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Pension Reform in Ghana

SECO Project: Support to the National Pensions Regulatory Authority (NPRA)

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Abstract

Ghana decided to introduce a three-pillar pension system in 2008. Since 2013, Switzerland has supported a project linked to the capacity-building of the Ghanaian National Pensions Regulatory Authority (NPRA), whose role is to regulate and supervise the pension scheme. This paper tries to identify the main challenges to the implementation of the SECO project in Ghana, both from a macro and micro perspective. In particular, it investigates the links between the pension system, macroeconomic indicators and the development of the financial sector. In addition, the capacities of the NPRA are assessed. Finally, this paper formulates recommendations to promote a better functioning pension system in Ghana, both from the point of view of the NPRA project, and from a broader perspective.

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List of Acronyms

AfDB: African Development Bank

AFP: Administration of pension funds

ATM: Automated Teller Machine

BOG: Bank of Ghana

FDI: Foreign Direct Investment

GBC: Ghana Broadcasting Corporation

GDP: Gross Domestic Product

GHS: Ghana Cedi

GSE: Ghanaian Stock Exchange

MFI: Micro Finance Institute

NGO: Non Governmental Organisation

NPL: Non-performing Loan

NPRA: National Pensions Regulatory Authority

NSE: Nigerian Stock Exchange

PwC: PricewaterhouseCoopers

SEC: Securities and Exchange Commission

SME: Small and Medium-sized Enterprises

SOE: State-owned enterprise

SSNIT: Social Security And National Insurance Trust (State-controlled public pension fund)

USD or US$: US Dollar

1. Introduction

1.1 Context

Pension reform has been an important pillar of development policies in the last decades. In particular, demographic changes and the mismanagement of pension systems have put a strain on government budgets, making reforms ever more necessary in order to ensure the long-lasting sustainability of pension systems (Independent Expert Group, 2006, xxi). Most pension plans have followed the path initiated by the World Bank, which advocated the introduction of a multi-pillar system, consisting of a publicly managed tax-financed pension system, a privately managed funded scheme and voluntary retirement savings (Independent Expert Group, 2006, ix). In 2008, with the passage of the National Pension Act 2008 (Act 766), Ghana introduced a new three-tier pension plan[1]. Although the three-pillar system was a common feature of reforms in Latin America or Central and Eastern Europe, Ghana is the only country in Sub-Saharan Africa that introduced such a scheme (Kpessa, 2011, 127). Between independence and the 2008 reform, an uncoordinated fragmented system was in place. Civil servants were covered by the unfunded Cap 30 scheme, inherited from colonial times. In addition to this, in 1992, a parallel PAYG social insurance scheme was introduced. However, retirement conditions were much more advantageous under the Cap 30 scheme than under the second social insurance SSNIT scheme, and thus created an asymmetrical situation (Kpessa, 2011, 129). With the reform, two additional privately-funded pillars (a mandatory occupational pension scheme and a voluntary pension scheme) were added to the existing, partially-funded PAYG pillar managed by the SSNIT[2]. These three pillars constitute the structure of the pension system today.

The need for pension reform in Ghana was dictated by a series of factors, including the low coverage of the previous pension system and its unsustainable finances, as well as evolving demographics[3]. Nonetheless, given the Ghanaian context, the decision to implement precisely this type of pension system can seem surprising. In fact, theoretically, a three-pillar system should help support the development of capital markets (Kpessa, 2011, 128). However, Ghana,

[1] However, as opposed to many other countries, Ghana was not advised directly by the World Bank (SECO 2013, 17)

[2] For a detailed table of the functioning of the current pension system see Annex 1

[3] Although Ghana does not have an ageing population problem to the extent of other Western countries, a shift in the demographic dynamics can clearly be observed. To bring some examples, according to the population census 2010, the fertility rate has dropped from 5.5 in 1993 to 3.28 in 2010. In addition to this, the percentage of the population who was over 60 was 6 % and it should reach 13 % in 2050.

like many African countries, lacks the macroeconomic stability and basic financial markets to ensure the possibility to hold or invest pension funds (Kpessa, 2011, 127). Therefore, the development of capital markets is hindered. The introduction of a three-pillar system in such a context clashes with the recommendation of the World Bank and the Independent Expert Group. Already in the World Bank's 1994 report "Averting the Old Age Crisis", it was already stipulated that this "model" was not fit for nascent economies. More recent reports stress the importance of focusing on minimum macroeconomic and financial preconditions necessary for a multipillar reform (Independent Expert Group, 2006, x). Market volatility and high inflation are just two of the numerous obstacles that are blocking the development of the pension system in Ghana. Therefore, given the Ghanaian context, macroeconomic instability and underdeveloped financial markets can be seen as important challenges to effective pension reform. In addition to this, pension coverage remains extremely low, therefore missing the goal of alleviating old-age poverty for the most vulnerable. In fact, an important part of the population is involved in the informal sector and the new pension system struggles to include workers involved in the latter. This creates even more inequalities between the formal and informal sector (Kpessa, 2011, 133). Finally, there are no guarantees against pension funds performance, or even worst, against market failures in the second and third tiers, which creates uncertainty (Kpessa, 2011, 133). Given all of these elements, the actual success of such a system in Ghana can be questioned.

1.2 The SECO involvement in Ghana

Ghana is a priority country for the State Secretariat for Economic Affairs (SECO). Its 2013-2016 objectives include improving good governance and stronger institutions as well as improving competitiveness and promoting stable growth[4]. Currently, the SECO is active in a series of projects in Ghana, one of which is related to the pension reform. This project is more generally contributing to the SECO's financial sector strategy (SECO, 2011, 2). The Ghanaian National Regulatory Pension Authority (NPRA), whose role is to regulate and supervise the pension scheme, is at the center of this particular project. For now, the NPRA still lacks the necessary human and institutional resources to carry out its role in the best possible way, and to ensure an optimal functioning of the new pension system (SECO, 2011, 3). The objective of this project is to build capacity for the NPRA for the coming three years. This fits the recommendation of the Independent Expert Group according to which increased assistance for capacity building should be offered (Independent Expert Group, 2006, x). In particular, the project aims at strengthening the NPRA's oversight and regulatory functions, as well as developing its internal organization

[4] http://www.seco-cooperation.admin.ch/laender/05148/05157/index.html?lang=en

(SECO, 2013, 2). It must be underlined that the SECO's engagement concerning pension reform reflects a demand-driven approach (a direct request for support from the NPRA (SECO, 2011, 3)), and its scope of intervention in the pension sector is solely limited to the role of the NPRA.

1.3 Research question and structure of the paper

This paper aims at analyzing important obstacles affecting the implementation of the SECO project in Ghana. It focuses on factors hindering the success of the SECO project in Ghana, whose objective is, via the strengthening of the NPRA capacities, to help implement the pension system in a sustainable way. In order to do so, we decided to put an important focus on the macro environment and the financial markets.

Section 2 analyzes which macroeconomic determinants can influence the development of the financial sector and the success of a pension reform. Based on more general observations from macroeconomic development in comparable developing countries, the section identifies in particular potential linkages with regard to selected key macro fundamentals. The third section focuses on the theoretical effects of pension system reform on capital markets and analyzes the structure of the Ghanaian financial sector. In addition to this, it provides recommendations on means to develop the financial sector, based on comparative inputs from developing countries that reformed their three-tier system after the 2008 crisis. In fact, this, in turn, could have a positive effect on the development of the current pension system. In the fourth section, a particular focus will be set on the development of micropensions. The fifth section concentrates more precisely on the NPRA. Its capacities are assessed and recommendations on how it could improve its role are provided. In combination with the findings on linkages between effective pension systems, the financial sector and macroeconomic foundations, this part forms a starting point for a holistic approach towards reshaping overall pension system effectiveness. Finally, section 6 concludes.

2. Macro Fundamentals for Pension System Development

2.1 Introduction

In order to evaluate future proposals to improve the capacity of the NPRA and the pension system in Ghana, a closer look at the underlying situation and frameworks for an effective pension system is essential. Sustainable pension systems at least partly rely on capital accumulation schemes and thus on the capital market to provide for future payouts and the value-increasing reinvestment of current pension contributions. In addition, the current collected contributions in Ghana are subject to governmental contributions (first pillar) and the credit risk rating of government bonds (major vehicle of reinvestment (SSNIT, 2013)). Their value depend on the solvency of the Ghanaian state. Both factors indicate the importance of the financial sector as well as of macro fundamentals[5] in creating a sustainable and stable basis for the pension system in Ghana.

This section of our paper will focus on selected key determinants of the macro environment in Ghana and their influence on the development of the financial sector and the stability and success of the pension system. The variables considered address important macroeconomic indicators like the interest rate, exchange rates, GDP and business structure in Ghana. Furthermore specific fundamentals with a focus on the financial capacity of the state, e.g. deficit and debt levels, taxation, government spending and the quality of the legal and governance system are considered. Instead of purely describing these variables, the analysis intends to highlight respective linkages to financial sector and pension system development paths. This follows the view that the issue of development support needs to be addressed in a holistic approach that accounts for the dependency of the financial sector on key macro fundamental developments. Besides, selected country case studies will be used to show promising practical measures for improvement. The section will conclude with specific recommendations for development aid (capacity building to improve the current pension system) with regard to the underlying macro fundamentals in Ghana.

[5] The term macro fundamentals comprehends major macroeconomic indicators as well as other key determining factors in the environment of the financial sector and pensions systems (e.g. legal conditions, quality of governance, etc.)

2.2 Macroeconomic Fundamentals within the Transformation Process – Selected Experience from Other Countries

The improvement of macroeconomic fundamentals to support the sustainable economic development of a country is very demanding. Macro conditions represent the foundation for further projects to build up institutions, governance structure and democracy or to reduce poverty and improve the pension system. They depend on multiple variables that are not all in the control of the respective development agency. In addition, such projects often involve very high costs and their actual impact is subject to a controversial discussion among practitioners and scholars (McGillivray, Feeny, Hermes, & Lensink, 2005). Before going into detail on the macroeconomic situation in Ghana, selected country case studies about fundamental development shall shortly be evaluated.

As a main trigger to create a benficial environment for development, economic growth has been a major target of various development agendas. As factors behind economic growth te Velde et al. (2004, p. 2) distinguish between "outward orientation, domestic policies and institutions". The term "outward orientation" comprises policies to open up the economy and focus on export orientation. The study continues to provide evidence based on findings from Dollar and Kraay who stipulate a relative advantage of domestic policies (e.g. reductions on the size of the government and policies to reduce high inflation) in comparison to a purely trade-focused policy agenda with regard to the overall objective to increase the income of the poor (2001, p. 8). Nevertheless the authors also show that financial development may have a GDP per capita increasing effect but lacks on its own the ability to change the distribution of income (Dollar & Kraay, 2001, p. 8). Te Velde et al., however, already highlight the main problems with such findings: The significant variation between countries due to the mutual conditionality of the policies on each other (te Velde, Warner, & Page, 2004, pp. 2-3) Based on these findings they promote developing policies to improve institutions as key to a more successful and effective development aid. Following the IMF definition, institutions are subdivided into "quality of governance, legal protection of private property and institutional limits on leaders" (2003, p. 97). Differences in these categories between developing countries are regarded as main reasons for their divergent development. According to Rodrik good institutions adhere to the following criteria (2004, p. 1):

- investors feel secure about their property rights
- the rule of law prevails
- private incentives are aligned with social objectives
- monetary and fiscal policies are grounded in solid macroeconomic institutions

- idiosyncratic risks are appropriately mediated through social insurance
- citizens have recourse to civil liberties and political representation

This section will especially focus on the first five criteria to make a rudimentary assessment of the institutions in Ghana, as they can be directly linked to various decisions and determinants of a successful financial sector development and the functioning of the pension system in Ghana. As the case of Chile for example showed, a stable and successful economic development (at least with regard to openness and export promotion) does not necessarily require civil liberties and political representation (Silva, 1993, pp. 526-527). Many scholars instead focus on the factors determining growth in sub-Saharan Africa.[6] They mostly agree that the quality of institutions, the social capital and macroeconomic policies of the countries had a major effect on growth. The results also indicate that a reduction of poverty is most effective using policies to improve selected main sectors of employment of the poor like agriculture (te Velde, Warner, & Page, 2004, pp. 7-8). The latter does not represent a focus topic of this paper though. On macro level the cross-country study suggests low budget deficits with a broadening of the tax base, the shift of government expenditures from national enterprises towards productive assets (private sector investment) as well as monetary and exchanges rate policies guaranteeing low inflation and competitive exchange rates. Other recommendations focus on privatization, capital account liberalization and trade opening policies (te Velde, Warner, & Page, 2004, pp. 7-8). Christiaensen *et al.* (2003, p. 22), suggest a link between institutional quality and effective good macroeconomic policies, supporting the prior policy recommendation to focus on institutions.[7]

Various case studies appear to support this linkage. The case of Tanzania for example indicates a clear positive effect: Strengthening property rights and promoting FDI lead to a substantial increase in private investment in the country and to economic growth between 1990 and 2002 (te Velde, Warner, & Page, 2004, p. 34). The example of Cap Verde also supports the linkage between good institutional quality and successful growth. (te Velde, Warner, & Page, 2004, p. 33). The case of Zambia on the other hand indicates that despite institutional improvements and privatization policies (privatization of major copper mines) the dependency on a negatively developing commodity like copper (decreasing prices) can undermine the efforts and lead to an overall economic downturn (te Velde, Warner, & Page, 2004, p. 29).

In summary the development of institutional quality appears to be the most direct and concrete focus point for development aid to improve overall macroeconomic policies and to ensure the sustainable and stable development of key economic determinants influencing the financial

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[6] A detailed list of the findings can be found in te Velde, Warner, & Page (2004, p. 6.)

[7] See also (Rodrik, 2004)

sector in developing countries. Despite the described successes, case studies like Zambia also indicate the challenges to influencing macroeconomic variables and the difficulties to directly impact economic growth. The latter as well as other indicators like the interest rate or exchange rates remain dependent on various uncontrollable factors like commodity price shocks or regional conflicts that prevent a sustainable development and limit economic growth. Reduced growth rates among other things create less investment opportunities for pension funds and directly affect their capital accumulation. A holistic development aid approach should prioritise projects with regard to their immediate and sustainable impact that endures during crisis times. This also suggests to increase the capacity of governmental institutions to react to crises in an immediate and effective way and lastly to strengthen the ability of the country's economy to adapt to macroeconomic changes and to reduce the vulnerability via increased diversification efforts. Based on these more general findings a more detailed look at specific macro fundamentals and respective institutional capacities in Ghana will further enlighten the linkages between macro fundamentals and financial sector development and the effectiveness of the pension system in Ghana.

2.3 The Macroeconomic Context in Ghana and its Impact on the Financial Sector Development

To analyse the macroeconomic and institutional context for financial development in Ghana and further capacity building to strengthen the pension authorities and the overall pension system, selected variables will be assessed with regard to their impact and linkages to the proposed development agenda. Rather than just describing the macroeconomic situation in Ghana this section specifically aims at illustrating potential linkages to financial sector development and triggers for further development aid. It is not a conclusive summary of the macroeconomic situation but rather an incentive for specific fields of action.

2.3.1 GDP, Interest Rate, Exchange Rate and Inflation

In the last three years (2011-2013) Ghana managed to increase its real GDP by on average 10%. 2011 represented an exception with a GDP growth of 15% (see Diagram 1 in Annex 2). The real GDP is expected to grow by 8.2% in 2014 and by around 7.5% in the consecutive years. This highlights a stable growth path of the overall economy (Venugopal, 2014) though at a reducing rate. A stable and positive growth path induces foreign investments in Ghana and thus capital is accumulated in the financial sector, increasing its size. Moreover the raise of new businesses and economic activity increases investment opportunities for the pension funds and could also lead to higher contribution and participation rates as the disposable income levels increase.

The interest rate fluctuated between a minimum value of 12.5% in the second half of 2011 and the recent value of 18% (April 2014). After an initial increase from 16% to 18% in spring 2014 the rate has been stable at 18%. Forecasts, however predict further increases. Looking at the three last years the rate shows a clear upward movement. (Trading Economics, 2014b) An increase in the interest rate in general increases the opportunity costs of investing money and thus reduces domestic and foreign investment in the real economy. With regard to the development of the financial sector, high interest rates on the other hand induce domestic and foreign actors to save leading to a potential increase in capital available. The latter will be used by the banks for further investments and capital accumulation. This creates an environment for the development of financial products and benefits the overall financial system. A high interest environment could benefit the capital accumulation process of pension funds by increasing the future values of invested contributions. On the downside high interest rates also increase the opportunity costs of saving and hence reduce investment in the real economy. This effect slows economic growth and overall development. Development policies to increase interest rates to foster pension system capital accumulation thus bear high risks and should not be adopted due to their systemic negative impact on economic growth.

The value of the Ghanaian Cedi (GHS) decreased in the last three years from a value of around 1.5 (1 Dollar = 1.5 Cedi) in 2011 to the current value of 2.88 (1 Dollar = 2.88 Cedi) in April 2014. (Trading Economics, 2014c). The fluctuations show a general depreciation in the value of the Cedi. This development has a negative effect on the terms of trade of Ghana. Imports from abroad became more expensive whereas the conditions for exports improved. Foreign investors involved in the production of goods and services to be exported thus are expected to benefit from the depreciation. Many domestic small and medium-sized enterprises (SMEs) that are dependent on imports on the other hand will suffer. Nevertheless, exchange rate fluctuations increase the general volatility of investments and thus increase uncertainty of foreign and domestic investors. The overall effect on financial sector development is thus ambiguous.

The inflation rate has increased from around 8.7% in 2011 to 14.5% in March 2014. (Trading Economics, 2014a). The increase in the inflation rate appears to be in line with the development of the interest rate (as a counter measure) and the exchange rate. This can be regarded as a destabilizing factor to the Ghanaian economy indicating a potential overheating in the long run. With regard to the financial sector development the inflation rate needs to be controlled in order to secure the investments and to prevent a potential market crash.

The described fundamentals depend on various factors and are thus difficult to control completely. In order to strengthen and secure a sustainable economic development and thus to foster the financial sector in the long run, a specific focus should lie for example on improving the governance system of the Bank of Ghana in order to improve monetary policy and thus to keep inflation as well as macroeconomic goals in check. Sustainable and strong economic growth rates will create new business and new investment opportunities for pension funds. They could then diversify their risk via an active portfolio management with more stocks and company bonds. Although these often possess a higher risk premium, they also offer greater returns (SSNIT, 2013). Moreover any measures to keep the inflation rate at low levels will encourage people to participate in the pension systems as the future payouts will increase in value. Nevertheless the high interest rates to counter inflationary pressures will increase the government's cost of refinancing itself (International Monetary Fund, 2014). This can lead to a serious deterioration of public solvency and endanger among other things payouts of the first pillar of the pension system. It is thus essential to analyse the public budget as part of the outlined macro determinants of financial sector and pension development.

2.3.2 Public Income (Income taxation)

In order to reduce the temptation of governments to finance their policies by taking money out of the pension fund (or reducing first pillar contributions) and thus endangering future payouts to contributors and the credibility of the overall pension system, the availability and regularity of state revenues plays an important role. As the government possesses a regular and stable money inflow the necessity to use money from the pension system to finance other operations will be smaller. Income taxation is the most important source of governmental income in Ghana. In 2014 tax revenue is projected to account for GHS (Ghana Cedi) 20,351.1 million. The total budget of Ghana amounts to GHS 26,001.9 million. Thus tax revenues represent up to 78.3% of the Ghanaian budget (Terkper, 2013a, p. 8). In 2012 tax revenue amounted to GHS 12,584.1 million and 74.3% of the Ghanaian budget (Terkper, 2013b, p. 5). This shows the increasing importance of tax revenue in the governmental budget. Despite the projected increases in tax revenues the tax evasion is estimated to range from 4% to 14% of the official economy based on a study of the years 1990-2010 (Asante, 2012, p. 3). Apart from this optimization potential there are also various difficulties in taxing the informal sector that reduce the potential income of Ghana (Ofori, 2009). In order to provide for stable and increasing revenue streams in line with economic growth it is thus essential to improve the capacity of the tax authorities and strengthen their governance system (International Monetary Fund, 2014). Additionally Ghana should be encouraged to participate in global initiatives to reduce corporate tax evasion schemes of multinational companies with other developing countries[8]. Furthermore insurances should be made against ongoing fluctuations. Clear stipulated and enforced legal boundaries between the government budget and the collected pension contributions should be established that also limit the policy to potentially overinvest into government bonds. In 2011 7.87% of the investment portfolio of pension money was invested by the SSNIT in so called "held to maturity" investments that basically account for government bonds and HFC mortgage bonds (SSNIT, 2013, p. 18). In 2012 this number had increased to 14.4% (SSNIT, 2013, p. 18).[9] A holistic development approach aiming at a strengthening of the pension system should thus demand detailed insights into the portfolio dependencies and encourage the responsible agencies to diversify further in order to reduce their dependency on public solvency. The indirect financing of government spending could undermine the independency of the pension system and may jeopardize the solvency of the pension system in the long run depending on its amount. Again especially the latter highlights the importance to develop the financial market further in order to increase the availability of different investment opportunities for the pension authority. The described solvency issues directly relate to the issue of indebtness.

2.3.3 Indebtedness, Budget Deficits and Political Cycles

The overall government debt to GDP amounted to 49.4% in 2013 (Republic of Ghana - Ministry of Finance, n. d.), which showed an increase from 44.9% in 2012 (Trading Economics, 2014d). The same ratio was only 36.2% in 2010 (Trading Economics, 2014d). In the last years the indebtedness of Ghana appeared to be in stable and manageable levels. Nevertheless the continuing dependency of the country on grants and ongoing fiscal deficits highlight the importance of an active debt management and constraint on the spending site. The fiscal deficit in 2013 was 8.4% compared to 12% of GDP in 2012 (Terkper, 2013b, S. 5) (Terkper, 2013a, p. 3). Despite this decrease both years indicate that the respective lower target levels could not be reached. In addition, various reports highlight the impact of elections on public spending patterns. In 2012, for example, higher-than-budgeted wage increases in the public sector and the re-emergence of energy subsidies increased government spending and thus the pressure on the budget (CEPA Centre for Policy Analysis, 2013). The deficit 2013 increased to 10.9% of GDP despite exceptional measures to increase revenue (International Monetary Fund, 2014).

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[8] Countries like Zambia and Mongolia for example increased their efforts to tackle this problem (Robinson, 2013).

[9] It needs to be remarked that investments in HFC mortgage bonds are to a substantial degree more responsible for the increase of the position though (SSNIT, 2013, p. 40).

Debts and fiscal deficits remain an important challenge for Ghana on its way to a sustainable development. The problem of expensive gift-giving to the voting population particularly undermines fiscal austerity and endangers austerity measures as well as the credit rating of the country. The latter affects the value of domestic government bonds which represent a substantial part of debt financing. These government bonds are an important investment vehicle for institutional as well as private investors in Ghana's financial market. Weakening their value will also have immediate consequences for the pension authority's ability to make payouts as a lot of the pension contributions are invested there (SSNIT, 2013). Again the main linkage is trust. As long as the financial community and domestic and foreign investors trust in the ability of Ghana to repay its debts, the interest payments can be kept at a manageable level. Failure to commit to the loans will jeopardize domestic banks and financial institutions and will spill over to foreign investors and decrease their willingness to invest in the country. Such an erosion of the capital basis of the pension authority would also reduce the trust in the pension system and incite people to leave the system.

As a response, development aid agencies should try to incorporate meaningful and binding fiscal targets for the Ghanaian government in return for their grants and commitments. As these might be difficult to achieve, politicians and government officials should be educated and continuously informed about the impact of their policies. This information must be spread to the population in general as well in order to raise their awareness of the consequences of benefits (e.g. energy subsidies in 2012[10]) in election years and thus to limit the potential gain in votes due to such measures. Transparency and good governance must also truthfully inform about the budget status and the deficit and debt levels in order to gain trust in the financial market. Good governance thereby represents in itself a major macro fundamental to be taken into account for the successful development of the financial sector and capacity-building in the pension institutions.

2.3.4 Quality of Governance

As mentioned above the quality of institutions represents a major determinant of economic growth and the stability of macroeconomic variables. It is thus also a key determinant for guaranteeing a sound foundation for the development of the financial market and the effectiveness of the pension system. This paragraph will highlight governance issues related to institutions mainly responsible for macroeconomic variables. These include in particular the government and its offices, the central bank and the justice and legal system. Specific financial institutions and governance related issues of the pension authority will be looked at in later

[10] (CEPA Centre for Policy Analysis, 2013)

sections. As a first prerogative of successful governance the issue of human capital represents a major issue for developing countries. Finding suitable employees with the respective knowledge for the office and the acceptance among the domestic population is often a difficult task. Studies show that human capital remains a major issue affecting the effectiveness of governance and institutions in general (te Velde, Warner, & Page, 2004). It is thus essential for foreign development agencies to engage in the training and education of prospective and actual employees in the respective institutions. The latter will both improve policies and their implementation as well as build trust among foreign investors and credit rating agencies. The gain in trust on the other hand encourages investment and the development of the financial market. It also enhances domestic support and participation in relatively new concepts like the pension system after its reform.

A potential development approach could focus on leveraging the financial knowledge at domestic universities to either educate officials abroad or to transfer the knowledge to institutions within the country (Applegarth, 2004). The effort must, however, spread further via financial education projects in order to involve the whole population. This needs to start with essential concepts like saving in order to lay the foundation of a future understanding of the pension system and the opportunities of capital accumulation in the financial system.

Another factor important for the quality of governance is its actual reach. The informal sector and tax evasions for example represent major obstacles to the reach of tax collecting authorities that need to be addressed and overcome. The costs of governance lead to the problem of corruption. The current corruption index of Transparency International awards Ghana a score of 46/100 (2013) ranking the country 63rd worldwide (Transparency International, 2014). As the score of 100 indicates a very clean economy Ghana still needs to address this problem further. Corruption increases the cost of business and in that way also affects the financial sector development. Reducing corruption will lower transaction costs and strengthen the predictability within the Ghanaian financial market. Both have a positive impact on its development. Developing agencies can again work with conditionality clauses addressing governance achievements (Kolstad, Fritz, & O'Neil, 2008, p. 19) (Overseas Development Insitute, 2008, p. 49). Having set respectable rules does not cover the whole aspect of institutional quality. There needs to be a continuous assessment of the enforcement of rules especially with regard to legal stipulations.

2.3.5 Legal Conditions, Capital Control Liberalization, Property Rights, Bankruptcy Laws, Investor Protection

The legal framework for business in general and financial transactions in particular complements the number of macro fundamentals assessed in this section. Without sufficient and effectively enforced regulations a successful development of a financial sector is highly doubtful. Key prerequisites are for example defined property rights, the freedom of contract and a degree of capital control liberalization in order to allow for money inflows and outflows from abroad. As the financial sector develops though, more sophisticated regulations will be demanded like bankruptcy laws and additional investor protection measurements. Without these the financial system is prone to crashes and a massive loss of trust. In addition the legal system should encourage competition among the market participants.

According to a study about the status quo of rights awareness and enforcement, "rights have gained a stronger foothold in the Ghanaian psyche" (Anyidoho, 2009, p. 2). As part of current awareness campaigns the involvement of civil society organisations to spread knowledge about legal issues even to less urbanized areas in northern Ghana has been very promising and has been identified as the key to increase the legal reach and thus has been even more effective than the work of international donors. The investigation also indicated variations with regard to the awareness of specific rights. Land rights and economic justice appear to be less known and promoted thus highlighting the importance of continuing awareness campaigns to increase the reach of rights awareness and to develop trust in legislation and the legal system in general, especially with regard to financial matters (Anyidoho, 2009, S. 2,33). This could induce Ghanaians to save and use financial products like insurance and pension policies. In addition the development and codification of additional laws represents an essential task for Ghana to improve the security of the financial system and to protect the participants of it. The codification process of international treaties and legislation into domestic Ghanaian law was identified as slow by agencies involved in the promotion of rights and thus indicates additional potential for optimization (Anyidoho, 2009, S. 41). The development of new legislation in general is determined by both constitutional and practical challenges. According to Article 108 (Republic of Ghana Judicial Service, 1992), the Ghanaian constitution demands an initiation "by or on behalf of, the President" for any bills imposing a tax or charge on public funds. Thus the legislative, the parliament, is partly dependent on the executive approval to develop certain new rights (Anyidoho, 2009, S. 42). With regard to the financial sector development and pension systems this policy impacts both revenues and expenditures of the Ghanaian state. Taxes as a potential remedy to account for financial risks and to build securities demand the political backing of the president. On the one hand, the introduction of new taxes (to increase revenues and thus to reduce the primary deficit and the risk of the state using pension contributions for its financing activities) is affected. On the other hand this constitutional regulation also might represent a check on the legislative power.

A second obstacle to the development of new laws is the parliament's lack of expertise and resources in specific areas increasing its dependency on external advice and its ambiguous exposure to the influence of money and influential supporters to "mobilize the support of civil society and government" (Anyidoho, 2009, S. 42,43). Though this might increase the potential of corruption it also opens up opportunities for international organization to promote beneficial legislation for the country. Especially with regard to the financial sector, such legislation could raise the status of investor protection, improve the insolvency process and strengthen the property rights in general. The effectiveness of the pension system could both improve by an increase in reach due to increasing numbers of people trusting in the system and a higher security for its own invested contributions in the financial market.

Next to the issues concerned with the development and codification of new laws the development of successful financial markets and pension systems also demands a stringent implementation and enforcement. According to Anyidoho (2009, p.44) the main obstacle of the implementation process lies in the limitation of financial and human resources. Looking at an official ranking of contract enforcement[11] (see Table 1) supports the assessment of still existing potentials to improve (looking at the OECD average or peers like Rwanda and Cabo Verde) though the situation in the country also shows that Ghana outperforms various other peers like Nigeria or its immediate neighbour Côte d'Ivoire as well as the average of Sub-Saharan states. Especially the low cost as % of claim of 23% is very close to the OECD high-income average. Further potential could lie in a reduction of the time contract enforcement takes and of the number of procedures.

Country	Enforcing Contracts Rank	Time (days)	Cost (% of claim)	Procedures (number)
Ghana	43	495	23	36
Sub-Saharan Africa		652	51.1	39
OECD High income		529	21	31
Cabo Verde	35	425	19.8	37

[11] This ranking of the International Finance Corporation and the World Bank (International Finance Corporation; The World Bank, 2013) of course only represents one indicator to assess law enforcement and the strength of legislation. It needs to be taken into account that the ranking could vary based on a different definition and weighting of the categories.

Rwanda	40	230	78.7	23
Nigeria	136	447	92	40
Côte d'Ivoire	88	585	41.7	32

Table 1: Contract Enforcement (International Finance Corporation; The World Bank, 2013)

The ranking on investor protection (see Table 2), an issue of particular importance to domestic and foreign investors and thus central to the development of financial markets and the pension system, offers an even more optimistic picture. Although being outmatched by Rwanda, Ghana clearly is very close to the OECD high income average and clearly outperforms the Sub-Saharan African average and all other peers shown in the group.

Country	Protecting Investors Rank	Extent of Disclosure index (0-10)	Extent of director liability index (0-10)	Ease of shareholder suits index (0-10)	Strength of investor protection index (0-10)
Ghana	34	7	5	7	6.3
Sub-Saharan Africa		5	4	5	4.5
OECD High inc.		7	5	7	6.2
Cabo Verde	138	1	5	6	4
Rwanda	22	7	9	4	6.7
Nigeria	68	5	7	5	5.7
Côte d'Ivoire	157	6	1	3	3.3

Table 2: Investor Protection (International Finance Corporation; The World Bank, 2013)

Based on these findings on the general reach and quality of legislation and rights enforcement further improvements in the efficiency of the legislation process and increases in the awareness of actors possess a direct link to development of the financial sector and the effectiveness of the pension system in Ghana. Improving the quality of the legal system will increase the general trust of participants and the systemic security of the financial sector. This will favour the reach of financial products and ultimately the confidence in and spread of the pension system in the population.

2.4 Summary and Recommendations

Based on the analysis of key macro fundamentals in Ghana and selected case studies from selected Sub-Saharan developing countries various linkages between the macro environment and the development of the financial sector and the pension system could be identified. The most striking linkages between the different levels can be clustered as followed:

Trust in the future prosperity of the economy: Macroeconomic fundamentals like economic growth, the interest and inflation rates as well as the exchange rate indicate the economic development of Ghana. Without a stable and positive development investments in the country will be limited and further financial sector development be hindered. Ultimately this limits investment opportunities for pension funds and thus would lead to a less efficient and effective capital accumulation. The inflation rate highly influences the decision-making rationale of the people to contribute to a pension system, as a high inflation will diminish the value of their future payouts.

Solvency of the state: Revenue and expenditure patterns of the Ghanaian state and the development of deficits and debts influence the solvency of the state and the risk of investments in government bonds. New taxes to finance increasing deficits or the failure to repay debts represent obstacles to the development of the financial market.
The risk of insolvency might induce governments to use contributions marked for the pension system for their financing activities either directly or indirectly as increased investment of pension funds in government bonds. The stability of the pension system demands a solvent and sustainable budget management.

Security of investments: The quality of governance within state institutions and the bank of Ghana as well as the quality of legislation and law enforcement decisively influence the financial sector development. Only strong investor and contract protecting laws and their stringent enforcement will encourage foreign and domestic investments.
The participation in the pension system becomes more attractive to Ghanaians as they see their contributions legally protected and effectively governed. Legal Asset security improvements will also promote saving money and hence raise the awareness of the population for the financial market and the insurance of their future via pensions.

Identifying these linkages enables a deeper understanding of the interdependencies involved in the development and improvement of the pension system and its capacities. The pension system remains highly influenced by the financial market and the economic conditions of the country. Hence it is essential to be aware of these linkages in order to assess the impact of macro fundamentals on any optimization efforts. A high interest rate for example may on first sight induce further savings and benefit the capital accumulation process. A closer look on the real economic consequences, however, suggests a reduction in investments and economic slowdown. To mediate or at least to be aware of such dependency effects demands a holistic approach toward development aid that closely aligns development projects and agendas in a combined effort to prosper the country or in this case the pension system. This approach could spread to a deeper international cooperation between investment efforts not only with regard to foreign direct investment attraction but also on a more basic level with locally working agencies like the Enviu on micropensions (This will be analysed in more detail in the section about micropensions and NPRA recommendations). With regard to macro fundamentals the following recommendations are of particular value:

General Recommendations:

- Extend capacity building efforts towards governmental institutions and the Bank of Ghana in order to ensure that deficits and inflation rates are kept at a low and manageable level. This will increase the attractiveness of the pension system as future payouts diminish less in real value. Keeping the state finances sound will protect future contributions to the first pillar. In addition a sound budget policy will decrease the risk of default on government bonds and the collapse of other assets used for capital accumulation. Thus tax collecting authorities should be strengthened and expenditures put under higher scrutiny.
- Arrange and accompany a regular coordination of major economic and governmental institutions and the pension system authorities to foster the dialogue and to develop joined efforts to increase the reach and attractiveness of the pension system among the population. Increasing the financial education of the people to promote insurance systems like pensions for example can only be jointly achieved.
- Extend aid efforts towards the environment of the pension system and the necessary conditions it needs to foster. Thus pay attention to improve the conditions of "doing business" (private sector development). These could include measures to reduce red-tape and corruption as well as incentives to enhance the quality of the legal system with regard to enforcement. Apart from improving conditions for foreign direct investments attention should also be paid towards potential projects to increase the "missing middle" (PwC, 2013) and hence to encourage the development of the SME sector. In the long run such measures increase the supply of investment opportunities for the pension funds and decreases dependencies on the state via a more diversified portfolio.

3. Financial Markets

Many studies have tried to determine the impact of three-tier pension funds, and especially the creation of an, at least partly, privately, fully funded pension system, on financial markets development. It is often argued that the creation of funded pension plans has a long-term impact on the functioning and growth of financial markets (Mesike & Ibiwoye, 2012). Empirical studies are however unclear on whether it has a positive or a negative one (Mesike & Ibiwoye, 2012; Casey & Dostal, Pension reform in Nigeria: how not to 'learn from others', 2008). It is said that pension reform has certain effects on economic development, but for these effects to occur, some criteria are set as prerequisites. For instance, sound financial markets are said to be a *sine qua non* condition for the implementation of a strong funded pension system, alongside strong macroeconomic fundamentals (as seen in the previous section), but also progressive capital control liberalization, adequate regulations, property rights, bankruptcy legislation, investor protection, and privatization of SOEs (Blake, 2003; Walker & Lefort, 2002). Walker and Lefort (2002) go a step further, asserting that pension reform is closely related to capital market development, as the creation of a fully funded, privately managed, pension pillar leads to a need for better investment instruments and deeper financial markets.

In this part, we will see first the theoretical arguments that support a positive link between pension reform and financial market development; then we will have an overlook of the Ghanaian financial markets to see where the country stands in terms of soundness and development. Finally, we will look at empirical findings from other countries having implemented the three-tier system but re-reformed it due to malfunctions.

3.1 Effects of pension system reform on capital markets: Theoretical inputs

In this section, we have a look at the main expected effects of a pension reform on the economy via the development of capital markets. This analysis is based mostly on arguments from Walker & Lefort (2002).

From a theoretical point of view, the pension reform has an effect on economic growth via capital markets through two channels: (1) increased savings; and (2) better allocation of savings. Research has shown positive correlation between sound financial market development and economic growth (Hermes & Lensink, 2000; Walker & Lefort, 2002). It is supposed to lower the cost of capital to the real sector, which would in return accelerate economic growth. Financial institutions provide important services such as facilitating trading, diversifying and pooling risks, etc. Moreover it is supposed to stimulate savings mobilization and allocation to the most efficient investments projects thanks to ratings.

3.1.1 Increasing Savings

The effect of pension reform on savings depends on many features of the reform and of the economy. In particular, important aspects are how the transition toward a new pension system is financed and to which extent mandatory savings have a crowding out effect on voluntary savings. It is still unclear whether financial development positively influences the private savings rate. Pagano would argue that financial developments do increase national savings (Pagano, 1993), while others argue that in its narrow sense, prefunding does not amount to increased national savings because individuals have offsetting strategies (Orszag & Stiglitz, 1999). In addition to this, pension reform is supposed to accelerate the process of capital market development, thanks to better screening and monitoring of new projects and diversification of systemic risk (Walker & Lefort, 2002).

Empirically the findings confirm the ambiguity. It is hard to find a case that corroborates the theory. The evidence from Chile for example is mixed. National savings rose substantially from the early 1980s to the mid-1990s, but it is still unclear how much of that increase should be attributed to the pension reform (Orszag & Stiglitz, 1999).

3.1.2. Cost of capital reduction for firms

By allowing private savings to be intermediated by financial markets, pension reform may imply a reduction in the cost of funds for firms, as savings do not go into private equity, gold and other illiquid assets, but into the financial markets. By better allocating financial resources, pooling long-term savings, financial intermediation of private savings would bring down the cost of capital for the real sector (Walker & Lefort, 2002).

Here we expose three arguments in favor of cost of capital reduction as presented in Walker & Lefort (2002). First, if the capital markets develop, the direct costs of issuing securities are likely to be lower. This naturally leads to a reduction in the cost of capital. Then, pension funds rather invest in longer-term projects than the short-term instruments provided by banks. Those long-term-higher-expected-return investments are better fitted to finance heavy development projects that are seen as riskier by short-term investors but have high long-term impact on the economy and therefore underpin higher expected economic growth. By having access to longer investment maturity, individuals and most importantly firms would therefore pay a lower “liquidity premium”. Third, the equity risk premium is also likely to decrease: as pension funds manage more money the average risk tolerance of the capital market is supposed to increase.

Those three arguments should hold even though pension reform may not increase total savings, thanks to a better allocation of investment funds.

3.1.3. Financial Market Integration

A sound institutional environment is a prerequisite for the development of the international integration of financial markets. Walker & Lefort (2002) define financial integration as "an alignment of the risk-return trade-off with the rest of the world's" (p. 17). Thanks to deeper liquidity, transparency and, most importantly, protection of minority shareholders' rights, more foreign portfolio investment can be expected.

From another perspective, pension funds can become quite large for the size of the domestic economy and may thus not find investment opportunities on the local capital markets.[12] Therefore the probability of allowing local funds to invest abroad becomes more likely. However this effect can be limited by regulatory restrictions. A sudden reversal of foreign inflows can also put one's economy at high risk of financial crisis.

However, pension reform alone is not the only explanation for a reduction in the cost of capital for firms. The latter can occur even without a pension reform, through better financial integration per se. It is unclear to which extent pension reforms are actually responsible for a lower cost of capital and it needs to be measured on a case-by-case basis (Walker & Lefort, 2002).

3.1.4 Reduction of Transaction Costs, Increased Liquidity and Lower Price Volatility

Theoretically, more liquid (less expensive) stock markets support longer-term investments because investors can more easily sell their stakes before the project matures. Investing in better and longer-duration investments is likely to underpin increased economic growth. There may also be a virtuous circle between increased liquidity, transaction cost and volatility due to economies of scale (IFC, 2013).

For those positive effects to occur, the investor base must widen, as well as the access to more information and analysis. Only then, lower security price volatility can occur and higher volumes can be traded.

[12] Mail interview with B. H. Casey (07.05.2014): „Vanity "infrastructure" projects are not a good idea and involve more waste than anything else. Local companies often do not have the capacity to absorb or are not sound enough to merit being invested in. „

3.1.5 Secondary Effects on the Financial System's Structure and Other Markets

A pension reform may imply the development of other competing or complementary bodies. Government financing, the banking sector or the life insurance industry may be affected. Walker & Lefort quote Blommestein's paper (1998) on the development of life and disability insurance industry in OECD countries. The housing industry can also be affected if the mortgage bond market is successful.

As the capital market develops, the banking sector is likely to limit its activities to shorter-term financing and/or on individuals and smaller firms. In the absence of sound capital markets, financial systems are likely to be bank-centric, which concentrate financial risk in the banking sector with no alternate channel of intermediation (IFC, 2013).

Keeping in mind the theoretical background above, the following section is an attempt at describing the Ghanaian financial sector and at assessing its stage of development to see if the expected effects of the pension reform are already noticeable. Some explanatory characteristics will be presented.

3.2 Structure of the Ghanaian Financial Sector

The financial sector is the set of institutions, instruments, and the regulatory framework that permit transactions to be made by incurring and settling debts; that is, by extending credit.[13] The following analysis does not claim to be exhaustive and is limited to three main segments of the financial sector, i.e. the banking sector, the insurance sector and the capital markets.

Ghana's financial sector has grown rapidly over the past years, thanks to good resilience and FDIs flowing into the oil and gas industry. Total financial system assets increased more than 13 fold over the last ten years to an equivalent of approx. US$16 billion (IMF, 2011).

As of 2010, the financial sector was largely dominated by commercial banks, which were accounting for 75% of the total assets of the financial system. Pension funds followed distantly with a small 12% share and the insurance sector with a 4% share (IMF, 2011).

3.2.1 The Banking Sector

The financial sector is the pivot around which an economy revolves and one crucial player in this sector are banks. Hence, the level of resilience of any economy largely depends on how sound its banking industry is. However, if the financial sector is bank-centric, there is the risk of a mismatch between short-term and high-interest-rate banking loans and the need for heavy

[13] OECD, http://stats.oecd.org/glossary/detail.asp?ID=6815 (retrieved 01.05.2014)

investment projects for long-term cheaper financing usually provided by capital markets. Another macroeconomic risk linked to a bank-centered financial sector is the higher probability of a systemic shock, either through the outflow of foreign investments, or the degradation of sovereign ratings, or financial conglomerates of banks, insurances and government institutions, etc.

The Ghanaian banking sector is the 2nd largest of the West African Monetary Zone (WAMZ) region after Nigeria, with an asset size of US$ 14.27 billion. However, it lags far behind Nigeria that has almost ten times more banking assets, with US$ 136.9 million. Ghanaian banking industry still has a significant growth potential, as its total assets-to-GDP ratio was still low at 38% in 2012, indicating that there are still opportunities for further expansion (Ecobank, 2013).[14]

3.2.1.1 Structure

Ghana's banking system is dominated by foreign banks. Of the 26 commercial banks operating in Ghana, 12 are locally owned while the rest is foreign-majority-owned by African, Nigerian, European and American investors. Subsidiaries of foreign banks account for an estimated 51% of bank assets.[15]

The domestic market is dominated by state-owned banks. They account for approximately 30% of financial assets, which is one of the highest of the Sub-Saharan countries. The BOG has majority and significant shareholding in three commercial banks, while the SSNIT has majority shareholding in two banks and significant shareholding in nine others (IMF, 2011). The government has tended to use state-owned banks to finance extra-budgetary expenditures.

Concentration has declined in the banking sector. The market share of the 5 largest banks has decreased from 61% in 2005 to 46% in 2010 (IMF, 2011). This can be partially explained by the licensing of several banks. However, these top five banks still accounted for 46% of aggregate assets, 36% of aggregate loans and 47% of aggregate deposits in 2012 (Ecobank, 2013), making the probability of systemic risks quite important.

3.2.1.2 Soundness and Resilience

In Ghana, the economy's good resilience to shocks in recent times has attracted a lot of investments in the country. However, following the global financial crisis, the domestic economy experienced pressure that led to a massive deterioration in the quality of banks' assets. In the

[14] For a broader comparison of West African Countries to the rest of Africa, see Annex 3: overview of the African banking sector

[15] BoG, http://www.bog.gov.gh/index.php?option=com_content&view=article&id=82&Itemid=124 (retrieved 04.05.2014)

aftermath of the crisis, Ghana's GDP decelerated significantly and inflows of capital and remittances declined. As a number of foreign investors left the government debt market, the exchange rate depreciated by more than 50% between 2008 and 2009 (IMF, 2011).

On top of that, official indicators of financial soundness do not provide an accurate picture due to weaknesses in banks' financial accounts. A 2011 IMF mission observed a lack of standardized practices resulting in an overstatement of capital, profitability and liquidity in banks' reports (IMF, 2011).[16]

Nevertheless, at an aggregated level, the banking system was found liquid, profitable and well-capitalized (IMF, 2011; Ecobank, 2013). The entry of new players and a central bank directive requiring all banks to increase their stated capital from GHS 7 million in 2008 to GHS 60 million by the end of 2012 have brought significant capital into the Ghanaian banking sector in the past decade. The aggregate stated capital jumped from GHS 126 million in 2005 to GHS 2,167 million (USD 1,136 million) in 2012 thanks to capital injections by parent companies of foreign banks operating in Ghana, rights issues and private placements (IMF, 2011; Ecobank, 2013).

However taken one by one, many banks had very high levels of non-performing loans (NPLs) and stress tests indicated that even a modest deterioration in asset quality would have led to insolvency of several banks (IMF, 2011). Since mid-2012, despite a strong growth in credit, the ratio of NPL has not fallen but merely stabilized around 13%, while high interest rates increase the risk of a renewed deterioration in banks' credit portfolio (IMF, 2013). This result is in line with the finding of the 2014 Index of Economic Freedom that describes the Ghanaian banking sector as undercapitalized, especially among the small and medium sized banks, and with limited access to financing.[17]

Probably aware that the previous minimum capital was not sufficient to finance long-term and large transactions, the BOG has recently doubled the minimum capital requirement for new entrants from the GHS 60 million to GHS 120 million. Existing banks have been given the flexibility to comply according to their own specific financing needs and risks. Currently, only one bank is in compliance with the new regulation, which means that almost all banks will need to raise capital in the coming years (Figure 1).

[16] See also, The Financial Times: http://blogs.ft.com/money-supply/2013/10/31/sub-saharan-africa-5-takeaways-from-the-imf-report/ (retrieved 10.05.2014)

[17] The Index of Economic Freedom is an annual index created by the Heritage Foundation and the Wall Street Journal to measure and compare the degree of economic freedom between countries. http://www.heritage.org/index/country/ghana (retrieved 03.05.2014)

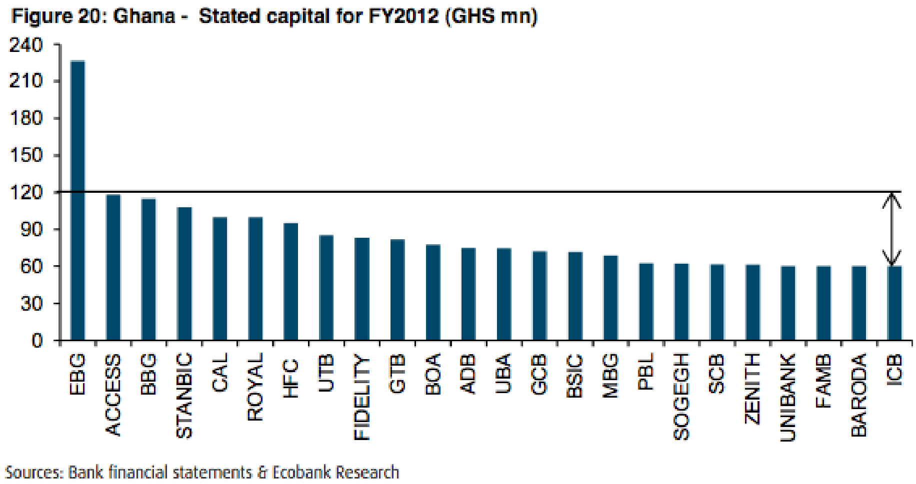

Figure 1- Ghanaian banks' stated capital for FY2012 (Source: (Ecobank, 2013))

Finally, compared to peer countries, Ghanaian banks are in line in terms of aggregate capital adequacy and profitability but their NPL ratio is much higher (Figure 2). However, according to EcoBank (2013), the loss portion of NPLs that accounts for 60% of the total NPLs has been fully provided by Ghanaian banks but they are unable to write it off because of BGO's prudential guidelines. If this is true, the asset quality of the Ghanaian banking sector would be better than figures show.

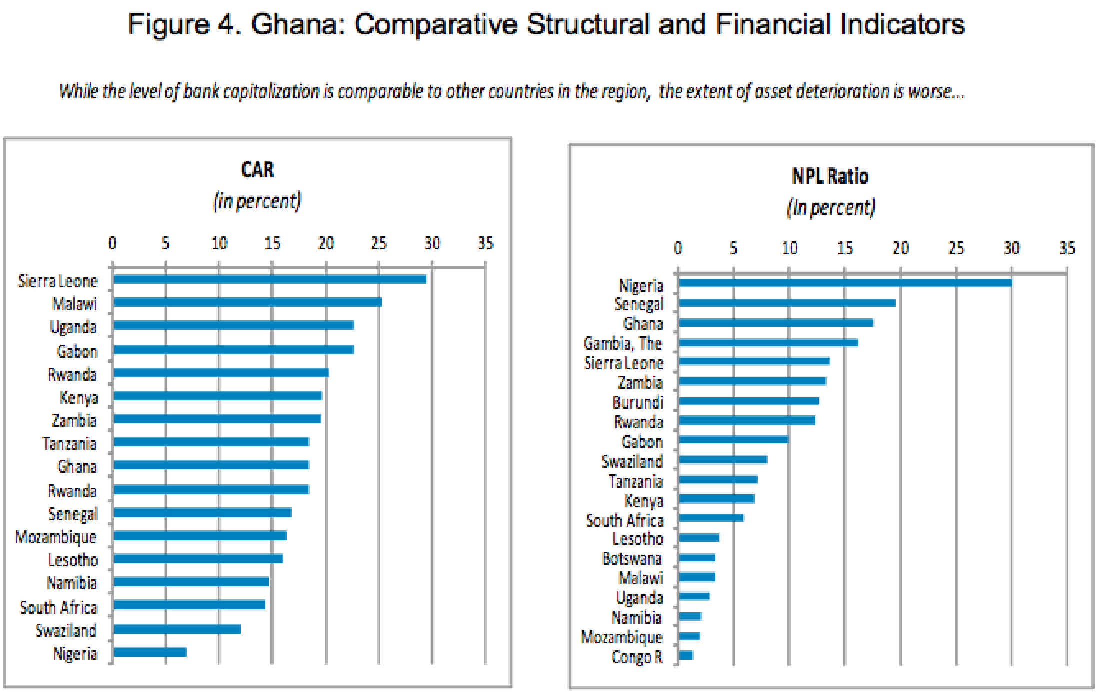

Figure 2- Comparative indicators of banks' capitalizations and NPL ratio (Source: (IMF, 2011))

3.2.2 Nonbank Financial Institutions

3.2.2.1 Insurance Sector

The insurance sector remains very small, with only 4% of the total assets of the Ghanaian financial system (IMF, 2011). However, it shows similar trends as the banking sector, with an important weight of foreign companies. Of the 42 companies operating in Ghana, 16 have significant foreign participation, height are fully foreign owned, and a number of new entrants come from Nigeria (IMF, 2011).

Concentration also remains very high, although the number of companies operating almost doubled between 2005 and 2010. Five out of 23 non-life insurance companies write about 78% of the premiums, while five out of 19 life insurance companies write 68% of the total life premiums.

The insurance industry faces important challenges, as penetration ratios remain low despite rapid growth in the number of players. This is due to low income levels, illiteracy rates, dominance of the informal sector, lack of trust in the insurance companies and cultural unawareness of the benefits of being insured. Moreover, the growing practice of discounting premiums has led to an increase from 25% to 45% of unpaid premiums between 2006-2011. This threatens the profitability, liquidity and solvency of the concerned companies. Moreover, regulation and supervision have not evolved as quickly as the whole industry has. Therefore, there is a risk of high expense ratios and the incidence of fraudulent claims (IMF, 2011).

3.2.2.2 Pension Funds

The shift to a three-tier pension system created needs for further adaptations to address gaps in the Pension Act. Challenges to address are among others: the SSNIT's current de facto monopoly,[18] benefits improvement and coverage extension to the informal sector. In fact, the third-pillar is already open to the informal sector's participation on paper, but in practice little change has been observed.

Currently, the SSNIT still holds a central position within the financial sector. It is still the main provider of pensions in Ghana and has significant shareholding in nine of the 26 commercial banks, majority shareholding in two banks. It also holds a significant share of deposits in the banking system. In the capital markets, the SSNIT is dominant with positions in 22 of the 34 listed companies, and it accounts for over 81% of local funds under management. It holds equity in two insurance companies, one of them being one of the largest insurance companies. Finally, it also acts as a primary dealer in the T-bill market (IMF, 2011).

[18] The SSNIT accounts for more than 80% of pension assets under management (IMF, 2011).

This monopoly position in such a weak market is likely to create significant distortions, including on capital markets. Fostering more competition and regulating monopolies would decrease the systemic risk for the overall pension system to fail if a single pension fund goes bankrupt. Furthermore the monopoly position of the SSNIT is likely to discourage creative innovations and efficiency enhancing efforts on the financial markets.

3.2.3 Capital Markets

3.2.3.1 The Ghana Stock Exchange

The Ghana Stock Exchange (GSE) has a market capitalization for 2012 of US$ 3.5 billion (11% of GDP).[19] 2012 witnessed increased activities, driven mainly by equities in finance, food & beverage, distribution and energy sub-sectors. However, its size remains relatively small. To compare, the Nigerian Stock Exchange (NSE)'s market capitalization dropped from US$ 80.6 billion (30% of GDP) at end-2008 to a low point of US$ 27.7 billion before recovering to US$ 52 billion in 2012 (IMF, 2013). In 2011, only one company, the AngloGold Ashanti, accounted for 67% of the GSE market capitalization (IMF, 2011).

3.2.3.2 Long-Term Financing

The Ghanaian securities industry has not played its expected role of resource mobilizing and long-term financing for the economy. Equities dominate the industry and the debt market consists predominantly of government securities. The corporate debt market is at an embryonic stage, partly because of a heavy primary issuance framework, lack of a liquid benchmark treasury yield curve, concentrated investor base, as well as a high inflation and high interest environment (IMF, 2011). It currently has only one outstanding issue of about US$ 3.9 million and a few privately placed bonds. The market remains very concentrated.

The market lacks depth and liquidity. Average daily trading volume on the GSE was at 763,000 shares over the first half of 2013, compared with 30 million on the FTSE Kenya 25 index and 211 million on the Johannesburg Stock Exchange, according to Bloomberg.[20] Indeed, only 35 companies are listed on the GSE; as of 2013 no company had sold bonds on the domestic market since 2008 and the last IPO was held in 2011. Moreover, parastatal and state-owned institutions, holding a majority of the available shares in the listed firms, tend to buy "safe stocks" shares and hold them for the long-term.

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[19] TradingEconomics. http://www.tradingeconomics.com/ghana/market-capitalization-of-listed-companies-us-dollar-wb-data.html (retrieved 04.05.2014)

[20] Bloomber (08.10.2013), „Ghana pension avings seen rising fivefold driving sales".
http://www.bloomberg.com/news/2013-10-08/ghana-pension-savings-seen-rising-fivefold-driving-sales.html (retrieved 11.05.2014)

There was good hope that, following the Pension Act Reform of 2008, the entry of privately managed pension funds would stimulate the bond market and encourage issuance of corporate bonds. "From next year we suspect that there will be share sales from companies motivated by the pension funds," said John Ofosu Awuku, a portfolio manager at NDK Asset Management Ltd. in Accra, in October 2013.[21] Pension fund managers can invest as much as 30% of their funds in company debt, 75% in government securities and 10% in equities, according to the NPRA. However, the results are still awaited.

There is an initiative under discussion to establish another capital market for SMEs as the current GSE includes only the largest firms in Ghana and some West African firms that are listed on more than one exchange. This initiative will most probably face significant cultural challenges. There is little incentive to take one's company public. Even the possibility to obtain capital for expansion through IPO is not attractive in Ghana. Due to the dominance of family businesses, especially among SMEs, there is strong reluctance to give up control of the business (Evans, Cruickshank, & Minopoli, 2011). Commercial banks and to a much larger extent informal networks (family and friends, etc.) remain the main financing bodies of the SMEs and more broadly, the whole economy (idem).

As one can see, the room for improvement in the Ghanaian financial markets is still vast. The expected effects of the pension reform on the economy have not been optimal yet.

The next section presents some classical, mainstream, recommendations and tries to balance them with empirical findings from other countries, as Ghanaian financial markets may be at a too early stage of development to support a fully pre-funded system. Therefore reformers may have to concentrate their efforts at the same time on developing financial markets and on the regulatory capacity

3.3 Learning from Other Countries & Recommendations

The 2008 financial crisis represented a turning point in the conceptualization of pension reforms. While before 2008, most developing countries had reformed their pension systems according to the three-tier system advocated in the World Bank's influential report "Averting the Old-Age Crisis" (1994), most of the post-2008 reforms were far more diverse in their policy responses, finally acknowledging that the model promoted would concern mainly advanced economies.

The evidence of misconceptions in the traditional pension reform design now challenges the traditional policy responses that used to be put forward and can provide interesting inputs for the case of Ghana's pension reform strategy.

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[21] Idem.

3.3.1 De-Privatization of Pension Systems

In the last three decades, "structural reforms" totally or partially privatized social security pensions. Why was the World Bank "model" advocating so strongly toward privatization of the pension systems? It was believed that privatization is the remedy to distrusted and unaccountable governments. If the citizens have no faith in their governments but in capital markets instead, privatization becomes a "game" in political credit-claiming. With the 2008 financial crisis, capital markets, too, have lost the trust of most citizens.

Moreover, evidence shows that the privatization did not have the positive spillovers expected by the reformers in other middle-income countries (Mesa Lago, 2014; Casey & Yiallouros, 2013; Hagemejer, Makarski, & Tyrowicz, 2013). For instance, a private system managed by private for-profit firms was supposed to create a competitive environment that would efficiently lower administrative costs to reasonable levels. The expected competition did not work well in reality, especially in countries with small insured markets like Hungary, Argentina or Chile. Instead of underpinning competition, most countries faced increased concentration in the number of AFPs and administrative costs remained high. Quite interestingly, because Bolivian private pension funds were in a duopoly setting, therefore without competition or marketing costs, Bolivian AFPs had the lowest administrative costs of the compared countries (Mesa Lago, 2014).

Under privatization, theoretically, the state plays a "subsidiary role" to the market. In practice, the state always plays a key role, even in pension systems where the largest share of insured is in the private system. As affiliation and contribution are mandatory for salaried workers, the state regulates, supervises and guarantees the system. It also finances all the costs of transition. With the wave of re-reforms, the need for state's involvement was more straightforwardly acknowledged. Post-2008 re-reforms in Argentina, Hungary and Bolivia have partially or totally de-privatized the whole pension system, and created or expanded state-financed benefits (Mesa Lago, 2014).

Another underestimated effect of the first pension reforms towards privatization was the cost of the transition. The reforms have generated significant transition costs that were fully financed by the state, generally through taxes on consumption. In the case of Chile, fiscal costs of the first structural reform were as high as 5% of GDP in 2020; but those of the re-reform only 0.68% (Mesa Lago, 2014).

3.3.2 SMEs Financing, Promotion of Domestic Investment Projects and Diversification to International Financial Markets

From a poverty alleviation approach, two issues need to be discussed when it comes to pension funds' investment options. First, it is often recommended that pension funds' investments should go to the financing of domestic SMEs to support the growth of the local private sector. The second option is to finance ambitious long-term infrastructure projects on the basis that efficient infrastructures are a prerequisite for the development of business. Both are of course closely interlinked.

To start with the first point, it is often underlined that developing countries lack a strong SME sector. This is widely known as the "missing middle" phenomenon (see for instance PwC, 2013). One obvious problem is the lack of affordable private sector financing. International organizations therefore strongly recommend that investment goes into SMEs and that credit access should be facilitated (IMF, 2013). The private-credit-to-GDP ratio is often used to illustrate the lack of affordable SMEs financing. Figure 3 shows that Ghana still lags far behind Kenya and even below the Sub-Saharan countries' average although an adjustment is perceptible.

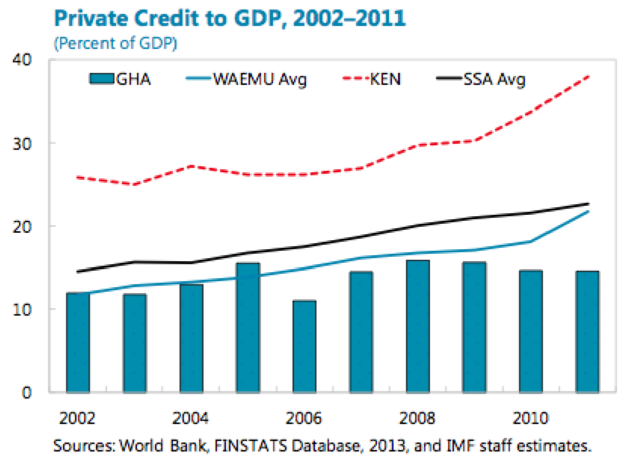

Figure 3 - Private Credit to GDP (Source: (IMF, 2013))

However, investing in immature capital markets can be very risky for pension funds if the SME sector is not developed enough. It can be merely impossible, as domestic corporate bonds are almost inexistent on the financial markets. As discussed previously, one of the challenges is cultural as SME owners are reluctant to lose their control of their family business (Evans, Cruickshank, & Minopoli, 2011). A communication program could improve this mistrust and improve knowledge about the use and benefits of the capital markets. Then, one should question the capacity of a country to absorb the extra savings, which depends on the size and soundness of capital markets.[22]

[22] Mail interview with B. H. Casey (07.05.2014).

The second option would be to invest in ambitious infrastructure projects. The issue it raises is whether the tender should be international or domestic. If it is domestic, are there existing companies with the capacity to run such projects? "Local companies often do not have the capacity to absorb or are not sound enough to merit being invested in".[23] If the tender is international, then it is politically hard to justify that national savings go into foreign companies and indeed it does not help local companies to benefit from the investment. It also increases the risk of volatility and investment outflows, therefore rendering the domestic economy more fragile.

However, even if "vanity" infrastructure projects lack the empirical proofs that they actually lead to long-term growth,[24] most international organizations still recommend such policies. The AfDb's US$ 20 million investment in an infrastructure fund embodies this belief. As it is stated on its website, "the lack of efficient infrastructure is a major obstacle to doing business in West Africa. Better infrastructure in the region would create an enabling environment for economic growth by competitiveness of local production, promoting foreign direct investment and facilitating trade."[25]

Finally, as far as financial sustainability of the pension funds is concerned, many middle-income countries have had quite low average capital return, mostly due to the portfolio composition of the invested fund (determined by law and usually heavily concentrated in public debt). It is interesting to compare Ghana to Bolivia who also lacked a developed capital market and therefore had very few investment options. Funds' share in public debt rose to 75% in 2006, with initially quite high interests, thus high returns. But later the government emitted low-yield public bonds and forced the funds to invest in it. The only other investment was in short-term bank deposits also disbursing low interests. Little was invested in stocks and even less in foreign emissions (due to regulatory ban). Therefore, the pension funds were not affected by the global financial crisis, but the portfolio concentration in very low-yield instruments led to decreasing average returns (Mesa Lago, 2014).

[23] Idem.

[24] Idem.

[25] AfDB, „Infrastructure Development in West-Africa". http://www.afdb.org/news-and-events/article/infrastructure-development-in-west-africa-afdb-invests-us-20-million-in-arm-harith-infrastructure-fund-12517/ (Retrieved 13.05.2014)

3.4 Recommendations

General Recommendations:

- Strengthen the supervisory capacity of the NPRA and the SEC
- Address the stability risks, especially reduce the involvement of the state in the financial sector
- Promote and build a long-term development strategy through sound infrastructure development and private sector financing
- Improve the accountability and transparency in all sectors
- Foster foreign-domestic partnership to build political capacity and solve efficiency related challenges

Sectoral Recommendations:

Banking sector:

- Strengthen systemic risk analysis, accountability capacity and transparency
- Strengthen banking supervision
- Reduce statal participation in banks, design an exit strategy for diverting BOG shareholding in banks
- Address NPL issues, ensure that the minimum capital requirement is respected
- Build systemic risk analysis capacity

Insurance Sector

- Strengthen the regulatory and the supervisory capacity
- Raise the minimum capital requirement to ensure financially sound companies
- Address the issue of discounting and premiums practices

Capital markets

- Enhance supervisory capacity
- Ensure operational and financial independence of the SEC
- Improve knowledge and trust in capital market through educational raining programs

4. Micropensions

The following paragraph presents the concept of micropensions. Firstly, the concept is briefly explained both theoretically and empirically by looking at the concrete findings and policy lessons learned of the Indian case. Secondly, the focus is shifted to Ghana by assessing their needs, demand and other essential factors in the potential implementation of micropensions.

4.1 How Do Micropensions Work?

A micropension is a means of long-term saving by low income workers, typically from the informal sector. The goal is to provide income security after retirement. Or, as many informal sector workers never do retire, provision for a time when they are less productive because of old age (Shankar & Asher, 2011, p. 2). Micropension schemes are based on voluntary savings over long-term periods, which are intermediated by fund managers and financial and capital markets (Uthira & Manohar, 2009, p. 38). Like a general pension scheme, it must address longevity, investment and inflation risks (Collins-Sowah, Kuwornu & Tsegai, 2013, p. 23). Also, features like portability and survivor-benefits should be included. What distinguishes a micropension from the usual pension scheme is the typically low and irregular income of its investor (ibid.).

4.2 Micropensions in India

India is a pioneer country in the area of micropensions. Three NGOs have introduced the micropension concept in collaboration: UTI Mutual Fund, Self Employed Women's Association (SEWA) Bank and Self Help Promotion for Health and Rural Development (SHEPHERD) (Collins-Sowah, Kuwornu & Tsegai, 2013, p. 23). Interestingly, India faces a comparable situation to Ghana regarding old age and informal sector challenges. Thus, looking at how India deals with these problems by means of micropensions can provide valuable insights for the Ghanaian pension reform.

As is the case in Ghana, India experiences a dwindling of traditional and/or familial social security provision (Kakwani & Subbarao, 2005, pp. 6-8; Uthira & Manohar, 2009, p. 37). The Indian means-tested National Old Age Pension scheme achieved only low coverage (10-15%) (Shankar & Asher, 2011, p. 4). So just like Ghana, India went through a pension reform recently, in 2009 (Shankar & Asher, 2011, p. 5). Their new system is mandatory for all employees of the central government, and voluntary for all informal sector workers (Uthira & Manohar, 2009, p. 37). The government, in an attempt to increase the new pension systems' attractiveness, contributes a certain sum annually to each voluntary member's account whose annual inpayments are below a certain threshold (Shankar & Asher, 2011, pp. 5-6)26.

In general, there are different models of micropension provision. For example, in a partner-agent model a Micro Finance Institute (MFI) offers the micropension to the investor, while an insurance company manages the savings (Collins-Sowah, Kuwornu & Tsegai, 2013, p. 23). Another example is the Grameen Pension Savings concept (Shankar & Asher, 2011, p. 3)27. Uthira and Manohar in their 2009 study developed a full micropension scheme model for the Activists for Social Alternatives (ASA), an Indian MFI, and tested its effectiveness, coming to an optimistic conclusion (pp. 41-47).

Shankar and Asher provide two case studies from India. From the UTI micropension scheme we learn that the involvement of third parties, like MFI's, NGO's or others, is crucial to keep transaction costs low and increase membership. In the UTI example, the partner was the SEWA Bank, which thanks to its good reputation also improved confidence of the investors. The Rajasthan Vishwakarma Unorganized Sector Workers (Motivational) Contributory Pension Scheme (RVPS) also offers interesting features. For example, the government subsidizes savings by providing matching contributions. This is thought to be a substitute for the usual income tax exemptions, which are not relevant for informal sector workers, as in most cases they do not pay taxes. The downside of this approach is the fiscal cost for the state. (Shankar and Asher, 2011, pp. 13-18)

To sum up, the micropension sector in India offers creative ideas and concepts on how to provide low income informal sector workers with old age financial security, which may be replicated in countries with similar conditions.

4.3 Micropensions in Ghana

With the Indian examples in mind, let us now focus on Ghana and assess in how far micropensions can meet the needs of the informal sector workers. Firstly, those needs are identified. In a next step, the probable demand for micropensions is analyzed. Lastly, important features regarding a potential implementation are presented.

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[26] Unfortunately, Shankar and Asher do not bring up the risk of adverse incentives in this context (that the government contributions might create incentives to open up an account from the informal rather than from the formal sector, and/or to only pay limited contributions in order not to reach the threshold).

[27] Regarding this example it is worth mentioning that the good international and local reputation of the Grameen Bank greatly supports the success of and trust in their products – micropensions included.

4.3.1 Need

Recalling what has been stated about the informal sector in Ghana, we are confronted with a huge majority of uncovered informal sector workers. Even though they have now, after the pension reform, access to the third tier of the new pension model, participation is expected to remain low. According to MacKellar in Collins-Sowah, Kuwornu and Tsegai, these workers are hard to reach because of economic or geographic remoteness, lack of information and poverty (2013, p. 22). Still, their inclusion is vital. Their contribution to national output is estimated at 20-40% (2013, p. 24). The reform is thought to open up opportunities for MFIs and private insurance companies to offer micropension products (ibid.).

4.3.2 Demand

Collins-Sowah, Kuwornu and Tsegai analyzed the demand for old age insurance in Ghana of four informal sector crafts (drivers, vegetable farmers, woodworkers, and hairdressers). Although there seems to be a vast hidden demand, informal sector workers are deterred by the costs of changing into the formal sector (2013, p. 22). In a survey, almost 88% of the questioned urban informal sector workers stated the will to acquire a micropension. An average willingness to pay of about 7.25% of the average wage has been calculated. Below, factors affecting the decision to participate are listed and assessed. Those who did not want to participate stated reasons like current financial problems, lack of trust in the scheme's administration, and an unwillingness to go through tedious administrative effort (p. 26). Age was found to have a negative effect (p. 28). As could intuitively be expected, the older a person was, the lower their will to participate. This implicates that advertisement should be directed towards the younger population. In addition, married workers were more willing to participate (ibid.). Interestingly, many informal sector workers pay some form of work-related tax, usually at the local government level. Those workers were also found to have a greater willingness to acquire micropensions, probably because they are already used to regular (weekly/monthly) payments (ibid.). Education also has a positive effect on the willingness to participate in a pension scheme, both because of better information and higher income (pp. 28-31). Household size, on the other hand, negatively affects the will of participation: having an additional household member may imply higher expenditures (thus limited saving capacity) or a stronger informal (familial) security safety net (p. 31). Some of those people who already do save money in some form were more willing to participate, others less (p. 31f.). This ambiguous effect can be explained in the first instance by habit (being used to saving reduces the barrier to investing in a micropension), and in the second instance by a reduced capacity to invest. In Ghana, saving seems to be a well-established practice in communities (Lansbergen, 2014)[28]. Work related association membership reduced the willingness to participate, presumably because the association provides a sufficient safety net (p. 31). Lastly, the financial return or present value of expected benefits of the micropension is another factor not to be neglected (p. 32).

In sum, there are many individual factors that influence the decision of informal sector workers to participate in a micropension scheme. The overall high interest in micropensions signals the existence of a substantial demand waiting to be satisfied, and the above insights provide useful guidelines towards its design, which will be addressed in more detail in the following paragraphs.

4.3.3 Implementation

The informal sector in Ghana is characterized by a remarkable diversity of small-scale economic activities (Collins-Sowah, Kuwornu & Tsegai, 2013, p. 22; pp. 24-25), thus taking into account each and every above-mentioned factor when designing a micropension scheme seems unfeasible. Rather, flexible micropension products adapted for categories of workers should be designed. Participation should be voluntary, the savings should be portable, and the services decentralized (Shankar & Asher, 2011, p. 1). In the following, possible features of a potential micropension scheme are discussed, according to their relevancy for Ghana.

Contributions should preferably be small, frequent, and collected at the doorstep (Shankar & Asher, 2011, p.2). In this way, transaction costs (time and money), which often deter workers from participating in a pension scheme, are minimized[29]. The contribution amount should be somewhat flexible, and a minimum contribution should be low or avoided, because informal sector workers often experience irregular income (Uthira & Manohar, 2009, p. 37). To enable bigger investments or help through financial bottlenecks, early withdrawal should be granted. However, in order to secure an appropriate savings level, early withdrawal should be discouraged (ibid.). This could be achieved by punitive lower interest rates, or by only allowing early withdrawal of a certain percentage of the holdings. Also, the savings should be portable as informal sector workers often change jobs or even location.

Administrative expenses are unavoidable, but in order to ensure trust they must be transparent and benchmarked (Shankar & Asher, 2011, p. 7). A way to reduce administrative costs is building

[28] 92% of the interrogated people (about 100 Accra residents) declared to save money. 56% of these savings seem to be accumulated and managed within the community.

[29] The authors are aware that doorstep-collection, though minimizing transaction costs for the client, means respective high costs for the service provider instead.

synergies: For example, in India MFIs and insurance providers form partnerships, thus allowing for economies of scale, a broader range of products, and increased customer reach (p. 9). Drawing on Prahalad's concept, it is argued that tapping the so-called 'bottom of the pyramid', relying on social entrepreneurship and social responsibility, can reduce transaction costs while quality and scope can be upheld (Shankar & Asher, 2011, p. 19). Low transaction costs are vital in order to expand coverage and increase the attractiveness of micro-pensions. The availability of automated payment technologies (like ATMs, internet payment, smart cards) is crucial in this context (ibid.).

The **product** as a whole should be uncomplicated, so that even participants with no or low levels of education can understand the mechanisms and benefits. Features like the rate of return should not fluctuate too often, in order to avoid mistrust and confusion (Shankar & Asher, 2011, p. 7).

The **risks** associated with micropension products are mainly: investment risk (low-risk intermediation is desirable, because the poor have a very low risk-bearing capacity), inflation risk (in Africa, savings often come in the form of livestock, housing, or land), and longevity (Shankar & Asher, 2011, p. 8). The risk of corruption should be added, too. In this sense, regulation of the microfinance sector has two important implications: on the one hand, it is a safeguard against the risk of mismanagement; on the other hand it strengthens confidence of all stakeholders involved (pp. 12-13). The role of the regulator is similar to that in a general pension system, and will be discussed in more detail in chapter 5.

The best system cannot work if no one knows about it. Channels of **promotion** may be the government, the regulatory authority, the pension providers (pension funds or MFIs), partners (like insurance companies), NGOs, other organizations and associations, and community leaders. In fact, the introduction of a project or product through a community leader to the local people is essential to gain their trust (Lansbergen, 2014). This experience was made by Enviu, an organization that links local organizations and entrepreneurs in the context of environmental and developmental projects, when introducing micropensions to Accra, Ghana's capital. They won over labor unions, cocoa farmers associations and telephone companies to distribute and even enhance their micropension product (ibid.). More on Enviu's experience in Ghana in the context of communication will follow in chapter 5.5. Promotional activities should be complemented by financial education efforts. From the SEWA Bank case study we learn that a change in attitudes and ways of thinking must first be achieved, before people understand and accept a micropension concept (Shankar & Asher, 2011, p. 19).

4.4 Summary and Recommendations

- Pioneer India presents a broad range of promising and transferable micropension approaches.
- Ghana displays both a need and a prospective demand for micropension products.
- The design of micropension products in Ghana ought to take into account the factors that shape demand – in particular age, marital status, and educational level.
- The successful implementation of a micropension product depends highly on demand-shaped contribution design (small, frequent), low administrative expenses/transaction costs (e.g. social entrepreneurship), user-friendliness, responsible risk management and last but not least, effective promotion channels (e.g. community leaders).

5. Strengthening of the NPRA

This chapter revolves around the regulating body of the new Ghanaian pension scheme. First, its relevancy is determined by reference to its mandate. Second, the strengths and weaknesses with regard to the present capacities of the authority are assessed. Particular consideration is thereby given to the Nationwide Outreach Programme. Third, advice on capacity-building for the regulator is derived from the experience of other countries/cases and from literature research. A summary box rounds this chapter off.

5.1 Introduction

The National Pensions Regulatory Authority (NPRA) has been established by the 2008 National Pensions Act 766 under section 5 (1). The goal of the Authority as stated under section 6 "is to regulate and monitor the operation of the {*editor's note*: contributory three-tier} scheme and ensure the effective administration of pensions in the country". The relevancy of the NPRA is given by its mandate, declared under section 7 (a)-(r). In sum, regulatory, directive, advisory, promotional and supervisory functions are bestowed on the NPRA. The mandate includes tasks ranging from registration, formulation of guidelines, standards and rules, to conducting research, arbitration, and sanctions. In addition to these administrative tasks, which are mainly exercised 'in the background', the NPRA is the face of the new pension scheme. This representative function is crucial in the context of trust-building and membership growth. In short, the NPRA is one of the pivotal elements of a successful pension reform in Ghana. The following advice aims to improve the NPRA's capacity, in order to strengthen the Ghanaian pension reform.

5.2 Assessment of Mercer and PricewaterhouseCoopers

Commissioned by SECO, Mercer wrote a report evaluating the New Pension System, and PricewaterhouseCoopers (PwC) assessed the NPRA's institutional capacity. This paragraph summarizes their results with regard to selected issues.

Regulatory capacity: In its integrity index, Mercer awards the best possible grades to the NPRA for its regulatory capacity, mainly because of the new legislation (Act 766) (2012, pp. 17ff.). Still, Mercer recommends improvement in the areas of communication and participant protection (2012, p. 20). PwC finds some inadequacies regarding the regulatory capacity, mainly due to the lack of technical staff (both in numbers and in educational level, 2012, pp. 16f.). As the primary licensing and registering process took longer than planned, these central functions of the NPRA as a regulatory body have been marked unsatisfactory (PwC, 2012, pp. 15f.). To our knowledge, this capacity has not been substantially modified up to today.

Trust-Building: In its integrity index, Mercer notes inadequate protection of member benefits against fraud, mismanagement and employer insolvency, which may undermine trust in the NPRA and the pension system as a whole (2012, pp. 18f.). However, custodians and trustees provide guarantees (2012, p. 19). PwC did not evaluate this capacity per se, but found that the involvement of members in the running of the scheme creates trust and a sense of ownership (2012, p. xxvi). On the other hand, the 'acting' capacity of the management is thought to be problematic in terms of public confidence (2012, p. 9). Participation in the former pension schemes (prior to the reform) undermined trust, as those schemes malfunctioned (IMF, 2003, p. 14).

Communication: On a technical basis, Mercer criticized the fact that the NPRA did not provide enough industry data (which is gained from the written reports of the private sector) to the pension industry, which reflects a lack of interaction. Also, members are not aware of their possible retirement benefits (Mercer, 2012, pp. 17-19). PwC developed a model regarding relationships with key stakeholders (2012, pp. 37ff.). One of the main recommendations is an improvement of the relationship between the NPRA and the SSNIT.

Independency: The Mercer report does not address corruption. The findings of PwC and IMF suggest potential for improvement regarding the independency of the board (PwC, 2012, p. 11; IMF, 2003, p. 14). They recommend limiting the board's involvement in executive business.

5.3 Nationwide Outreach Programme

A particular instance of the NPRA's capacity is portrayed by its Nationwide Outreach Programme, a large-scale undertaking meant to promote the new pension scheme.

5.3.1 Content and Targets[30]

Since 2010, the NPRA has been conducting an awareness, education and sensitization campaign for the new pension system[31]. In this context, information forums have been held in the Ashanti

[30] The information provided in paragraph 5.3.1 all stems from the official website of the NPRA, retrieved April 30th, 2014. In order to enhance clarity with regard to citation, the respective links are put down in footnotes as an exception.

(Kumasi), Brong Ahafo (Sunyani), Eastern (Koforidua), Western (Sekondi, Takoradi), and Accra region. The events served to reach out to important entities such as the staff of parliamentary service, the Ghana Immigration Service, the National Identification Authority, the Ghana High Commission, the media (e.g. Ghana Broadcasting Corporation (GBC)), etc., as well as workers and employers from both sectors (usually, two forums were held, one for the formal and one for the informal sector). Thus, many workers, workers associations, labor unions, financial institutions, insurance companies, authorities have been informed[32]. The forums served to collect comments, views and proposals from the stakeholders of the new pension system, which would help to improve the Guidelines and Standards to be published by the NPRA[33]. In addition, the NPRA plans to build regional offices to further intensify visibility and preserve the educational effect. No data was found on the scale of the impact that the NPRA campaign achieved so far.

5.3.2 Acknowledgement and Recommendations

This section presents potential room for optimization or expansion of the programme. These recommendations are not to be considered as criticism on the project. Some or all of them may have been already considered by the NPRA, and implementation might be planned, or, as additional funding would be required, may not have been possible so far.

Regional expansion: So far, only the southern, higher developed, regions of Ghana have been covered. It is to be hoped that Volta, Northern, Upper West and Upper East will also be considered. Having the most important (because least developed) regions come last is not necessarily problematic[34]. On the contrary, by conducting the forums in the less crucial southern regions first, experience could be gathered, that will hopefully contribute to the success of the prospective events in the northern regions.

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[31] http://npra.gov.gh/site/index.php?option=com_content&view=article&id=140:npras-outreach-programme-on-the-new-three-tier-pension-scheme-in-sunyani-in-the-brong-ahafo-region&catid=38:outreach&Itemid=59;
(http://npra.gov.gh/site/index.php?option=com_content&view=article&id=67:npra-meets-the-press-&catid=38:outreach&Itemid=59;
(http://npra.gov.gh/site/index.php?option=com_content&view=article&id=89:media-orientation-on-the-new-pension-scheme-&catid=38:outreach&Itemid=59

[32] http://npra.gov.gh/site/index.php?option=com_content&view=article&id=129:npra-educates-people-of-koforidua-and-its-environs-during-a-regional-outreach-programme-on-the-new-three-tier-pension-scheme&catid=38:outreach&Itemid=59

[33] http://www.modernghana.com/news/385023/1/npra-educate-workers-on-three-tier-pension-scheme.html

[34] Annex 4.1 provides more detailed information on the so-called North-South gap in Ghana, an immense divide in development between the northern and southern regions.

Target expansion: As of yet, only the Maritime University (a regional university in Accra) was educated on the new pension system[35]. In order to reach maximum impact, as many *universities* as possible also in other regions should be addressed by the NPRA. In a wider perspective, there is a potential to extend development aid to international university cooperations. University students are among the most important targets of pension system promotional activities. They are the most promising prospective members, because they are young and educated. More on financial education follows in section 5.4.

Among the information regarding the national outreach programme, no data was found on how far **local communal authorities** have been informed about the new pension system. Considering their possibilities in educating the local people (for example, in the context of mandatory civil wedding ceremonies), they are another crucial target.

Means expansion: The forums represent valuable and laudable promotional efforts of the NPRA. Trust companies have been invited, so that interested workers and employers could personally contact potential service providers. Stage dramas served to intrigue the audience, and even to theatrically explain the new pension system. It is no surprise that the forums were generally well received[36]. However, other channels of communication could prove effective, too (e.g. via SMS, Smartphone-applications, local authorities ...). A concrete example is presented by Nii Okai Nunoo in form of a Smartphone app. The so-called Pension Cloud Server Application is thought to serve as a remedy for the insufficient informal sector penetration. (Okai Nunoo, 2013, pp. 42ff.)

5.4 Focus: Financial Education

Lusardi and Mitchell in their 2007 study state a clear positive link between financial education and saving (p. 42). According to Lusardi (2002/03 in Lusardi & Mitchell, 2007, p. 41), this positive impact is greatest among the least educated and least wealthy. Interestingly, eight hours of financial education were found to yield the best effect (more hours produced decreasing marginal

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[35] Retrieved April 30th, 2014 from:
http://npra.gov.gh/site/index.php?option=com_content&view=article&id=121%3Anpra-educates-staff-of-maritime-university-on-the-new-3-tier-pension-scheme&catid=41%3Agallery&Itemid=28
[36] Retrieved April 30th, 2014, from:
http://npra.gov.gh/site/index.php?option=com_content&view=article&id=164:npra-embarks-on-an-outreach-programme-on-the-3-tier-pension-scheme-in-kumasi-ashanti-region&catid=38:outreach&Itemid=59

improvement) (Schreiner, Clancy and Sheradden, 2002, in Lusardi & Mitchell, 2007, p. 42). It is however emphasized that one-time education does not do the deal. Rather, people should be provided with a financial literacy 'toolbox' that they can access in need (p. 43). Examples could be manuals, software, Smartphone applications, or telephone counseling (helplines).

Company-provided financial education to their employees is generally thought to improve saving rates and participation (Clark, d'Ambrosio, McDermed & Sawant, 2003, p. 7f.). In fact, saving rates increased by up to 33% (ibid.). This study was however conducted in the USA; the results may thus not be conveyed one-on-one to the Ghanaian context. Nevertheless, company-provided financial education is an important factor regarding pension scheme coverage (see also Clark, d'Ambrosio, McDermed and Sawant, 2003, pp. 28f.). Duflo and Saez' findings even reinforce this argument: As employees are not only influenced directly by information provided top-down, but also (and supposedly even more so) by social interaction with their co-workers[37], the so-called social multiplier effect applies (2003, p. 819). Duflo and Saez further present interesting connections between social interactions and pension scheme participation. They distinguish two reasons for non-participation, which must consequently be addressed by different policy measures. Either people lack information; in this instance, policy should provide educational solutions (like information forums). Or people simply do not think much about their retirement plans. In that case, Duflo and Saez suggest that small changes in the environment suffice to induce these people to change their saving behavior. Their argument, supported by evidence gained in an experiment conducted in the USA, is that breaking down the rather big decision to participate in a pension scheme into smaller, easier to handle decisions may effectively increase coverage. Their concrete example shows how promotional activities should be focused on getting people to attend educational events (like a pension plan information fair) rather than trying to convince them to join a scheme. Deciding to go to an event is a much smaller decision than deciding to participate in a scheme. Also, at the event they meet other people who through social interaction may further facilitate the decision-making process. (Duflo & Saez, 2003, pp. 839f.)

5.5 Focus: Communication

From the above it becomes clear that the NPRA's success in client recruitment depends much on its penetration of the informal sector. Undoubtedly, formalization of the informal sector would be a key strategy. The Friedrich-Ebert-Stiftung gives some advice on this issue. Financial education and training of informal sector entrepreneurs is particularly emphasized (Osei-Boateng & Ampratwum, 2011, pp. 37f.; also: Shankar & Asher, 2011, p.19). The transformation of the

[37] Duflo and Saez speak of "informational cascades" and "peer effects" (2003, p. 819).

informal sector goes beyond this paper's scope, but in view of its relevance to obtain a truly inclusive pension system, it should always be kept in mind. Raising awareness, however, is both crucial and within the capacity of the NPRA. It is certainly worth strengthening. Thus, the following section centers on communication. Further arguments for and advice on strengthening the NPRA's communication capacity are provided.

5.5.1 General Advice

This capacity addresses both 'offensive' (member recruitment) and 'defensive' (image, trust-building) functions of the NPRA. Despite the Nationwide Outreach Programme, there is still potential for further promotional activities. From Ghana Broadcasting Corporation (GBC) we learn that there is both a general lack of interest in and poor knowledge about rights for social security products among informal sector workers (GBC, 2011). For example, the third pillar of the new pension system is so far perceived to be useful only to the rich. The benefit of the third pillar for the general public (as it has been particularly designed to support informal sector workers) should be communicated. However, communication bears fruit only if the people trust in the messenger. Thus, trust-building goes hand in hand with improved promotional impact.

Generally, in order to achieve the best promotional effect, advertisement should be designed adequately. It is therefore important to narrow down the target group. As mentioned above, targeting young people is crucial, so promotional activities at universities are recommendable. From Goldstein, in Collins-Sowah, Kuwornu and Tsegai, we learn that insurance networks in Ghana are traditionally maintained by women (2013, p. 23), thus targeting women should also be a priority. As married couples have a higher propensity to participate in micropension schemes. In Ghana, customary marriage is the most common form[38]. In order to be legally married, the couples register at the local metropolitan office. This is an opportunity for the government to provide information about saving for old age. Shankar and Asher stress that targeting promotion at a life-cycle or family event increases impact (2011, p. 2). Generally, the message should communicate the inescapability of old age (of ourselves or our relatives), the possibility to safeguard against it (e.g. with micropensions) and the relative ease of saving, if the process can be spread over many years (Uthira & Manohar, 2009, p. 37).

Lastly, some reservations must be made. Reaching informal sector workers, though necessary, is very expensive. As they are often illiterate, written information will have limited success. Rather,

[38] Retrieved April 28th, 2014, from: http://kma.gov.gh/kma/?marriage-services&page=5354

personal presence, word-of-mouth advertising and theatrical performances are good means to reach and convince those people. However, as they often live in remote areas, personal attention becomes exceptionally costly. It is thus all the more important to keep close ties to local authorities and organisations. Banks, post offices and NGOs could be used as channels for both promotion and (later) as collectors of contributions (Uthira & Manohar, 2009, p. 37).

5.5.2 Practical Experience: Enviu[39]

As experienced by Enviu in the field, cooperation with community leaders is vital to gain the trust of local populations (Lansbergen, 2014). These leaders enjoy great respect and serve thus as a trust-building link between the target group and the Authority. Furthermore, Enviu emphasizes the necessity of continuous promotion. Community leaders or other well-known personages should actively promote the products over an extended period of time, as for the individuals of the target population; the decision to insure themselves is difficult. Collaboration with local organizations (for example trade unions or worker associations in the informal sector, farmers associations, telephone companies, etc.) as well as with foreign organizations (like Enviu) already present and active in Ghana and striving towards the same goal could prove highly beneficial, too. They could promote or even distribute the new pension products, allow access to or gather information for the NPRA.

Ms. Fennie Lansbergen, business developer for Enviu, agrees that cooperation between Enviu and NPRA could prove mutually beneficial on several grounds. By joining their respective networks, outreach could be significantly increased. Enviu's skill in community involvement is highly valuable. Also, both actors could benefit from the other's good reputation. By gathering information directly from the target group, Enviu detected a large interest for their micropension product. Thanks to its simple design, it can be used right after the promotional event, a crucial aspect according to Ms. Lansbergen. Cooperation with Enviu need not be costly. The NPRA could offer to display Enviu's poduct along with the Enviu MicroPension Trust on their website. As Enviu is currently writing documents for the license application, the (currently somewhat "disorganised") NPRA website caught their eye as a field for improvement. Apparently, the templates of the documents needed for a license application, though available, are hard to find.

Lastly, light is shed on how one of the most important actors in the field of development (aid) assesses the situation in Ghana. The World Bank, an institution known for its richness in reputation, experience, technical and financial means, wrote two reports concerning institutional governance improvement. The table below summarizes the most important success factors, as

[39] The information of this paragraph stems from an E-Mail interview conducted with Ms. Fennie Lansbergen on May 11th, 2014. Her full answers are listed in Annex 4.2.

well as specific recommendations presented in the two reports. (Demarco, Rofman & Whitehouse, 2008; World Bank, 2006)

Success Factors

- **Operational Independence**
- Adequate financial, human resources and powers
- **Actuarial competence development**
- Regulatory technical assistance for funded pillars (investment guidelines, lack of competition of pension providers, management and admin costs)
- Financial, accounting, actuarial and governance **audits** to increase transparency/accountability
- Formerly existing institutions often linked by the population with the failure of previous systems
- Limited experience of self-regulation of financial institutions → **proactive model**
- Combination of supervisory and regulatory powers in institutions
- Financing of authority via collected **fees to avoid cross-subsidies**

Specific Recommendations

- Pay greater attention to **parametric reforms** to ensure fiscal sustainability and to the macroeconomic, financial, and institutional sector **preconditions** necessary for a multi-pillar reform
- **Be more realistic** in presenting the benefits of the secondary objectives of pension reform
- Develop a checklist for client capacity requirements
- Conduct research on outstanding issues
- Develop a process to ensure the **integration of crosssector issues**
- Develop a strategy to play a greater role in **consensus building among stakeholders**
- Establish contacts with Ministry of Labour/Social Security to enable the development of **local offices**
- Support the development of own technical models
- Build up a government actuarial office early on

Illustration 1: Source: Demarco, Rofman & Whitehouse, 2008; World Bank, 2006, own depiction

5.6 Summary and Recommendations

- Regulation capacity: More personnel, faster processes (licensing, registration).
- Communication: Provide members with estimates of their prospective retirement benefits; improve website.
- Promotion of third pillar (in particular getting rid of the common belief that it is only useful for rich people), cooperation with community leaders, local and foreign organizations; continuous promotion.
- Trust-building capacity: Establish insurance against fraud, mis-mgt, employer insolvency, build up a trustworthy image (transparency).
- Undeveloped potential (things the NPRA could do that they don't yet do): Active cooperation with stakeholders/like-minded organisations/associations (e.g. Enviu)
- Improvement of relationship with SSNIT
- Operational independence, reduction of government-dependency

6. Conclusion

This paper aimed at analyzing the factors that could positively impact the SECO engagement in the pension sector reform in Ghana. In order to do so, we chose to tackle the issue starting with a macro perspective, followed by an analysis of the financial sector in Ghana, to a micro perspective on the pension system itself.

In the second chapter, the focus was set on macroeconomic determinants and their influence on the development of the financial sector and the success of the pension system. We highlighted the linkages between selected macro fundamentals and the financial sector and pension system development path. In particular, the trust in the prosperity of the economy, the solvency of the state and the security of investments were found to be central connection points. In this area, our main recommendations include capacity building of institutions to ensure that deficits and inflation rates are kept low and manageable, joined economic efforts between major institutions and extending aid efforts towards the environment of the pension system (private sector development in particular).

In the third chapter, the relation between pension systems and financial markets was investigated. We first described the theoretical links between pension reform and financial market development, then analyzed the financial market situation in Ghana, and concluded by empirical findings from other countries having implemented the three-tier system, which did not always prove to be successful. We formulated a series of recommendations in this area in order to improve the financial markets situation in Ghana, which could in turn have a positive impact on the pension sector development. These included both general and sectorial recommendations, such as improving accountability and transparency or reducing state participation in banks.

In the fourth chapter, particular attention was devoted to the micropension system. After having analyzed the introduction of micropensions in India, we tried to assess whether a similar system could be implemented in Ghana. We concluded that Ghana displays a need and prospective demand for micropension products, while highlighting the peculiarities of Ghanaian demographics that must be taken into account when designing micropensions for the country.

Finally, the NPRA's strengths and weaknesses were assessed. A particular focus was set on the nationwide outreach program. In addition to this, a series of recommendations concerning the NPRA to become more efficient were formulated. We identified faster processes and a personnel increase to improve its regulatory capacity, a stronger focus on communication, additional trust-building measures and more independence from the government, as elements that could be particularly important.

To conclude, introducing a three-pillar system in a country with weak macro fundamental indicators and underdeveloped financial markets is certainly a challenge. As we have seen, a number of factors must be taken into account to make such a pension system successful. Through our paper, we have tried to provide the SECO both with a broad overview of the links between macro determinants, financial sector development and pension systems, and how these links may be strengthened and used, but also with more specific recommendations that could be useful for the current NPRA-centered project in Ghana. Although these NPRA specific recommendations can be implemented separately, we remain convinced that in order for the pension system and the NPRA to become truly more effective, broader coordinated measures in the field of macroeconomics and financial sector development should be carried out simultaneously. However, we understand that such ambitious and broad objectives are certainly out of the reach of the sole SECO NPRA-project and would entail a much larger series of reforms, in the framework of international and national cooperation, and on a longer-term perspective.

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Annexes

ANNEX 1

Table 2. *The three-tier pension system in Ghana*

	First tier National basic scheme	Second tier Occupational scheme	Third tier Private personal plan
Principle	Employment and earnings-related	Employment and earnings-related	Individual
Coverage	Compulsory for all workers in the formal labour market	Compulsory for all workers in the formal labour market	Voluntary for all citizens
Contributions	Employer-employee	Employer-employee	Individual and tax-incentivized
Financing	PAYG with partial funding	Fully-funded	Fully-funded
Benefits	Defined benefit (regular monthly payments)	Defined contribution (lump-sum benefits)	Defined contribution (lump-sum benefits)
Objective	Income replacement Risk-pooling and intergenerational transfer	Supplementary benefits Diversifying sources of retirement income	Supplementary benefits Fosters saving among informal-sector workers
Administration	SSNIT	Trustees, Pension fund managers & custodians	Trustees, Pension fund managers & custodians
Regulatory body	NPRA	NPRA	NPRA

Sources: Government of Ghana (2006, 2008).

Source: Kpessa 2011b, 100.

ANNEX 2

Country	Resolving Insolvency Rank	Time (years)	Cost (% of estate)	Outcome (0 as piece-meal sale and 1 as going concern)	Recovery Rate (Cents on the Dollar)
Ghana	116	1.9	22	0	26.2
Sub-Saharan Africa		3.1	23		19
OECD High inc.		1.7	9		70.6
Cabo Verde	189	No practice	No practice	No practice	0
Rwanda	137	2.5	29	0	19
Nigeria	107	2	22	0	27.9
Côte d'Ivoire	95	2.2	18	0	31.8

Table 1: Resolving insolvency (International Finance Corporation, The World Bank, 2013)

Country	Getting Credit Rank	Strength of legal rights index (0-10)	Depth of credit information index (0-10)	Public registry coverage (% of adults)	Private bureau coverage (% of adults
Ghana	28	8	5	0	10.4
Sub-Saharan Africa		6	2	4.3	5.9
OECD High inc.		7	2	15.2	66.7
Cabo Verde	109	3	5	17.3	0
Rwanda	13	8	6	2.1	13
Nigeria	13	9	5	0.1	4.9
Côte d'Ivoire	130	6	1	3.2	0

Table 2: Getting Credit (International Finance Corporation; The World Bank, 2013)

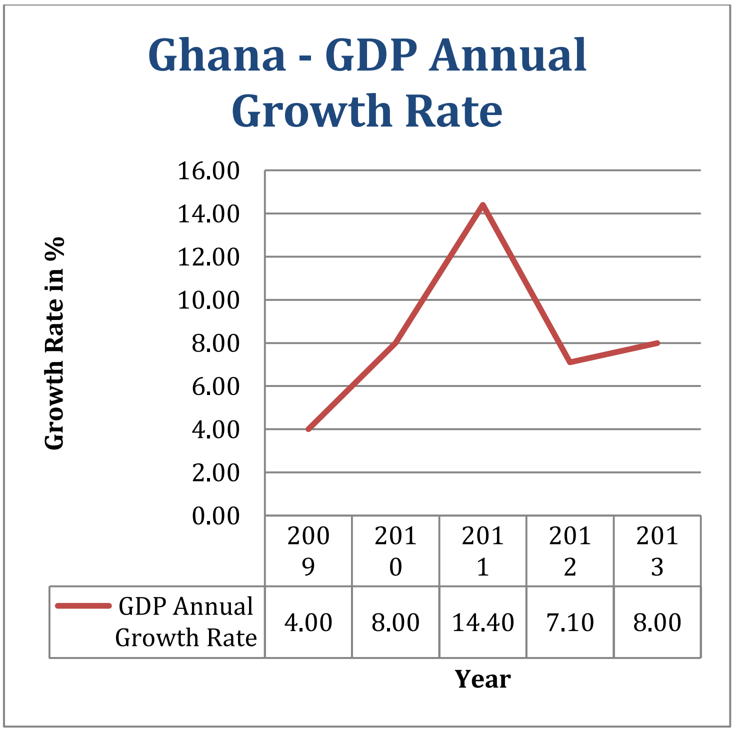


Diagram 1: GDP Annual Growth Rate based on values from (African Economic Outlook, 2014)

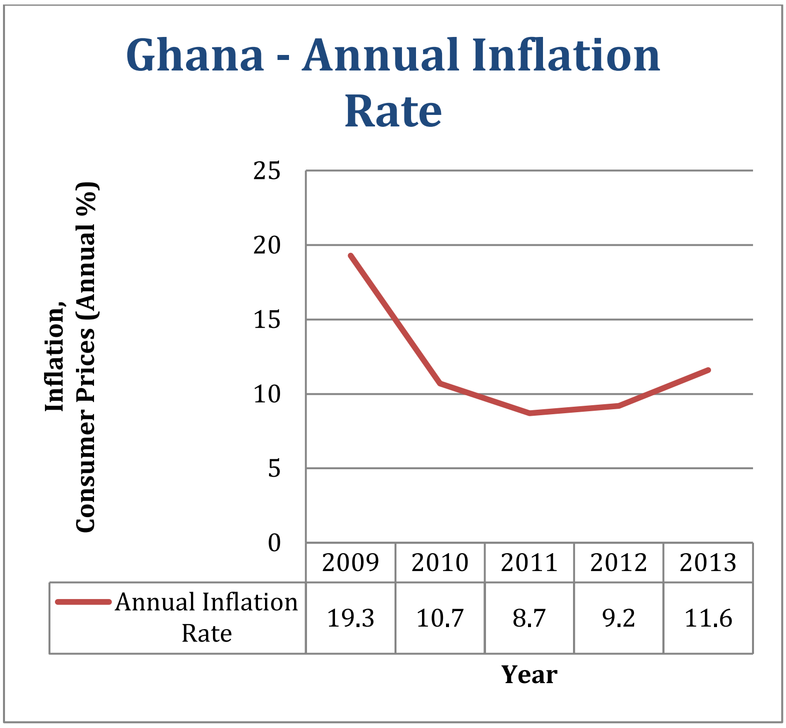


Diagram 2: Development of the Inflation Rate based on data from (The World Bank, 2014)

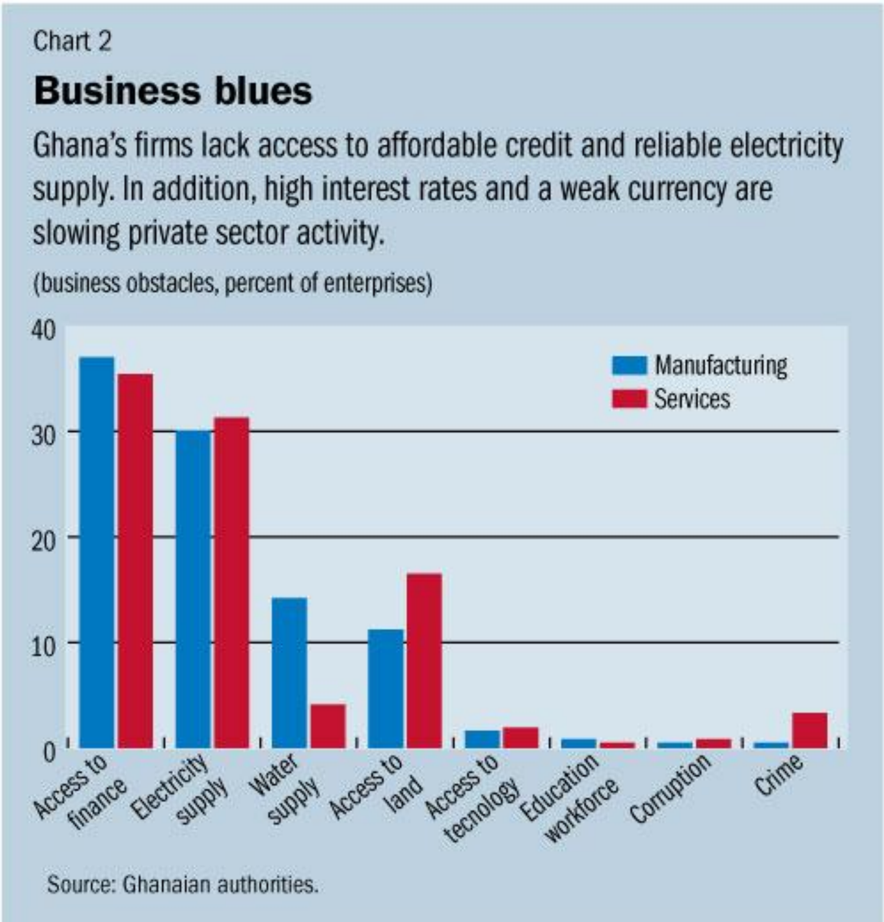


Diagram 3: Business Obstacles (Arze del Granado & Daal, 2014)

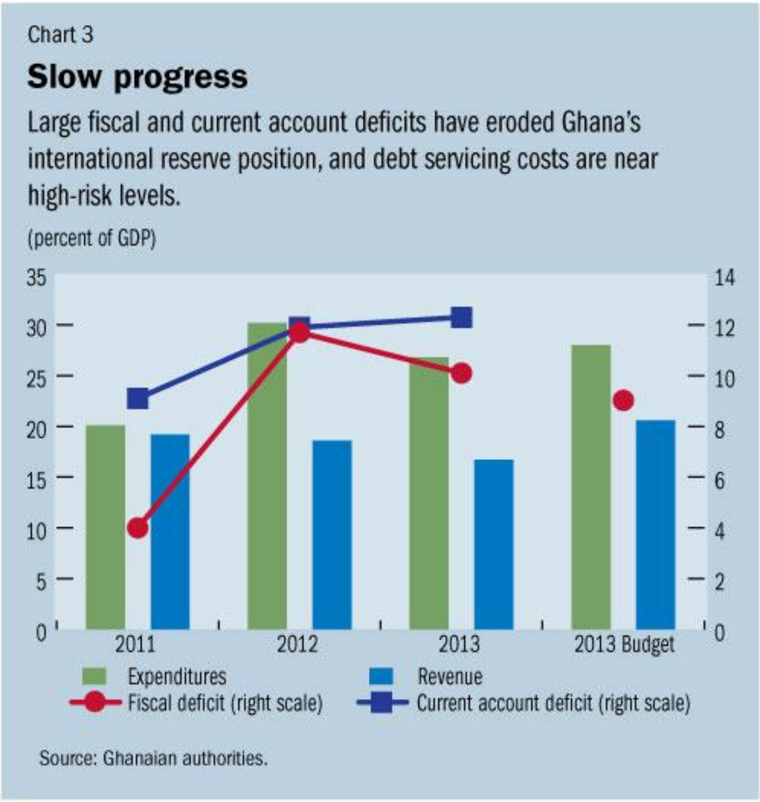
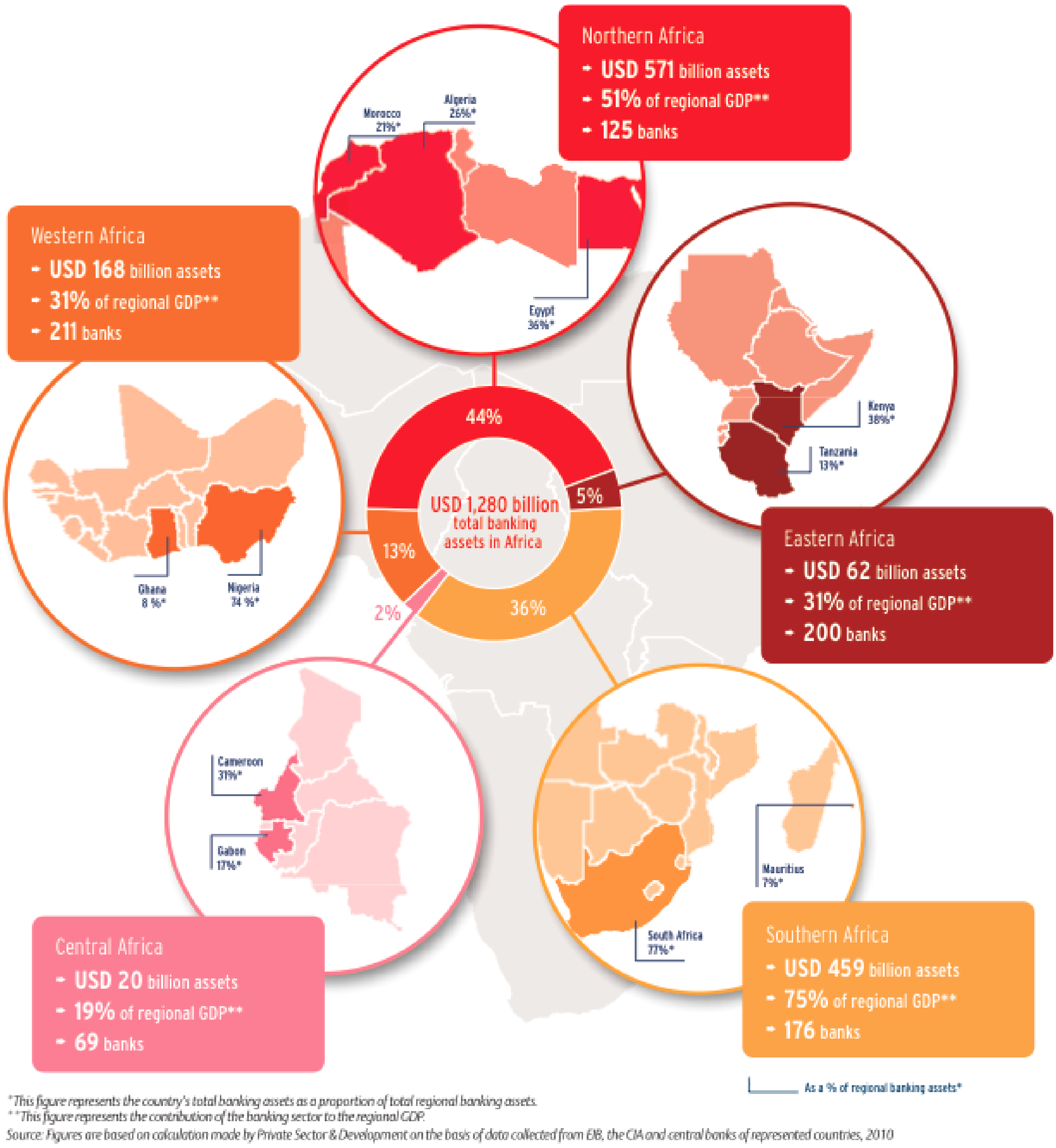


Diagram 4: Deficit Situation (Arze del Granado & Daal, 2014)

ANNEX 3

Annex 3.1: The African Banking Sector



(Source: PROPARCO 2013)

ANNEX 4

Annex 4.1: Information on the North-South gap in Ghana

The immense divide in development between the northern regions of Ghana and the rest of the country in almost all development indicators (for example education (literacy), urbanization, cellphone penetration ...) has been termed the North-South Gap. This phenomenon is observable when development indicators are compared. For example, urbanization and education indicators:

- The North has a **lower share of urban population**: 16-30% compared to 42-90%, and way under the average urban population (Ghana Statistical Service (GSS), 2013, p. 53).
- Urbanization rate in Ghana in 2010 was 4.2% (typical for developing, and especially African countries, but still a comparatively high value) (GSS, 2013, p. 224). But the northern regions are **by far the least urbanized** (ibid.) In addition, or as a consequence, there is high migration: A veritable rural exodus from the North to the South (GSS, 2013, p. 211).
- The North faces four times more **education poverty** (people with less than four years of schooling) and even five times more extreme education poverty (people with less than two years of schooling) (Krauss, 2013, p. 43). In addition, schooling infrastructure and the student-teacher ratio is generally worse, and the budget is smaller. There is a lower demand for schooling as parents keep their children from going to school. Also, the rates of return to primary education are negligible - education does not pay in the North[40].

All these factors constitute a strong comparative disadvantage for the Northern regions. The underlying causes are mainly broken down to disadvantageous geographic conditions in and political neglect of the North:

<u>1) Geographic conditions</u>
- The North shows **lower population density**, but higher fertility rates and bigger households. This renders the delivery of social and educational services more expensive (Krauss, p. 40). The higher costs arise in delivery itself, in way to school transportation costs, and in accumulated school fees.

[40] An interesting, though off-topic inference from this fact: The reason why certain ethnic groups (Builsa, Kusasi, Wali) and certain confessions (Muslims) are less educated does *not* necessarily reflect cultural norms, but rather the geographic concentration of these groups in the North.

- The North faces **climate stress** (estimated to intensify, according to Demarco, Rofman and Whitehouse, 2008): Drought severely affects agricultural activities, which are the main income source in the North (GSS, 2013, p. 254, p.285). This is particularly problematic, as 70% of the Northern workers are employed in agriculture (GSS, 2013, p. 265). Another consequence is inadequate supply of potable (= drinking) water.
- In the North, the soil is **less fertile**.
- The North is **land-locked**.

These conditions are causes for lower agricultural productivity and output, which lead to food insecurity being more precarious in the North than in the South[41]. In addition, the rural exodus breaks up family ties and traditions, leaving the remaining people vulnerable and in even more dire need of social insurance.

2) Political neglect

This condition stems from the colonial period, when schooling and other social services have been neglected in the North. For example, there was only one secondary school in the North compared to a long tradition of secondary schooling in the South (Krauss, 2013, p. 40). Resource allocation to the North continues to lag behind, as evidenced by the government not assuming full responsibility in establishing equitable school infrastructure, delivering equitable human resources and allocating equitable financial resources (Krauss, 2013, p. 41).

To sum up, the Northern regions are less developed than the southern ones in several indicators. Therefore, and particularly in view of the rural exodus breaking up traditional family ties, coverage of the social insurance safety net in the North is all the more important and urgent.

[41] This leads to malnutrition, which in turn diminishes educational output (Krauss, 2013, p. 45). Thus a dangerous vicious circle evolves.

Annex 4.2: Ms. Fennie Lansbergen's E-Mail from 11th May 2014, answering our questions:

A) *In how far could a win-win situation be created by having the NPRA working together with enviu in the promotion and implementation of a micropension system? (OR: Would cooperation between enviu and NPRA in the field of micropensions be desirable?) If yes, what would cooperation between NPRA and enviu (and potential other partners) look like? If no, what are the reasons?*

A cooperation between Enviu and NPRA would definitely be desirable for a couple of reasons;
1. The two organizations together are better equipped to increase pension coverage in the informal sector. I think it would be great to do roadshows together:
2. NPRA would bring to the table her trustworthy, well-known name & extensive network.
3. Enviu could provide a simple product that interested people could start using right away (as easy follow up after a roadshow is very important) & her skill to involve communities.
4. NPRA could show all pension products for the informal sector on her website, including Enviu MicroPension Trust

B) What specific local measures enable or prevent the successful implementation of governance, or the development of capacity building respectively?

We're not up and running yet and now in the process of writing documents for the license application. NPRA is really helpful and open to talk with us. What would help next to that is a clear NPRA website: all templates of the documents needed for a license application are available but hard to find.

C) The NPRA has organised several fora in order to inform various stakeholders (authorities, companies, workers associations, and individuals from both the formal and informal sector) about the new pension system. Nevertheless, coverage could not be significantly increased. From your blog we learned that close cooperation with local community leaders and telecommunication companies proved effective. *What additional advice could you offer the NPRA with regard to improving coverage, especially in the informal sector? What channels and means of promotion (e.g. the media, cellphones, theatre performances, movies, information provided at marriage registration, etc.) are best suited to reach and convince the Ghanaian people?*

We think to increase coverage it's important to convince leaders within groups or people known to the public that keep on actively promoting it. One time promotion is not enough for such a hard decision (for the future) potential customers will have to make.