NIGERIA'S NATIONAL MICRO-PENSION PLAN

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1. INITIAL CONDITIONS AND CONTEXT

Globally, an estimated 2.3 billion working age adults are financially excluded and lack affordable access to essential financial services that could enable them to effectively manage risks and accumulate savings for both lifecycle needs and their retirement. Financial exclusion reduces the quality of life for citizens and slows down economic growth. As a strategy for sustainable development, financial inclusion is widely recognized as a key driver for achieving seven of the 17 sustainable development goals (SDGs) that have been adopted as the roadmap for a better and more resilient tomorrow (World Bank, 2018). The G20 is also committed to putting key concepts for financial inclusion into practice to increase access to finance globally (Benni, 2021).

As things stand, in many countries, financial services may not be available to citizens, and if they are, they may not be appropriate, or acceptable, or affordable, or even relevant for their needs (Rhyne, 2020). A major objective of Nigeria's financial inclusion efforts, therefore, is to provide easy access to, and encourage efficient use of formal financial services and products by all economic sectors, and particularly by lower-income households and workers (Igwemeka et al., 2020). Nigeria's National Financial Inclusion Strategy (NFIS) is accordingly being implemented across all components of Nigeria's financial services industry to accomplish this goal.

According to the EFInA[1] 2020 survey, which studied retail financial services access, utilization, behavior and outlook across financial instruments and on a national level across Nigeria, less than 60 percent of the country's adults presently use some form of formal financial services such as banking, mobile payments, credit, insurance and pensions. However, there has been marginal increase in the usage of formal finance since 2018, largely due to an increase in banking access, which grew from 40 percent in 2018 to 45 percent in 2020. This was due to developments in agent

[1] Enhancing Financial Innovation and Access (EFInA) is a Financial Sector Deepening (FSD) organization that promotes inclusive finance in Nigeria. EFInA funds and catalyzes innovation, provides research, advocates inclusive policies, and supports capacity building aimed at comprehensive financial inclusion. EFInA's biannual statistics are used as a benchmark for financial inclusion in Nigeria and as a tool for analyzing consumer behavior in the context of the creation of a range of useful financial products (Igwemeka et al., 2020).

banking and digital financial services, and particularly benefited underprivileged communities including rural Nigerians, women, and those living in the northern parts of the country (Uwah et al., 2021).

The EFInA 2020 survey also revealed that only 19 percent of Nigerian adults used the services of bank agents in 2020. Importantly, some 70 percent (34 million) informal sector workers saved money over the 12 months immediately preceding the 2020 Survey. Around 2 in every 3 of these individuals (66%) saved on a weekly or monthly basis. Much (57%) of these savings were deposited with commercial banks while 15 percent of the savings were kept as cash at home. The main reasons reported for these choices were transactional ease and simplicity (35%), liquidity (14%), convenient access (21%) and trust (20%).

The 2020 survey also suggests that the majority of the financially excluded in Nigeria are unaware of the advantages and processes associated with using formal financial services. Citizen facing field staff of finance service providers exhibit similarly inadequate knowledge of products and services, thereby limiting their ability to inform and educate their clients effectively and correctly (Alzua et al., 2019). Low literacy levels among the population have further impeded attempts at improving public awareness (Bostic et al., 2020). Financial illiteracy has, therefore, remained a major bottleneck for more comprehensive financial inclusion.

The EFInA survey also found that barely half (49%) of adult men, and only a third (34%) of working age women in Nigeria are Know Your Customer (KYC) compliant and, therefore, have the necessary documentation for setting up a formal financial account. This may (partly) explain the modest levels of formal finance coverage.

In line with the NFIS, Nigerian banks are now actively combining cutting-edge technologies with conventional methods to engage with citizens. In order to overcome KYC challenges, banks now offer a basic 'Tier-1' bank account, which requires only a passport photograph and a bank verification number for activation and is specifically meant for more vulnerable segments (Benni, 2021). Microfinance organizations (MFIs) provide business loans to owners of small businesses. Women in the unorganized sector, engaged in small trading, street selling, and food hawking, therefore have better access to credit. To accommodate debtors with modest incomes and support the growth of enterprises operated by women, these loans usually feature lower than usual interest rates.

There is ample evidence that digital payments can radically increase financial inclusion, access and utilization. For example, users of formal financial services in India increased from 52.8 percent to nearly 80 percent[2] between 2014 and 2018, mainly due to the Unified Payments Interface (UPI) ecosystem for digital payments established by the National Payment Corporation of India (NPCI). Many other economies across Asia, Africa and Latin America are now expediting efforts to increase retail access and use of digital payments.

With 187 million mobile connections, 87 million internet users, 33 million active social media users, and high smartphone ownership, the underlying supply and demand-side infrastructure for digital payments already exists in Nigeria. However, as per EFInA, barely 5 percent of Nigerians had a mobile money account in 2020. To some extent, low retail adoption of digital payments may be because Nigeria has fewer digital payment channels such as automated teller machines (ATMs) or Point of Sale (POS) devices compared to other countries with a similarly large population (such as Brazil, Indonesia and India). As digital payments could also enable easy, secure and low-cost collection of retirement savings and pension benefits delivery (as has been seen in Rwanda and Kenya), a modest level of digital payments adoption is clearly an important barrier to broad-based voluntary pension coverage in Nigeria.

[2] *Mobile Solutions Technical Assistance and Research (mSTAR), 2019*

With a median age of 18 years, Nigeria is among the youngest countries in the world. Of the 106 million working age citizens, 55 percent are less than 35 years old. As per labour market statistics and the EFInA (2020) survey data, over half (45 million) of Nigeria's 83 million economically active workers are self-employed. Of the remaining workforce, 8.7 million Nigerians are salaried informal workers (without formal employment contracts or benefits) and 21 million workers are farmers. Only some 8.3 million workers (10 percent of the active workforce) in Nigeria are public or private sector salaried employees and are, therefore, covered by the mandatory pension arrangement through their employers. Importantly, the EFInA 2020 survey shows that nearly 94 percent of the remaining adults without pension benefits are not yet aware of Nigeria's new voluntary micro-pension plan.

The 2020 EFInA survey also shows that over half (55%) of all Nigerian workers earn daily wages while one in 5 workers earn weekly incomes. The structure of Nigeria's labour markets and prevailing income patterns should have an important bearing on both product and process design of a voluntary, contributions-based micro-pension program for informal workers.

In Nigeria, as is the case elsewhere, women face a lot of prejudice in many forms. Although there are no laws prohibiting women from working in certain sectors, they frequently face discrimination due to customs and religious practices and are twice more likely than men to be jobless (Bostic et al., 2020). The global financial crisis has only accentuated this gender disparity. Importantly, working women are overrepresented in the informal economy, earn lower wages than men, and often struggle with accessing commercial credit and tax benefits as they are not the head of a household. (Ekong & Ekong, 2022). For these reasons, combined with a higher life expectancy than men, women in Nigeria are especially vulnerable to a range of lifecycle risks as well as old age poverty.

Largely as a result of increasing life expectancy, (over 15 years at age 60 today as per the UN), Nigeria's 9.4 million current elderly are projected to nearly triple to 26 million by 2050. If the present levels of pension exclusion are allowed to persist, nearly 24 million of these future elders will be without pension benefits and shall face extreme poverty for nearly two decades once they are too old to work. At that point, a tax-financed nominal social pension of even 1000 a day (current minimum wage levels) to these future elderly without pension benefits could impose a fiscal cost of nearly USD 21 billion a year.

It is against this backdrop that the National Pension Commission (or PENCOM, Nigeria's pension regulator) developed a new, national Micro-Pension Plan that was launched by the President of the Republic of Nigeria in April 2019.

2. NIGERIA'S RECENT EFFORTS ON FINANCIAL INCLUSION

Over the last decade, the Nigerian financial services sector has seen an increase in government and regulatory efforts on financial inclusion. An important initiative in this direction is Nigerian Financial System Strategy 2020 (FSS2020) – a strategic plan and framework for turning Nigeria's financial sector into a development engine that would allow Nigeria to rank among the 20 biggest economies in the world. Financial inclusion is a key stated goal of the FSS2020 that aims to establish a suitable legal and regulatory environment for developing new financial products, streamlining payment processes, increasing access to credit, and fostering a culture of savings.

In line with the FSS2020 and the National Financial Inclusion Strategy (NFIS), the Central Bank of Nigeria (CBN) is actively seeking to achieve a cashless economy by promoting the use of contemporary electronic payment channels. In this regard, the CBN is prompting banks to invest in low-cost branchless channels including ATMs and POS devices, especially in more remote rural locations. This is expected to improve the efficiency of monetary policy, help develop and modernize the digital payments system, lower the cost of retail banking and other financial services, and increase access and financial inclusion. These initiatives are expected to promote financial inclusion as lower banking charges and a more pervasive digital payments ecosystem should encourage more individuals and businesses to use formal financial service platforms.

Front-end friction in the form of stringent and onerous paperwork, and cumbersome KYC in the absence of a unique identifier (such as a biometrics-based national ID of the kind already implemented by several other countries across Africa) further inhibit formal finance adoption, especially by lower-income individuals with modest literacy levels (Uwah et al., 2021). The CBN is, therefore, actively addressing this issue with a tiered strategy that attempts to ease and simplify KYC processes and requirements.

Nigeria's ongoing digital financial inclusion initiatives, and policy and regulatory efforts at improving the financial literacy of excluded households will have a significant direct impact on the country's ongoing efforts at increasing pension coverage.

3. NIGERIA'S PENSION SECTOR LANDSCAPE

Nigeria operates both Defined Benefit (DB) and Defined Contribution (DC) pension schemes for public and private sector salaried employees. Both Schemes are recognized in the Pension Reform Act (PRA) 2014, the prevailing principal law on pensions in the country.

The DB Scheme started with the Pension Ordinance of 1951, which had retrospective effect from 01 January 1946, for the public service, and was later adopted by the private sector in 1954. However, due to mounting liabilities, pension reforms were introduced in 2004, ushering in a new DC Scheme as a uniform arrangement for both the public and private sectors.

One of the principal objectives of the reform was an extension of pension coverage to the private sector, which was estimated at 1.3 percent prior to the commencement of the reform in June 2004 (MK Ahmed, 2005). The 2004 reform also sought to address the growing DB pension liabilities for the federal public sector that were estimated at about USD10.6 billion. These, and many other fundamental challenges informed the decision of the government to introduce a pension system that is affordable and sustainable and would also provide adequate benefits. While the reforms streamlined the administration of the DB scheme, the DB provision itself was retained for existing pensioners and for those who had three or less years to retire based on the existing rules of the scheme.

The new DC scheme established under the liberalized arrangement introduced personal pension accounts to which monthly contributions by employers and employees are to be remitted by employers. The reform also allows voluntary additional contributions by those mandatorily covered under the DC scheme. Self-employed individuals, and those working in the informal sector, are permitted to open individual pension accounts and contribute voluntarily into these accounts for sustainable retirement benefit. Retirement benefits for public sector employees under the mandatory DB scheme are payable on attaining sixty (60) years of age, or upon completing thirty-five (35) years in service. This rule has been retained by the reform. The private sector had employer specific retirement requirements, which are also allowed to continue under the reform.

Thus, the new Micro Pension Plan was designed and introduced by the Nigeria pension regulator in 2019 in order to facilitate more comprehensive participation by self-employed and informal sector workers in the DC scheme. However, this Plan has not yet met expectations around registrations and asset accumulation. This may be attributed to many factors, such as the socio-economic impact of COVID-19, cultural affiliations to many informal savings arrangements, financial illiteracy and inadequate awareness of the micro-pension scheme[3].

4. STRUCTURE OF THE NIGERIAN PENSION SYSTEM

The traditional pension schemes in Nigeria were largely unfunded, particularly in the public sector and except for the self-funding agencies of government. Introduction of the new DC scheme, following the pension reform of 2004, was the first attempt at introducing a funded pension system for the mainstream civil service.

The pension reform of 2004 was necessitated by the many problems bedeviling the pension systems in both the public and private sectors in Nigeria. The DB pension scheme for public sector employees was faced with the problem of huge unfunded pension liabilities arising from a lack of adequate and timely budgetary provisions, as well as continuous increases in salaries and pension benefits. These liabilities were estimated at N2 trillion (USD10.6 billion) as at June 2004 (M.K. Ahmad, 2006). Pension administration, particularly in the public sector, was largely weak, inefficient, less transparent, cumbersome and marred by unwholesome practices. In addition, many private sector organizations did not have any pension arrangement for their employees, and where available, they were characterized by a very low compliance ratio due to lack of effective regulation and supervision of the system.

The 2004 reform introduced a system that was sustainable and provided a stable, predictable and sustainable source of retirement income for employees in both the public and private sectors in Nigeria. The Pension Reform Act (PRA) 2004 was enacted as the principal law guiding the reforms. It introduced a mandatory Contributory Pension Scheme (CPS) for employees of

[3] As per the EFInA 2020 survey, nearly 94 percent of Nigeria's informal sector workers without pension benefits were not aware of this new voluntary micro-pension plan.

the Federal Government, the Federal Capital Territory and private sector organizations with five or more employees. The PRA 2004 also established the National Pension Commission (PENCOM) to regulate and supervise pension matters.

The DC Scheme, which was introduced by the pension reform and regulated by PENCOM, is fully funded through contributions managed by Pension Fund Administrators (PFA), kept in custody by Pension Fund Custodians (PFC), is based on individual Retirement Savings Accounts (RSAs). The key objectives of the scheme are to:

a) ensure that every person who has worked in either the public or private sector receives his/her retirement benefits as and when due;

b) assist improvident individuals by ensuring that they save to cater for their livelihood during old age;

c) establish uniform rules and regulations for the administration and payment of retirement benefits in both the public and private sectors;

d) stem the growth of outstanding pension liabilities; and

e) reduce fiscal cost to Government, stimulate domestic savings, generate a pool of long-term funds for developmental projects, and increase private investments.

The PRA 2004 was repealed in 2014 and replaced by the PRA 2014, which enhanced the benefits accruable to contributors upon retirement, further strengthened the protection of pension fund assets, unlocked opportunities for the deployment of pension assets for national development, reviewed the sanctions regime to reflect current realities and expanded pension coverage to the informal sector, as well as to the employees of States and Local Governments.

5. EXTENDING PENSION COVERAGE TO INFORMAL WORKERS: NIGERIA'S MICRO-PENSION PLAN

Nigeria's Micro Pension Plan (MPP) was conceptualized as a vehicle for extending voluntary coverage of the Contributory Pension Scheme (CPS) to informal sector workers. This was part of a wider strategy for improving access to financial products and services, being implemented by all financial sector regulators in Nigeria under the National Financial Inclusion Strategy (NFIS). As a strategic initiative under the NFIS, 40 million Nigerians were expected to be covered by pension arrangements by 2020. As only around 8 million Nigerians were working in the formal sector as at the end of 2018 (EFInA, 2018), it was clear that any expansion efforts would need to focus majorly on the informal sector to achieve the remaining 32 million target registrations and thus realize Nigeria's pension inclusion objectives.

5.1. Legal Framework

Nigeria's pension system is based on two pillars, namely, a funded mandatory defined-contribution "second pillar" that offers a system of privately-managed individual savings accounts, and a funded voluntary "third-pillar". Nigeria does not have a social security arrangement that encompasses the zero pillar. Also, the law does not classify the pension system in Nigeria into the five pension pillars as defined by The World Bank.

Nigeria's Micro Pension Plan (MPP) derives its legal basis from the provisions of Section 2(3) of the PRA 2014, which allows the self-employed as also employees in organizations with less than three (3) employees to participate in the CPS on a voluntary basis. Thus, the MPP is a careful attempt to provide a platform for extending pension coverage to the informal sector workforce through a voluntary "third-pillar" arrangement.

To guide the implementation of the Micro Pension Plan, a subsidiary legislation and an operational framework were developed and issued by the pension regulator. These collectively provide guidance for the smooth operation of the Plan covering registration, contributions collection, investment of Plan assets, benefits administration, and account services.

No special institutions were established for the management of the Micro Pension Plan. Instead, the existing licensed operators (Pension Fund Administrators and Custodians) manage both the mandatory and voluntary participation in the CPS, including the new Micro Pension Plan. However, a special fund has been established for the investment of Micro Pension Plan assets as part of the multi-fund structure introduced by the regulator.

5.2. Institutional Framework

The Micro Pension Plan was conceived under the provisions of the PRA 2014, that allow voluntary contributions under the CPS. The MPP, therefore, was built on the existing robust institutional framework of the CPS, that has streamlined the administration of pensions over the years following the 2004 reform.

The Plan is regulated and supervised by the pension regulator, National Pension Commission (PENCOM). It is administered by licensed Pension Fund Administrators, while Plan assets are kept in safe custody by Pension Fund Custodians established by the PRA 2014 to manage the mandatory DC Scheme. Thus, there are no special institutions established to regulate and manage the Micro Pension Plan. The only additional administrative requirement was the specific functional obligations imposed on existing pension institutions to implement the MPP.

In view of the importance of the Micro Pension Plan in Nigeria's pension inclusion goals, the regulator has established a specialized function (Department) to drive successful implementation of this initiative and focus on promoting voluntary participation in the Contributory Pension Scheme by self-employed and informal sector workers.

The above approach was intended to significantly reduce the cost of implementing the Plan as significant new investments were not needed to set-up and equip existing pension institutions for the purpose of implementing the MPP. However, it should be noted that this decision could be a challenge if administrators and custodians find it difficult to clearly distinguish the management of the mandatory Contributory Pension Scheme from the voluntary Micro Pension Plan.

5.3. Key Target Segments

The EFInA survey of 2018 estimated that there were 83 million economically active workers in Nigeria of whom only some 8 million were formally employed. Coincidentally, Retirement Savings Account (RSA) registrations had already surpassed 8 million as at 2018. Therefore, to achieve 40 million pension accounts, it was essential to focus on the self-employed and the informal sector, which constitute the bulk of Nigeria's workforce, most of whom are financially excluded and are also not covered by any retirement benefit scheme.

The Micro Pension Plan aimed to register 8 million new subscribers by the end of 2020[4]. This was in line with the regulator's vision of attaining 20 million CPS participants by 2020, and was also in line with the larger policy and regulatory goal of extending pension coverage to 40 million Nigerians under the National Financial Inclusion Strategy.

The MPP targets Nigerian residents aged 18 years or above and who have a legitimate source of income from the following groupings:

i. Self-employed persons that belong to a trade, profession, cooperative or business association;

ii. Self-employed persons with a business registration as a company, partnership or enterprise;

4 Detailed registration figures are presented in Section 6 of this chapter.

iii. Employees operating in the informal sector who work with or without a formal written employment contract; and

iv. Other self-employed individuals.

5.4. Design Considerations

Prior to the design of the Micro Pension Plan, EFInA supported a comprehensive study in 2014 conducted by Nielsen, to understand the attitudes of the target groups to both savings, and their readiness to save for retirement. Findings from the survey indicated that the informal sector in Nigeria save with varying periodicities and amounts, using both informal and formal methods. In addition, pensions were viewed as beneficial, although several informal sector workers entertained fears based on the many reported negative experiences of pensioners in the country.

Based on market research findings, and to ensure that the Micro Pension Plan was attractive and acceptable to the informal sector, the Plan was designed with the following features:

i. Financial literacy is embedded to achieve appropriate awareness and knowledge delivery to the target groups through relevant trade unions and associations;

ii. Since public confidence and trust in the Plan were identified as important issues, the Plan is managed by institutions already licensed with and regulated by PENCOM;

iii. The Plan and its associated products are simple and easy to understand given the low financial literacy levels of the informal sector workforce;

iv. Product accessibility and ease of use are tailored to the specific needs and demands of the target group;

v. The Plan is designed to be sustainable even under volatile economic conditions to provide reasonable returns on investment;

vi. Contributions are flexible, allowing participants to contribute affordable amounts on a daily, weekly, monthly or quarterly basis, and even contribute over longer periodic cycles, with no periodic minimum contribution;

vii. Contributions can be made by cash deposit, electronically, through any payment instrument/ platform or using financial service agents approved by the Central Bank of Nigeria;

viii. Plan assets are managed as a pool in the Micro Pension Fund (MPF), which is one of the six Funds established under the multi-fund structure. However, the MPF has been designed to be strictly guided by the provisions of the Regulation on Investment of Pension Fund Assets issued by the regulator. Initially charges are based on performance of the Fund, but with higher thresholds, the charge is a combination of performance and net asset value based;

ix. Considering the impact of fees and charges on accumulations and benefits, fees are limited to ₦80 for contributions of ₦4,000 and above, while ₦20 (twenty Naira) is charged for contributions below ₦4,000. The use of technology is encouraged in order to achieve lower administrative costs. Management fees are charged in accordance with the Regulation on Fees Structure issued by the regulator;

x. Cultural aspects including liquidity needs are given due attention and product rules permit contributions to be split into contingency and mandatory portions in a ratio of 40:60. This allows Plan members to take up to 40% of their contributions (under specified conditions) as contingency withdrawals to attend to personal financial demands;

xi. Contributors can access pension benefits upon attaining the age of 50 years or on health grounds in accordance with the Regulation for the Administration of Retirement and Terminal Benefits issued by the regulator;

xii. The Plan is portable and allows conversion from MPP to the mandatory Contributory Pension Scheme where an MPP member secures employment in the formal sector with an organization that has three (3) or more employees; and

xiii. The Pension Fund Administrators and Custodians provide requisite ICT infrastructure to manage the Plan as provided for in the ICT Guidelines issued by the regulator. In addition, they are required to provide multi-channel platforms for registration, contributions collection, customer services and benefits administration.

In designing the Plan features and rules, special attention was paid to understanding the behavior of the target group towards savings and savings for retirement. The target group was profiled in terms of its means and ways of savings including use of formal financial channels. These findings assisted greatly in the choice of design methods and introduction of the plan products.

One of the most important design considerations was the lack of trust around pensions in Nigeria due to the way public pension schemes were administered prior to the pension reform of 2004. Thus, PENCOM pays a lot of attention in building public confidence in the Micro Pension Plan, through the media and physical engagements with the informal sector workforce and trade unions/associations.

Also, it was evident that the MPP would need to compete positively with many well developed and traditionally tested thrift schemes. In this context, a range of initiatives and product benefits have been crafted to drive uptake of the MPP despite competing Schemes, and therefore motivate acceptability of the MPP as the system of choice for sustainable old age income among the informal sector workers in Nigeria.

The predominant use of informal finance channels and low confidence in formal financial services and products adversely impacted ovides a time series of the registrations between April 2019 and August 2022.

Table 1: MPP Registration as at August 2022

Pension Fund Manager	No of RSA By Gender		Total No. of RSAs	Percentage (%)
	Female	Male		
Fund A	7,061	13,836	20,897	25.19
Fund B	551	925	1476	1.78
Fund C	1,552	2,462	4,014	4.84
Fund D	2,027	4,697	6,724	8.10
Fund E	261	586	847	1.02
Fund F	301	541	842	1.01
Fund G	376	930	1,306	1.57
Fund H	721	1,219	1,940	2.34
Fund I	813	2,407	3,220	3.88
Fund J	269	537	806	0.97
Fund K	2,422	4,535	6,957	8.38
Fund L	1,889	5,104	6,993	8.43
Fund M	55	83	138	0.17
Fund N	6	18	24	0.03
Fund O	5,974	7,017	12,991	15.66
Fund P	2,225	3,133	5,358	6.46
Fund Q	1,797	3,091	4,888	5.89
Fund R	1,307	2,245	3,552	4.28
Grand Total	**29,607**	**53,366**	**82,973**	**100.00**

NOTE: Actual names of the Pension Fund Administrators have been replaced by "Pension Fund Manager" (A – R)

As is evident from Table 1 above, registrations across all MMP Funds were largely males (64.32%). However, the pattern of registrations by individual Funds is not indicative of the informal sector segments targeted by them, or the amount of resources they each deployed. What is obvious is that, going by the EFInA survey of 2018, only 0.09% of the non-formally working adult population had been covered under the MPP as at reporting date.

Figure 1: Monthly MPP Registrations between April 2019 and August, 2022

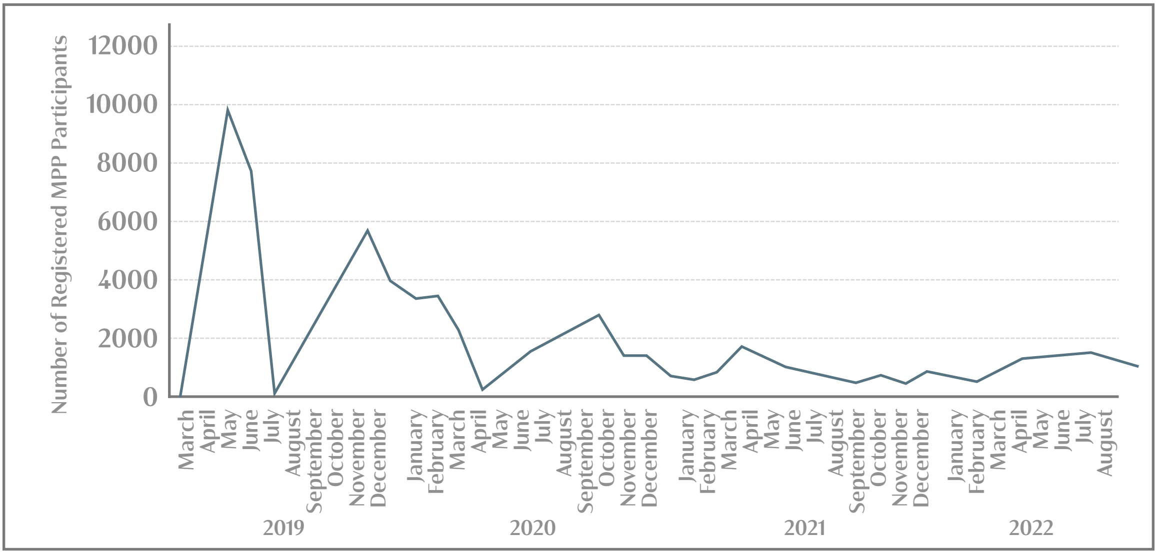


Figure 1 shows that the number of MPP registrations peaked in May 2019, during the weeks following the Presidential launch, but significantly dropped in July 2019. This was mainly due to the introduction of the Enhanced Contributor Registration System (ECRS) and National Identification Number (NIN) as a requirement for RSA registration by the regulator. The ECRS has enhanced features to ensure unique identification of contributors under the Contributory Pension Scheme. Unfortunately, National ID (NIN) registrations were low among the informal sector workers in the Nigeria, which may have further inhibited new MPP registrations.

Figure 1 also shows that the number of registrations started rising again in the subsequent months of 2019, but a significant drop was observed in April 2020 partly due to the lockdown occasioned by the COVID-19 pandemic. While the general pattern shows fluctuations in new registrations, the figures remain very low on a month by month basis. Registration figures were also affected by 440 conversions from the MPP to the mandatory DC Scheme due to changes from informal to formal employment of some MPP subscribers.

5.5. Contributions Collection

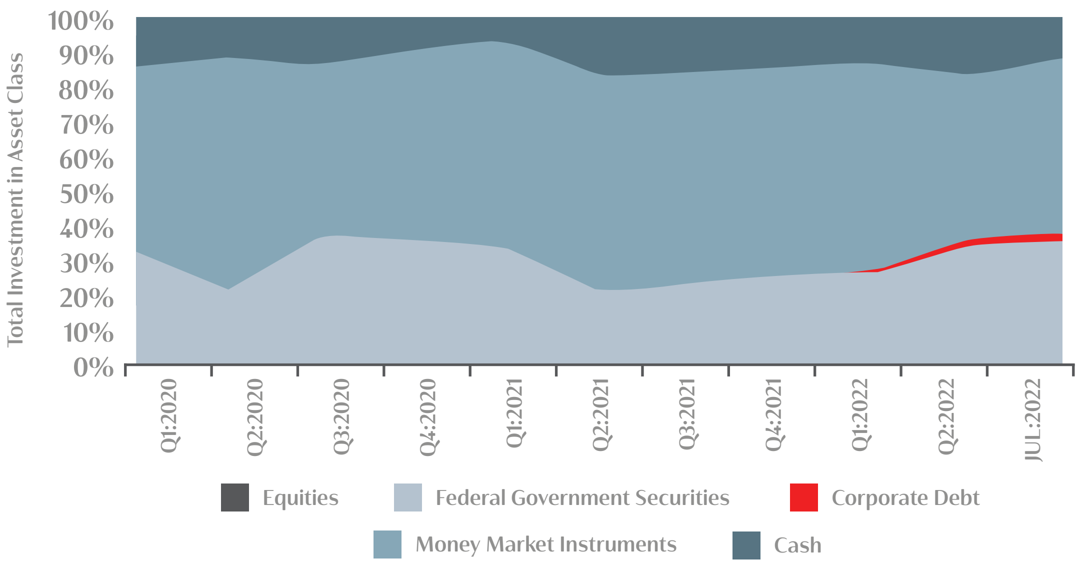
A total of ₦310.28 million (USD713,648) was contributed under the MPP as at August 2022. However, only 11,387 MPP accounts, representing 13.72% of the registered Retirement Savings Accounts (RSAs) were funded. Contributions were collected through cash deposits at bank branches, the Unstructured Supplementary Service Data (USSD) platform and other payment systems, mainly on-line banking applications provided by Pension Fund Custodians through their receiving banks.

The MPP asset accumulation was affected by contingency withdrawals and conversions as assets of the converted RSAs were transferred to the mandatory scheme. A total of ₦23.01 million (USD52,923) or 6.8% of the assets was withdrawn on contingency basis, while ₦4.94 million or 1.46% of the assets were converted to the mandatory scheme as at August 2022.

5.6. Investment of MPP Assets

The portfolio of the MPP assets is largely built on 'safety first' with global limits of 60% for Federal Government Securities (Bonds and TBills); 15% for State (Municipal) Bonds; 35% for Corporate Debt; 60% for Money Market Instruments; and 5% for Equities. The investment portfolio, presented in Figure 2, shows that the Plan's assets are predominantly in fixed income securities – largely money market instruments, federal government securities and corporate debt (starting Q1: 2022). There is significant holding in cash, which is the third most visible asset class.

Figure 2: Investment Portfolio of the MPP as at July, 2022



The portfolio was shaped to accommodate frequent requests for contingency withdrawals and conversions to the mandatory Scheme. It is expected that with more maturity and better understanding of the Plan, the rate of contingency withdrawals will significantly reduce, allowing for improved capital build up through careful diversification of the portfolio towards future sustainable retirement benefits.

5.7. Contingent Withdrawals

Up to 40 percent of the MPP contributions are allowed to be withdrawn for contingencies. This is intended to give subscribers the opportunity of using some of the assets in their RSAs to solve more immediate financial challenges. However, the remaining 60 percent of the contributions are warehoused for pension benefits. As stated earlier, 6.8% of the total contributions were paid out as contingent withdrawals to 120 MPP contributors as at August 2022.

It is worth noting that only a few of the MPP contributors applied for contingency withdrawals during the lockdown occasioned by the COVID-19 pandemic. Importantly, the MPP does not require participants to state a reason for contingency withdrawals. However, three reasons for the withdrawals were obvious. Some plan members withdrew funds to test the features of the Plan and to assure themselves that they could actually make a contingency withdrawal. Some others probably needed assurance that their assets are safe and were indeed being managed safely by the PFAs. The remaining withdrawals were likely for a genuine need to either resolve a personal financial challenge, or to expand participants' businesses. Thus far, all of these considerations have been adequately met by the design and administration of the Plan, and participants are more comfortable to continue funding their RSAs.

6. MICRO PENSION IMPLEMENTATION CHALLENGES

A review of the implementation of the MPP revealed the following challenges inhibiting its successful implementation at scale.

6.1. Product Design

a) The MPP is a generic product. It is not specific to any demographic or occupational sub-group and/or strata within the informal sector. Thus, it may be difficult for many prospective participants to identify with, and accept, the MPP;

b) The MPP needs to have attractive incentives to make it more appealing to the informal sector.

c) The MPP competes with traditional products, such as thrift savings, that are well tested over time and are thus more acceptable to the MPP target group.

d) The majority of MPP participants would prefer to access their savings as a lump sum at 'retirement' instead of opting for a life annuity or programmed withdrawal. While this can be done, given the voluntary nature of the Plan, there is clearly a need for greater awareness around longevity risk and the importance of sustained payouts in old age.

e) Inability to utilize contributions as a collateral for a loan, or to set up or expand a business venture, or to pay for health expenses further inhibits acceptance of the Plan.

6.2. Barriers to Entry

a) Low level of financial literacy amongst prospective participants to appreciate the importance and benefits of the MPP as means of achieving a sustainable old age income.

b) Negative perception/ trust deficit stemming from the experience of Nigerians with pension administration prior to the 2004 pension reform, and of many failed social security programs initiated by Government.

c) Low penetration of the National Identification Number (NIN), a necessary registration requirement for the MPP, amongst most prospective contributors.

d) Inadequate awareness campaigns by key stakeholders to promote the Plan and drive mass-scale voluntary participation.

e) The requirement to produce evidence of membership of an association or cooperative or trade union was a significant entry barrier, especially for self-employed individuals.

f) Terms such as “pension” and “retirement” did not resonate with many target informal sector workers and the MPP therefore did not appear relevant to them.

6.3. Operational Challenges

a) The contributions collection process is largely physical and contributors often experience challenges with remittance channels due to poor connectivity, low digital literacy and high transaction costs.

b) Slow implementation of the pension industry strategy initiative on shared services for registration and pension contribution remittances, which is expected to significantly lower the high infrastructure setup and transaction costs and enable PFAs to drive implementation of the MPP nationally.

c) The long-term nature of the product, the need for volumes to achieve economies of scale, and a difficult retail terrain, makes micro-pensions unattractive for Pension Fund Operators. They seem reluctant to commit significant resources for coverage expansion, especially given the short-term performance perspective of their shareholders.

7. LESSONS LEARNED IN IMPLEMENTING MICRO-PENSIONS

Many steps taken in the design and implementation of the MPP were well articulated and carefully executed. However, many other steps needed more careful evaluation towards achieving the objective of introducing the Plan.

Nation-wide surveys by EFInA have assisted tremendously in understanding the culture and outlook of prospective participants regarding savings, use of formal financial services and products, and their appetite for saving for old age. EFInA's 2020 survey was well conducted and produced the desired results. The survey findings assisted significantly in an evidence-led development of appropriate guidelines and the framework for the implementation of the MPP based on a clear understanding of the needs and constraints of the target subscriber base. Inputs on the draft guidelines and framework from various stakeholders added an unquantifiable value to the planned provisions of the subsidiary legislations.

The eventual launch of the MPP by the President of the Federal Republic of Nigeria in 2019 was, therefore, preceded by sound research and deliberations by the regulator and key stakeholders. Indeed, the launch by the President was a clear indication of his keen interest in driving programs that would promote the financial wellbeing of Nigerian citizens. This singular event created significant awareness about the Scheme across the country and is evident from the registrations shown in Figure 1.

The decision by the regulator to jointly work with the licensed operators has brought them closer together in driving coordinated implementation of the Plan. This creates a formal mechanism to jointly discuss and resolve issues, and makes industry buy-in and commitment to implementation more concrete.

On the other hand, it is noteworthy that there are some issues, which if had been addressed at the design stage, would have secured more buy-in from prospective subscribers. For example, the target subscribers are in three segments, namely, low, medium and high-income individuals. Thus, they needed to be clearly considered and treated as such in the entire design of the Plan including in the various provisions of the guidelines and framework. However, the provisions were somewhat generic. Indeed, there are several other ways in which the informal sector could be segmented – by trade, associations, skills, etc. A segmented approach to both design and implementation of the MPP would have ushered in more specifically targeted provisions and would have in turn promoted more efficient deployment of resources by the pension fund operators.

Public awareness is a critical ingredient for the success of micro-pensions. However, there was not enough time to do much of it before commencement of implementation. Although there was significant enthusiasm following the launching of the Plan by the President, the lockdown during the pandemic greatly dampened this rush and operators could not sustain the marketing drive ushered in by the launch.

Some argue that the Micro Pension Plan could have been better administered by specialized institutions, but this would have hugely increased the set-up and operating costs of the MPP. However, the decision to allow existing operators to administer the Plan could have delivered better outcomes if the industry had adopted a more collaborative approach, especially around non-competitive back-office administrative functions using a shared micro-pension technology platform. This would have reduced each operator's capital and operating costs and supported more effective implementation of the MPP.

With the benefit of hindsight, the Micro Pension Scheme could have also been made more attractive by bundling incentives such as health insurance, matching contributions, etc, at the very initial stage. It is noteworthy that some incentives are currently being worked out in order to drive mass-scale buy-in of the Plan.

Some other specific design considerations of the MPP are encapsulated here.

a) **Targeted, segmented strategy**: The design of a Micro Pension Plan needs to make a categorical distinction between the different strata of informality within the target group. Being sensitive to the heterogeneity within the informal workforce at the front-end would allow appropriate planning and design of the policy, regulatory, product and operating framework and therefore ensure that the Plan optimally addresses the unique needs and appetites of different cohorts.

b) **Registration and KYC**:

   i. The industry leveraged the existing, formal sector pension architecture, capacity and models for registering informal sector workers for micro-pensions. Although the industry appreciates the benefits of adopting shared services and a common technology platform for micro-pensions, the operators seem reluctant to proceed due to their concerns with protecting their own individual brands.

ii. A more effective approach would have been for the industry to adopt a centralized, multi-channel digital registration portal to achieve broad-based outreach, economies of scale and lower costs. By integrating a central micro-pension administration and delivery platform with the National Identity Management Commission (NIMC), the industry could jointly implement a seamless, digital on-boarding and service delivery process for different target groups.

c) **Pension Contribution Collection**: The centralized multi-channel registration platform could also be integrated with digital payment gateways and serve as a platform for secure, easy and efficient remittance of pension contributions by MPP participants.

d) **Benefits Administration**: While the Guidelines on MPP permit contingent withdrawals in emergency situations, the modes of exit could be enhanced. Being a voluntary contribution, future amendments to the Plan should consider more flexibility to give participants additional options e.g. lump sum withdrawal of the entire pension savings, and spreading the pension payouts over a period specified by participants.

e) **Greater Government Involvement:**

i. There is need for increased Government's involvement in the implementation of the MPP, particularly in creating public awareness and education, which can be effectively achieved through intensive and sustained media campaigns in addition to publication and dissemination of education materials. There is also the need to mainstream the awareness program into the curricula of secondary schools and tertiary institutions.

ii. There is also the need for Government to participate in the provision of fiscal incentives including, but not limited to, matching contributions for the lower segments of the target group.

8. FUTURE OUTLOOK

Most of the ingredients for the success of Nigeria's Micro Pension Plan are already in place including a highly committed government, a strong statutory regulator with a dedicated micro pensions department, highly capable and experienced pension fund operators and other regulated pension intermediaries, a growing digital financial services ecosystem and infrastructure, and a large latent demand for long-term retirement savings. Although Nigeria's experience with micro-pensions since 2019 has delivered modest outcomes, the commitment of key stakeholders remains unabated.

At this point, the most important future consideration is to promote the financial health of Micro Pension participants through collaborations with various relevant government agencies and non-governmental organizations. This is vital in order to improve the economic wellbeing of citizens and to enable and encourage them to address their immediate financial needs, while making it easy and simple for them to make regular periodic contributions for their retirement.

With a combination of greater public awareness, incentives including matching contributions, a robust technology platform, and industry-level collaboration around non-competitive back-office operations, Nigeria's Micro Pension Scheme can deliver very significant social, fiscal, and business outcomes, and in turn help ensure a secure and dignified retirement for millions of excluded informal sector workers.

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