Original Article

An assessment of the effectiveness of the Nigerian 2004 pension reform policy

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ABSTRACT This article assesses the effectiveness of the Nigerian 2004 pension reform policy. Whereas the old pension system was seen as vulnerable, inequitable and inefficient, there was also paucity of policy and academic literature before the pension reform. Interestingly, the pension reform policy is beginning to gain attention in the literature regarding policy learning and transfer. The emerging literature, notwithstanding no systematic attempt, has been made to investigate the effectiveness of the policy, which was amended in April 2011. This article fills the gap by assessing published literature and other media sources. The article notes the achievements of the new pension scheme inspired by the Chilean model of 1981 in comparison with the old scheme. This is indicated by the development of a strong pillar for the Nigerian economy, and the growing confidence and compliance in the system. But worryingly, the new scheme is yet to cover enough grounds, including the workers in the informal economy as well as address the grafting in the industry. The article recommends the strengthening of institutions of governance to walk the path of maximum benefit for the Nigerian workers. Further research efforts are also needed on how to formalize the informal economy, how the policy is affected by privatization and the global financial crisis, and how to address the padding of ghost pensioners.

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INTRODUCTION

For decades, pension and other social benefit matters have received significant attention in many countries. The challenges associated with the existing pensions in these countries led to

changes in the ways pension assets and benefits were managed and distributed to the target groups, especially retirees and 'senior citizens'. In many countries, there are difficulties in contributory pension scheme (CPS), in which employees and employers are expected to pay a certain percentage of the employees' monthly earnings to a retirement savings account (RSA), from which they will be drawing their pension

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benefits after disengagement from service.¹ For Nigeria, it has been a staggered history of pension since 1951, through the public sector pension scheme, the establishment of National Provident Fund (NPF) of 1961, the Pension Decrees nos.102 and 103 of 1979 and the National Social Insurance Trust Fund (NSITF) Decree no.73 of 1993. The NSITF took over the assets of NPF in July 1994. During the past 8 years, the Nigerian government has placed increasing emphasis on the new defined contributory (DC) pension scheme, with the aim of improving the delivery of pension services to the Nigerian workers. The renewed effort at pension delivery commenced with former President Olusegun Obasanjo when he sought to reverse the horrible situation inherited from past regimes regarding organizational structures and policy environments.

The Obasanjo-led government decentralized responsibility in the social sector, introduced social insurance mechanism, increased private sector involvement in service delivery, attempted to rationalize and downsize the public sector, emphasized the development of cost-effective social services, and enhanced the space and role of regulatory frameworks in the market economy. Before these reforms, the unequal distribution of wealth and increased disparity between different socio-economic classes had become a problem shared by many people. Inflation had taken a heavy toll on the compensation of employees, particularly the civil servants. Improved compensation was therefore needed to attract and retain high quality and productive personnel, particularly in the public sector. Closely related to the retention of competent workforce was the issue of payment of retirement benefits, which had become a recurring problem with arrears of unpaid pension running into billions of Nigerian Naira (NGN). This is understandable. Partly due to improper documentation of service, the Nigerian pensioners and 'senior citizens' had become beggars in the pursuit of their entitlements. Some of them faced challenges in feeding their families, whereas others died due to lack of adequate medical and other forms of attention. They suffered untold hardships, at a stage of their lives when most of them lacked the strength

to fend for themselves and their families. In other cases, all efforts to dialogue with the government on pension matters often did not yield positive results, and government's attitude frustrated many retirees who were either on their sick beds or had lost their lives for lack of money to take care of themselves.^{2,3}

It is also on record that successive government's refusal to offset arrears of pension and gratuities, which have accumulated for months or even years, violates the 1999 Constitution of the Federal Republic of Nigeria. Subsection 2, Section 210 of the Constitution states, *inter alia*, that pensioners should not be regarded as beggars and that they should not in any way be denied their rights and entitlements after they had used the greater part of their adult life for national development.² Apart from collapsed extended family system, lack of an effective social security system in Nigeria has also instilled in employees, particularly civil servants' perpetual fear, both leading to and reinforcing the habit of falsifying their age, certificate and terminal point of age, among others.⁴ In a sense, many Nigerian workers have turned 'age cheats' because of the acceptability or legality of the so-called age declaration, 'a sworn affidavit in court claiming certain age due to purported loss of the original certificate'.³ Isa Aremu calls this a 'ritual of annual affidavit, so as to stay longer in service'.⁵ Within the policy debates, it was argued that the old pension scheme did not offer the contributor the privilege to choose his/her administrator who will have to contend with them in the battle for their money and benefits. A simple but cheaper pension selection process was elected as the panacea to this problem.⁶

In the light of the foregoing, the Obasanjo-led government instituted a process of developing a sustainable system that will have the capacity to achieve the ultimate goal of providing a stable, predictable and adequate scheme of retirement income for the Nigerian worker. The development of a DC system, fully funded, privately managed and based on individual accounts for both the public and private sector employees led to the enactment of a policy, namely, Pension Reform Act 2004.⁷ This policy is a marked departure from the old

pay-as-you-go (PAYG) scheme in the public sector, and attests to the paradigm shift towards improving the pension situation in both public and private sectors, by making full funding of all schemes compulsory.⁸ The pension reform policy forms part of efforts by the Olusegun Obasanjo-led government to address 'the damage to human capital and labour productivity'.⁹ Before the enactment of the pension reform policy in 2004, the old PAYG and defined benefit (DB) system had received criticisms on various grounds.¹⁰ The old system was characterized by delayed or non-payment of pension in the country, arising from inadequate funding. As noted by Ahmad, the public sector pension scheme depended largely on budgetary provisions from the various tiers of government for funding, which was however impeded upon by the reality of several competing state priorities like health, education and physical infrastructure, and the servicing of Nigeria's huge external debt burden with over one-third of the country's national budget. This further diverted funds that could have been allocated to the social sector, including pension. As a result, the general poor state of the public sector pension scheme and its dwindling funding in the face of rising cost combined to make the old scheme unsustainable.¹¹

The old pension scheme was seen as 'vulnerable not because of adverse demography but because of its generosity'.¹² This led to wrong investment decisions on pension fund, wrong assessment of pension liabilities and arbitrary increases in pensions without corresponding funding arrangements. The old system was also discovered to have been inequitable and inefficient. For example, the NSITF had no proper information technology and many records were merely on paper.¹¹ More fundamentally, there were allegations that the pension records of some parts of the civil service, the military and the parastatals were 'padded' with 'ghost pensioners'.¹¹ While the old pension system suffered from structural problem and non-coverage, the private sector was also poorly integrated into the scheme. In addition to its weak, inefficient, less transparent and cumbersome operations, it was characterized

by very low compliance ratio due to lack of effective regulation and supervision. The NPF did not provide for periodic benefits, and many private sector employees were not covered by the scheme.¹¹

Arguably, until the pension reform policy of 2004, scholarly attention had focused less on social security in Nigeria. This explains the paucity of policy and academic literature that informed the need to midwife a social security culture in the Nigerian society, bearing in mind the agonies that workers and the poor have had to pass through to access social needs in the country. Interestingly, the pension reform policy is beginning to gain attention in the literature regarding policy learning and transfer.¹³ This emerging literature notwithstanding, no systematic attempt has been made to question the effectiveness of the Nigerian 2004 pension reform policy. The purpose of this article is to assess the effectiveness of the Nigerian 2004 pension reform policy, and to determine whether or not the policy has addressed the problems that bedeviled the old PAYG system. Specifically, it aims to document the problems plaguing the policy. This article gives shape and meaning to the policy reform by drawing attention to the values that public policymakers attach to a sound and sustainable pension system. The article provides insights into the complex nature of the problems that the country's 'senior citizens' face on retirement. It provides a useful feedback mechanism for government and private sector actors to apply similar decisions to other programmes. More importantly, the article contributes to the knowledge base of pension reform by addressing two key questions: (i) To what extent is the Nigerian 2004 pension reform policy effective?, and (ii) What are the problems plaguing the new DC pension scheme?

This article is based on review of published literature and other media sources. Addressing daunting gaps in secondary data search would have required the use of primary sources, such as investigation of spoken discourses by undertaking interviews with some of the actors in the field. Other methods, such as questionnaire

administration and the focus group could be used to produce data and insights for the analysis. However, resource constraints deterred their use in this study. In spite of these shortcomings, I was optimistic that they would not be sufficient to derail the good intentions of the study, particularly with the resort to search for academic journals, technical papers, published newspaper reports and articles, and commonly used reports from the pension policy practitioners. The Internet proved to be very helpful in this regard. Efforts were made to enhance economy of time and avoid undue compilation of unwieldy amount of data, but there were temptations to extend the scope of this article to the military era of pre-1999 even though such enterprise would not have been a wise thing to embark upon. Findings from such research of the past military regimes may not provide support for discrete decision in programme constituencies like the decision to expand the scope of implementation of the pension reform policy in Nigeria. Nevertheless, this did not deter me from making references to the pre-1999 regimes. The article is structured into six sections. The next section discusses the theory of developmental patrimonialism, with serious efforts at contextualization within the Nigerian experience of pension reform. The third section sketches the state of research in the broad field of social policies, including policy learning and transfer, social protection, and pension in Nigeria. The fourth section highlights the evolution of the 2004 pension reform policy, its objectives and operational mode. The fifth section identifies the policy implementation milestones and problems. The sixth section concludes the article with some recommendations and implications for further research.

THE THEORY

To avoid setting out without a chart or compass, the theory of developmental patrimonialism has been chosen to frame this article. Essentially, developmental patrimonialism refers to a sub-type of neo-patrimonial regime in which there is centralized management of main economic 'rents' in support of a long-term vision.¹⁴ It accomplishes

development goals without conforming to the much-touted 'good governance' orthodoxy,¹⁵ namely, the absence of clientelism, nepotism, cronyism, patronage, discrimination and the 'capture' of administrative agencies by the interest groups that they are meant to regulate. The governance model was fuelled in part by the failure of the civil service reform, admitted even by its chief sponsor the World Bank, and by the limited impact of the new public management.¹⁶ Africa experiences the diversion of administrative energies into patronage and rent-seeking,¹⁶ perhaps because 'formal institutions alone cannot produce distributions of benefits that can satisfy all powerful groups'.¹⁷ For decades, the general mode of African states has been clientelist and most practices fall into what Olivier de Sardan calls the 'informal realm'.¹⁸ On the basis of this 'real governance', which is often expressed in the concepts of neopatrimonialism, clientelism and informality, it has been suggested that 'contemporary politics in Africa is best understood as the exercise of neopatrimonial power', 'hybrid political systems in which customs and patterns of patrimonialism co-exist with, and suffuse, rational-legal institutions'.¹⁹⁻²¹ However, these claims have been seriously criticized in the literature because neopatrimonialism does not provide an adequate basis for understanding politics and administration.²¹ Perhaps, Ole Theobald (1982) already envisaged this when he warned against the danger of losing its analytical utility in the 'catch-all' concept.^{22,23}

There is a huge gap in blending modern bureaucratic and more personalistic and clientelist forms of authority, and this is what developmental patrimonialism, a term coined by Richard Crook,²⁴ seeks to fill. David Booth²⁵ points out that the ruling elite has the disposition and capacity to use rents productively to enlarge the national economic pie, rather than obtaining the largest slices from it in the short term. In addition, key elements of the state technocracy are subjected to corporate disciplines. Anti-graft efforts are able to become more than a charade. In addition, serious efforts can be made to address the difficult collective action problems that prevent improvements in public-sector

performance. Developmental patrimonialism, therefore, feeds into the analysis of 'working with the grain' and 'best fit' approach to governance for development, which interrogates the 'ideological forces, vested interests and political pressures that promote institutional mimicry at global and country levels'.²⁶ Whereas 'working with the grain' requires building on existing institutional arrangements that have recognizable benefits, 'institutional innovations work when they build constructively on what already exists'.²⁵ Rather than sweep aside pre-existing institutions regardless of their ability to contribute, they should be treated as a potential resource for reforms that improve development outcomes.²⁵ Instructively, approaches that are imported from a broad concept of good practice may not work unless there is a serious effort to adapt them to local circumstances, embedded in traditions and motivating forces of family, ethnicity and religion.²⁷

More than anything else, this theory reinforces the debates on policy learning and transfer processes, which received considerable academic attention in the last decade.^{28–30} Policy learning and policy transfer focus on how people learn and under what circumstances policy transfer is possible, what the role of international institutions and policy entrepreneurs has been, and at which speed policies are diffused. Interestingly, policy learning has been directed towards social policy, particularly pensions, with a persistent interest in the Chilean reform of 1981, with the way in which it became an example for countries such as Nigeria to emulate. As noted by Casey and Dostal, the Nigerian pension reform was the outcome of attempt at transfer both of broad principles of policy and of administrative and delivery structures. For 'Nigerian policy makers were of the view that, if they could initiate such a reform, it would produce the same benefits for their country as they saw it having produced for Chile'.³¹

The debates on developmental patrimonialism suggest the need to rethink African governance in order to 'work with the grain'. Institutions that will work best for public goods provision and development in Africa are those that facilitate

local problem solving and build on what already exists. This explains the many problems confronting African public bureaucracies, such as clientelism and neopatrimonialism. More importantly, the theoretical framework helps to decipher the inappropriateness of the transposed pension reform policy to the Nigerian environment. It also helps in locating the hydra-headed monster of corruption that has infiltrated the current efforts by government to provide affordable, sustainable and equitable pension to Nigerians. Yet the insufficiency in the theory suggest the need to search for an appropriate one that would provide deeper insights to explain the emerging issue of 'padding' with 'ghost pensioners' in Nigeria.

THE LITERATURE

During recent decades, social policies throughout the world have undergone significant modification, and there is a growing body of knowledge on the change and transformation in social policies.³² A key component of current debate is the place of social policies in the linkage between successful economic development and effective poverty reduction. Yet policy learning is considered most appropriate for countries that display similar characteristics or levels of economic development. Therefore, problems are likely to occur when comparing developing countries with more advanced countries and drawing lessons across the divide. The Nigerian 2004 pension reform policy drew inspiration from the Chilean experience of 1981, with the hope that the DC scheme would address economic development and social objectives. However, as revealed in the literature, Nigeria does not possess the necessary preconditions such as well-regulated capital markets to assimilate pension savings.³³ Whereas flexibility, similarity and status are often potential sources of encouragement and foundations of policy transfer, it was not however clear why Nigeria decided to copy the Chilean model of pension policy. For one, the countries were not in the same continent, and they did not experience similar socio-economic development. Perhaps, the account of military dictatorship suffices. When

Nigeria government initially conceived pension reform, the country was ruled by a military dictatorship like Chile in 1981. Thus, Chile attained 'a "high status" in the eyes of the then policy makers'.³⁴

The foregoing review is a reasonable ground to regard further work as a mere dissipation of energy, but the task before us requires further conceptualization to ascertain the point of view that this article attempts to expound. In spite of the topical challenges in the policy and academic literature, social protection remains an all public or private initiatives that provide income or consumption transfers to the poor, protect the vulnerable against livelihood risk, and enhance the social status and rights of the marginalized.³⁵ In the words of Ajakaiye and Fakiyesi, 'social protection helps to ameliorate the damage to human capital development and labour productivity'.³⁶ Social protection seeks to shield workers at their work places from unfair, hazardous and unhealthy working conditions. It provides access to health services, a minimum income for people whose income puts them beneath the poverty line and supports for families and children. It replaces income from work lost through sickness, unemployment, maternity, invalidity and loss of a provider or old age. As a corollary of income and employment policies, social protection is a powerful instrument for reducing poverty and improving people's lives.

Nigeria's attempt at social protection is well captured in the literature.³⁶ The country's major areas of focus include income security, employment and income generation. The Nigerian government has attempted to deal with vulnerability and risks of both poor and non-poor people at different stages of life cycle, from birth to old age. The various reforms and initiatives in this direction are encapsulated in pension reform, health insurance, virtual poverty funds (VPFs), micro-credit and conditional cash transfer. Save for the VPFs, these reforms cover predominantly the public sector employees. This leaves a huge segment of the poor, including workers in the informal economy unprotected. For example, the National Health Insurance Scheme, which seeks to provide access to quality health care, does not

include the pensioners and the aged population, and these groups are poorly protected against the risks of life in the country. Arguably, the country's minimal results in the welfare state that 'architecture' is the outcome of the characteristic weak institutions of governance and uncoordinated policy responses to global crises of energy, food, climate and finance. An immediate panacea could be to formalize the informal economy by extending social protection coverage to the informal workers.³⁷

The literature on pension, according to Ako,³⁸ suggests that in the late nineteenth and early twentieth century there were cash transfers (mainly non-contributory programmes) aimed at the elderly in countries such as Brazil, Denmark, New Zealand, Australia and Sweden. The dominant form of old age income security, namely, the contributory pension system originated in Germany at the beginning of the twentieth century. The German system was labelled 'Bismarckian' after Otto von Bismarck who proposed the scheme. This model has become pervasive worldwide, even if its dependability in developing societies is now being questioned. Scholars have captured the wave of pension privatization that swept the world in the last decade, regarding adequacy, affordability, sustainability and robustness. Some countries adopt the entirely private pillar, whereas others go for the mixed system. 'By 2005, 24 countries had adopted a private pillar'.³⁹ Countries such as Chile and Mexico have entirely abolished the preexisting public pillar. Others, such as Uruguay, have adopted a mixed system, where workers' pensions are financed by a combination of the public and private systems. Yet other countries have enacted a parallel privatization giving their citizens a choice between the public and the private pillar. In explaining the adoption of these policies, some studies have emphasized the impact of the competitive and fiscal pressures of globalization – most notably that of capital market liberalization.^{40,41}

In addition, pension reform options are either parametric or structural/systemic. Parametric changes involve adjustments to the parameters of the pension systems, such as retirement age,

contribution rate and vesting period. Evidence in the literature^{42,43} suggests that between 1995 and 2005 18 countries increased retirement age, 57 increased contribution rates, 28 modified benefit formulas, 10 changed vesting periods and 14 changed the contributory base and/or indexation mechanisms. The United Kingdom's coalition government currently 'envisages the public-sector retirement age rising from 60 (in most cases) to 66'.⁴⁴ The Nigerian public service rule⁴⁵ sets the default retirement age for all grades in the public service at 60 years or 35 years of pensionable service (whichever is earlier). Military personnel can retire after 10 years. The provision is without prejudice to prevailing requirements for judicial officers and academic staff of universities who retire at 70 and 65 years, respectively. Recently, persistent agitation by the Academic Staff Union of Universities 'that, like wine, they get better with time'³ induced the government to raise the age bar for University professors to 70 years. Perhaps, to fast track the upward mobility of officers, a director in the service compulsorily retires upon serving 8 years on the post. In the same vein, a permanent secretary holds office for a term of 4 years, which is renewable for a further term of 4 years, subject to satisfactory performance and no more. Yet there is no empirical evidence to suggest that the states and local governments adhere to this latter rule.

The systemic/structural reform involves a complete shift in the pension system, whether a country (such as from a DB system to a DC scheme) or social pension or voluntary pension scheme. Depending on the level of mix or combination of the various systems, the reform may be a single pillar or multi-pillar. These are well captured in the literature, but what is relevant here is the mandatory 'second pillar' that is essentially an individual savings account but can be constructed in a variety of ways, such as the new DC scheme in Nigeria.⁴⁶ In Nigeria, the first national pension scheme was introduced immediately after independence in 1960, emerging from the provident fund scheme that operated for the colonial civil service. It took the form of a severance payment scheme, paying a

lump sum on retirement. In 1994, the NSITF was introduced to pay out an annuity, but this applied only to the private sector employees. There were also special schemes for federal public servants, the police and security services, including the military. Each of the states, including the federal capital territory and the local government councils, had its own pension system. Before the 2004 pension reform, maximum benefit for public servants was fixed at 80 per cent while the NSITF provided 65 per cent of last salary for private sector employees (see Table 1).

THE PENSION REFORM POLICY

The work of Casey and Dostal⁴⁷ gives a vivid account of the making of the Nigerian pension reform policy. It is recorded that in the past the Nigerian government and other stakeholders exercised little control over pensions as a component of public expenditure. The Nigerian pension reform project drew largely on the Vision 2010. As early as 1996, the project was initiated as an element of the Vision 2010 project under General Abacha-led military regime. For one of the objectives was that 'by the year 2010 most Nigerians shall have access to some form of social protection offered by the formal social security program'.⁴⁸ Other factors that influenced the policy formulation were the National Economic Empowerment and Development Strategy (NEEDS) document, the role played by the international financial institutions and the appointment of a World Bank-tutored Nigerian economist as Nigerian Presidential advisor and later Finance Minister. The civilian government that emerged in 1999 formulated its own programme for economic and political renewal, called NEEDS, but it acknowledged that 'core values (of that strategy) draw on the Vision 2010 report'.⁴⁷

NEEDS, among others, pledged a reform of public services, an intensified anti-corruption crusade, and an increasing role for the private sector. On invitation by the Nigerian government, an International Monetary Fund (IMF) team visited the country in September 2003, after which the Bank prepared a technical

Table 1: Public sector and private sector compared

	<i>Public sector</i>	<i>Private sector</i>
<i>General principles</i>		
Retirement age	60 years of age or 35 years of pensionable service (Judges and Professors: 70 years) (Military personnel: after 10 years)	60 years of age or 35 years of pensionable service
<i>The old pension</i>		
Scheme type	1962: NPF 1974: Varied for tiers of government Special for military personnel	1962: NPF 1974: NPF amended (NSITF) 1993: NSITF re-established
Employer's contribution	Budgetary provision	PAYG: 6 per cent of employees
Employee's contribution	0 per cent	3.5 per cent
Maximum benefits	80 per cent of last salary for federal civil servants: States?	65 per cent of last salary
Benefit type	DB: Lump sum	DC: Annuity
<i>The new pension</i>		
Transfer mode	Statutory	Obligatory (5+ employees)
Employer's contribution	Consolidated revenue fund charge: 7.5 per cent of employees (Military: 12.5 per cent)	7.5 per cent of employees
Employee's contribution	7.5 per cent (Military: 2.5 per cent)	7.5 per cent

Source: Author's compilation from various sources.

assistance programme for the country. Essentially, this was designed to improve economic reform and governance in general, but it contained a component that was relevant to pensions. 'Of the US\$180m made available, some 7 per cent or \$6.7m, was intended to support the pension reform by providing consultancy and computer services'.⁴⁹ In the IMF-initiated policy support instrument, elements of the pension reform programme were included. Also worthy of mention is the role played by the International Labour Organization (ILO) through its social protection division. Upon request by the Nigerian government, the ILO was drawn in relatively late to assist in calculating the entitlements of those who would not transfer to the new system. The ILO commented upon the lacunae of data recording systems. Interestingly, however, the ILO did not favour the Chilean model of pension.⁴⁷ Meanwhile, the Adeola Committee was set up by President Obasanjo, soon after re-election in 2003. The Adeola Committee built upon the proposals of the Vision 2010 committee rather than start its work from the scratch, considering details associated with establishing a Chilean system and an appropriate legislation. The draft legislation also

received inputs from interested and affected parties such as the Nigeria Employers' Consultative Association (NECA), Trade Union Congress and Confederation of Free Trade Unions.⁴⁷

The Pension Reform Act 2004 came into force on 25 June 2004, establishing the DC pension scheme for both the public and private sectors of the economy. Primarily, the pension reform policy seeks to:

- ensure that every person who worked in the public and private sector receives her/his retirement benefits as and when due,
- assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age, and
- establish a uniform set of rules and regulations for the administration of retirement benefits for both the public and private sectors.⁷

The Pension Reform Act became effective on 1 July 2004. The Act establishes the National Pension Commission (PenCom) as a body corporate with perpetual succession and a common seal, and may sue or be sued. Its principal objective is to regulate, supervise

and ensure the effective administration of pension matters in Nigeria. There is a Director General who is the chief executive officer and responsible for the day-to-day administration of the Commission. Part-time members of the Commission are representatives of the head of the Civil Service of the Federation, Federal Ministry of Finance, Nigeria Labour Congress, Nigeria Union of Pensioners, NECA, Central Bank of Nigeria (CBN) and Securities and Exchange Commission.

PenCom issued the guidelines for transitional arrangements on 31 December 2004. The Pension Fund Administrators (PFAs), Pension Fund Custodians (PFCs) and Closed Pension Fund Administrators were licensed by PenCom on 20 February 2006. The PFAs are licensed by PenCom to open RSAs for all employees with a personal identity number attached. The PFAs invest and manage the pension funds and assets in accordance with the provisions of the Act. The PFAs provide regular information on investment strategy, market returns and other performance indicators to PenCom and employees or beneficiaries of the RSAs. The PFAs provide customer service support to employees, including access to employee account balances and statement on demand. PFAs are also responsible for calculating retirement benefits. To qualify for an operating license, the PFA must be a limited liability company whose sole object is the management of pension funds, with a minimum paid up share capital of NGN150 000 000.00 or such sum as may be prescribed from time to time by PenCom.

The PFCs are also licensed by PenCom to 'warehouse' the pension fund and assets. The PFCs receive the total contributions remitted by the employer on behalf of the PFAs within 24 hours of the receipt of contributions from any employer. The PFCs notify the PFAs within 24 hours of the receipt of contributions from any employer. The PFCs hold pension fund and assets in safe custody on trust for the employees and beneficiaries of the RSA. On behalf of PFAs, the PFCs settle transactions and undertake activities relating to the administration of pension fund investments, including the collection of

dividends and related activities. The PFCs report to PenCom on matters relating to the assets being held by it on behalf of any PFA, at such intervals as may be determined, from time to time, by PenCom. The PFCs undertake statistical analysis on the investments and returns on investments with respect to pension funds in their custody and provide data and information to PFAs and PenCom. No application for license to act a PFC is approved by PenCom unless such applicant is a licensed financial institution registered under the Companies and Allied Matters, has a net worth of NGN5 000 000 000.00 unimpaired by losses or is wholly owned by a company with a minimum net worth of N5 000 000 000.00 unimpaired by losses or any such as may be prescribed from time to time by PenCom.

Section 3 of the Pension Reform Act 2004 precludes any person from making withdrawal from his/her RSA before the age of 50, except s/he retires at that age, suffers infirmity (of either mind or body) or a suitably qualified physician certifies him/her unfit for the public service. Upon retirement or attaining the age of 50, an RSA holder shall utilize the balance standing in his credit for either a programmed monthly or quarterly withdrawal, annuity for life purpose or a lump sum. In the case of a dead or missing employee, the entitlements are paid into his/her RSA, which is applied by the PFA in favour of beneficiaries: spouse, children or next-of-kin, in the case of absence of spouse or child. Table 1 illustrates the comparison between public sector and private sector under the old and new pension schemes.

An employer may agree or elect to bear the full burden of the scheme, provided such contributions shall not be less than 15 per cent. A life insurance policy is also maintained by the employer in favour of the employee for a minimum of three times the annual total emolument of the employee. Voluntary contributions can also be made to the RSA. PenCom has also reviewed the investment guidelines for pension funds by expanding the investment of the fund to cover interests in infrastructure funds and foreign currency bonds

issued by the multilateral development finance organizations such as the Bank and IMF. Under the old pension scheme, it was non-contributory and unfunded for public servants. But 'the NSITF operated on a PAYG basis, financed by employee and employer contributions'.⁵⁰ For the parastatals, the pension scheme was 'non-contributory but, at least nominally, funded'.¹⁰ Under the new scheme, civil servants migrated 'from paying no contribution at all to paying 7.5 per cent of salary and private sector workers saw their contributions rate from 3.5 per cent to 7.5 per cent'.⁵¹

On 7 April 2011, President Goodluck Jonathan signed into law, the bill that amended Section 8, subsection of the Pension Reform Act 2004, exempting members of the organized forces from the application of the scheme. It seeks 'to eliminate the problems associated with the contributory pension scheme as it concerns the military personnel and members of the intelligence and secret services in line with international best practices'.⁵²

POLICY IMPLEMENTATION MILESTONES AND PROBLEMS

Since inception, the Nigerian 2004 pension reform policy has recorded some milestones. Despite initial apathy of the private sector in 2008 when the private sector commenced enrolment, the CPS is beginning to receive wide acceptability. The medium-sized and big corporations have joined but many small enterprises have yet to comply. By 21 May 2012, 170 000 private sector organizations have joined the scheme. Nineteen states have also enacted their laws to ensure participation in the CPS, and 15 other states are at various stages in the legislative processes. Two other states are yet to commence action on adoption of the CPS. By December 2010, five states commenced funding their retirement benefit bond account (RBBA) with the CBN. RBBA is designed to assist public sector employers in settlement of all accrued retirement benefits inherited from the DB scheme. The pension assets value grew from NGN265 billion (\$1.77 billion) in 2006, when the scheme became generally effective to N1.3 trillion (\$8.67 billion) in September 2009. The number of

registered contributors also increased from 932 435 in 2006 to 3 888 491 during the same period. These are pointers to increased level of confidence by stakeholders.⁵³ By March 2012, over five million workers have enlisted.

It is also on record that the growth witnessed in the industry over the years arose from capital injections, either from contributions or investment income. For example, PenCom reported a gross investment income of NGN205.30 billion (10 per cent) between 31 December 2009 and 31 December 2010. As at December 2011, the monthly contributions stood at NGN20 billion, while the annual growth rate was 30 per cent. Commenting on the benefits of the new scheme, Nigeria's former Secretary to Government Mahmud Yayale Ahmed noted that 'contrary to what had been the prevailing practice, pensioners that have retired under the new scheme are now accessing their benefits as at when due'.⁵⁴ One important component of the new pension scheme is annuity, a tax-free RSA in which the employee pays zero taxes when the money is withdrawn at retirement, thus allowing the money to grow tax-deferred. The regulation on life annuity is designed to ensure effective implementation of the provisions of Section 4.1(b) of the Pension Act 2004. PenCom and the National Insurance Commission jointly realized this milestone.

⁵⁵Another milestone is the recovery of NGN42.6 billion by the federal government, sequel to the inauguration of an electronic smart card to replace the old 'anachronistic' system. Embedded in the chip are the biometrics and other documents relating to pensioners. Through finger prints pensioners can verify whether or not they are still alive without the stress of travelling for verification exercise.⁵⁶ Table 2 shows a trend in built-up funds and contributions.

Interestingly, Nigeria is offering technical assistance to Ghana in establishing its own pension scheme. In 2005, a delegation from Ghana visited Nigeria for the study and between September 2009, when Ghana inaugurated its own, and July 2010, when the team visited Nigeria again, Ghana had got over one million contributors. The National Pensions Regulatory Authority of Ghana wishes to draw transitional

Table 2: Trend in built-up funds and contributions

As at (date)	Milestone
June 2006	Registered 839 254 persons
August 2006	Registered 1 003 947 persons
September 2006	Registered 1 300 255 persons
January 2007	Registered 1 702 277 persons
February 2007	Registered 1 832 751 persons
March 2007	Registered 1 960 000 persons
April 2007	Registered 2 120 000 persons
December 2007	NGN815.18 billion of pension assets value
January 2008	NGN600 billion+ of investment funds
August 2008	NGN969.97 billion of pension fund assets value
August 2008	Registered 3 162 201 persons
December 2008	Registered 3 467 000 persons (63.6 per cent public sector; 36.4 per cent private)
December 2008	NGN1 098.98 trillion of pension assets value
December 2008	RSA: NGN471.76 billion; Invested ordinary shares: NGN33.02 (7 per cent)
March 2009	Registered 3 540 000 persons
May 2009	NGN1.1 trillion of pension assets value (Public sector: NGN770 billion)
November 2009	NGN33.02 billion (Ordinary shares investment: 7 per cent of fund)
December 2009	Registered 4.01 million persons
December 2009	NGN1.529 trillion of pension assets value
March 2010	Registered 4 132 217 persons
May 2010	Registered 4 540 352 persons
May 2010	NGN1.7 trillion (\$11.3 billion) of pension fund assets value
December 2010	16 states join scheme: 5 states commenced RBBA with CBN
December 2010	NGN2.29 trillion of pension assets value PBS: NGN162.46 billion (56.06 per cent); PVS: NGN127.35 billion (43.94 per cent) (Gross investment income: NGN205.30 billion; 42.70 per cent growth rate)
February 2011	NGN1.1 trillion of pension assets value
March 2011	NGN2 trillion+ of pension assets value
November 2011	NGN2.4 trillion of pension assets value
December 2011	Registered 5.01 million persons (PBS: 54 per cent; PVS: 46 per cent)
December 2011	NGN 2.45 trillion (NGN1284 billion spent on retiree's benefits)
December 2011	FG/CBN/CPS A/C: NGN604.27 billion (RSAs: NGN449.35 billion)
May 2012	170 000 private sector organizations joined the scheme
June 2012	NGN2.6 trillion of pension assets value NGN41.28 billion (1.6 per cent) of total pension funds invested by PFAs in foreign markets: 98.4 per cent put in various forms of investment within the country

Source: Author's compilation from various sources.

Keys: PBS – Public sector; PVS – Private sector.

lessons from Nigeria, learn how pension administrators were licensed, the general rules that guide their activities and how it can adopt the same patterns, in addition to collaboration in terms of training 'with a view to moving contributory pension scheme in West Africa forward'.⁵⁷

The pension funds have also been rated as the driver of one of the fastest growing stock exchanges on the planet.⁵⁸ Despite the challenges of the global financial crisis that adversely affected the pension assets value between 2009 and 2010,

the funds have increased immensely. Worryingly, the pension funds are being left idle to wash away without any substantial investment in the key sectors of the economy. Perhaps, the Nigerian government already envisaged this with its suggestion that a fraction of the pension fund be used to build new power plants in order to boost electricity generation and supply in the country. Yet the pension fund operators argue that this would be unrealistic because the fund cannot capture the huge financial demands of the energy sector.

Table 3: Coverage of pension schemes in Nigeria

	000s	As percentage share of total workforce	As percentage share of formal employment
Total workforce	48 000	100.0	—
All in formal employment	4 800	10.0	100.0
Federal civil servants	160	0.3	3.3
State government employees	800	1.7	16.7
Local government authority employees	500	1.0	10.4
Police	160	0.3	3.3
Other federal security employees	82	0.2	1.7
Military	80	0.2	1.7
Parastatal employees	1 300	2.7	27.1
All public sector employees	3 082	6.4	64.2
Contributors to NSITF	630	1.3	13.1
All in a pension scheme	3 712	7.7	77.3

Source: Casey and Dostal¹⁰ (p. 245).

Evidence in the literature⁵⁹ suggests a number of problems associated with the pension reform. For example, the new scheme is yet to cover enough grounds. 'At the beginning of 2010, the new system of privately managed, funded pension accounts covered around four million Nigerians in a country with a workforce of around 50 million people'.⁶⁰ Table 3 shows that the majority of covered workers were public servants and employees of parastatals.

Even then, the Nigerian government's to the RBBA has been described as inadequate.⁶¹ The new system excludes the poor and workers in the informal sector. This corroborates Ajakaiye and Fakiyesi's⁹ research findings that the Nigerian social protection initiatives cover predominantly the public sector employees. Also, the pension reform occurred 'at a time when initial enthusiasm was well past and disenchantment had set in'.⁶² The pension reform could not meet the objective of establishing a funded pension system backed by large-scale privatization. The new system demonstrates a re-enactment of 'padded ghost pensioners'. The new system relied on inappropriate and outdated lessons from Chile, an economically more advanced country. More fundamentally, the 'paradigm shift', giving effect to the new pension scheme, has generated controversies over its sustainability. These controversies hamper the country's economic development, regarding the mobilization of large savings, instilling savings culture in Nigerian workers and increased capacity for funding

long-term agricultural projects needed for capital development.⁶³

Nigeria's failure to meet the obligation of payment of pension has been traced to decades of corruption, embezzlement, fraud and outright theft by some top public officers managing pension scheme. A recent report⁶⁴ says that the country has lost NGN5 trillion to pension thieves in 44 years. Since implementation of the pension reform policy, the amount of money swindled by the 'pension fraud cartel' from the federal government alone stands at NGN39.6 billion, totalling up to NGN181 billion between 2 and 3 years. The stolen money would have gone a long way to shore up the NGN94 billion required by the Nigerian federal government to settle pension liabilities of workers expected to retire by the year ending in 2012 alone. This figure is NGN22 billion less than the NGN77.36 billion proposed in the 2012 budget.⁶¹ In 2011, Nigeria's anti-graft agency, Economic and Financial Crimes Commission (EFCC) discovered that out of over 141 000 on the list of pensioners only 90 000 were verifiable, the rest being ghost pensioners. Consequently, 32 persons were dragged to Court on a 134-count charge over the pension scheme scam, which was in the region of N12billion.^{65,66}

The inter-agency Pension Reform Taskforce Team (PRTT) corroborates the EFCC's investigation: 'Out a list of validated 141 790 supposed pensioners nationwide, only 70 658 (sic) were genuine, leaving a record of 70 000

ghost pensioners'.⁶⁴ The PRTT headed by Alhaji Abdulrasheed Maina also exposed illegal enrichment of NGN24 billion by managers of the scheme, 66 illegal bank accounts with NGN180 million discovered. This would have been an enviable feat, but revelations by the Auditor General of the Federation that the PRTT itself was involved in a mess of NGN127 085 880 due to irregular payments to the team members who participated in the Diaspora biometric capturing exercise⁶⁷ is saddening. In another development, an Abuja High Court remanded in prison custody, a permanent secretary, Atiku Abubakar Kigo, and five other senior civil servants in the Federal Civil Service: Esai Dangabar, Ahmed Wada, John Yisufu, Veronica Onyegbula and Sani Zira for their alleged complicity in the diversion of Police Pension Funds to the tune of NGN32.8 billion. An Abuja High Court sitting on Thursday, 3 May 2012 granted leave to the EFCC to seize 108 properties belonging to the 6 accused. The EFCC says 'the accused persons perfected the alleged fraud in Abuja between January 2009 and June 2011'.⁶⁸

If anything, the grafting of pension in Nigeria reminds of Peter Drucker's⁶⁹ admonition that the regulation of pension funds would remain a challenge both to policymakers and lawmakers for years to come. He argued that the integration of the real owners into the pension fund structure would require years of debate, experimentation and scandal. The proper management of pension funds and their integrity will also be major public issues – and deservedly so. Drucker was not primarily concerned with these issues in his discussion on the role and function of capital. But today the issues raised by Drucker are as fresh as they were two decades ago. Take the case of the former director of Police Pension Fund, Esai Dangabar, who claimed that members of Nigerian Senate and House of Representatives Committees on Pension were beneficiaries of NGN8 billion withdrawn from the Police Pension Fund in 2009, as public relations to get the Fund's budget approved by the lawmakers.⁷⁰ Also consider another media report that NGN3 billion was 'contributed by corrupt government

officials who embezzled the pension fund and allegedly offered the money to the committee(s) to exonerate them in their report'.⁷¹ These are suggestive that perhaps the Nigerian policymakers and lawmakers have not demonstrated the potentials to insulate themselves against the scandal of mismanagement and looting of the pension fund.

CONCLUSION

Within the context of social policies, the twin issues of policy learning and policy transfer stand out clearly as they currently dominate debates in the social sciences. This helps policymakers to look out for the appropriateness of policy for economic development and social objectives in developing countries. From the review on social protection, it is understood that income or consumption transfers to the poor, protection of the vulnerable against livelihood risk, enhancement of the social status and rights of the marginalized are challenges confronting developing societies. The provision of adequate, affordable, sustainable and robust retirement income for employees engenders the wave of pension privatization that has swept the world in the last decade. Countries such as Chile and Mexico have entirely abolished the pre-existing public pillar. Others, such as Uruguay, have adopted a mixed system, where workers' pensions are financed by a combination of the public and private systems. Yet other countries have enacted a parallel privatization, giving their citizens a choice between the public and the private pillar. Interestingly, the Nigerian pension reform has a potential pay-off of serving as a model to others in the West African sub-region, such as Ghana.

From the reviewed literature, there appear to be some unaddressed issues regarding pension reform. First, no systematic attempt has been made to investigate grafting in the pension system, particularly when 'Nigeria ranks towards the very bottom of the list of countries measured in terms of honesty and governance'.⁷² Investigation of graft in the Nigerian pension system is imperative because of the recent discovery by the Nigerian government and other oversight institutions. Second, the

pension reform policy did not envisage the global financial crisis that betrayed the mono economy of Nigeria. What are the policy responses of the Nigerian pension scheme to the global financial crisis? To address this question would require analysis of the profile of the country, and the nexus between the economy and polity within it. For the 'crisis might have had an impact upon the wellbeing of retirees in Nigeria'.⁷³ By this, one can deepen understanding of the long-term factors that affect the political will and institutional capacity to reform and change⁷⁴ in challenging times such as the current global financial crisis. This has yet to be addressed in the literature. However, when compared with the old PAYG scheme the new DC scheme in Nigeria has recorded some achievements. This is indicated by the development of a strong pillar for the Nigerian economy and the growing confidence and compliance in the system. Largely, the involvement of private actors in the implementation process reduces the government's excessive control of the scheme.

In the light of the foregoing, the article recommends that the institutions of governance need to be strengthened to walk the path of maximum benefit for the Nigerian workers. Second, employees should be made to understand that even within the new system they can still access up to 25 per cent of their retirement savings as a single bulk payment to enable them start a new business or deal with the issues of transition from active employment to retirement. Third, transparency should be built into every stage of pension administration. Fourth, management principles should be formulated with emphasis on creativity, innovativeness, openness, transparency, persuasiveness for a win-win situation for the employers/employees and the national economy. Fifth, there should be consultations with major stakeholders to ensure the successful implementation of the pension reform policy. This would require gleaning ideas and lessons from successful stories in other parts of the world. Sixth, PenCom needs to develop the capacity for treating pensioners as obtained in other parts of the world, where they enjoy some free facilities such as health care and

transportation. This would require a review of the Pension Act 2004 to check the lapses and fill them for the benefit of the scheme. Finally, further research efforts are needed on how to formalize the informal economy, how the policy is affected by privatization and the global financial crisis, and how to address the issue of 'padding' with 'ghost pensioners'.

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