillar pension's schemes where a pillar supports voluntary contributions with government co-contributions for low income earners subject to predetermined eligibility criteria.

### 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 clearly specify their roles. Possible players have been identified as contributors to the scheme, cooperative societies, trade unions, microfinance banks, pension fund operators as well as collections and payments service providers.
3. Realize there will be challenges faced in implementing the 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 who were unable to contribute meaningfully to a formal pension scheme during their working lives.

### Bibliography

- Chen, M. A., Rethinking the Informal Economy: Linkages with the formal economy and the formal regulatory environment, United Nations/DESA Working Papers No.46, 2007
- Hu, Y. & Stewart, F., Pension Coverage and Informal Sector Workers – International Experiences, OECD Working Papers on Insurance and Private Pensions No. 31, 2009
- Kwenia, R. M & Turner, J. A., Extending Pension and Savings Scheme Coverage to the Informal Sector: Kenya's Mbao System, International Social Security Review; 2013
- Njuguna, A. G., Critical Success Factors for a Micro –Pension Plan: An Exploratory Study, International Journal of Financial Research Vol. 3, No. 4; 2012