Developing Country Studies

ISSN 2224-607X (print)
ISSN 2225-0565 (online)
Vol 3 No 10
2013

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Journal of Developing Country Studies is a peer reviewed journal published by IISTE. The journal publishes original papers at the forefront of social, economic, trade and legislative issues related to developing countries. The journal is published in both printed and online versions.

Developing Country Studies is published by IISTE and follows a quarterly publication schedule. General inquiries and Paper submission: **contact admin@iiste.org or DCS@iiste.org**

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Social Policy and the Retrenchment of the Welfare State in Nigeria: The Old and New Pension Schemes and Lessons from the Nordic Model

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Abstract
The 2004 pension reform in Nigeria was a paradigm shift in social policy from the social model of the pre-2004 era to the Anglo-Saxon contributory model that aligns with the emergent "convergence downwards" in the global South, driven by the globalization of neo-liberalism. A major flaw of the reform was that it tended to uncritically follow the dictates of supranational institutions without accounting for important endogenous factors that undermined the pre-2004 social security model. These include state irresponsibility, social dumping, lack of state accountability and its incapacity for competent but disinterested bureaucrats. This paper, therefore, undertakes a comparison of the old and new pension schemes in Nigeria - using selected variables. It further examines external constraints and local possibilities integral to the social protection question in Nigeria, drawing attention to important lessons from the Welfare State experiences in Europe, with particular reference to the Nordic model. It also highlights certain micro-level creative responses of worker cooperatives and trade unions that are instructive for social policy direction in the light of decent work agenda in Nigeria.
Keywords: Pension; Neo-Liberalism; Social Security; Welfare State; Social Policy.

1.0 Introduction

The development of social security in the developing countries of Africa began with limited programmes, which were introduced by the imperial governments between the two world wars, although many schemes were established after the Second World War. The reform of the Public Welfare System has been a key component of the structural reform process in developing countries. In countries where the state had taken up the responsibility for social assistance, the shift to a market economy necessarily involved dramatic changes in the relation between citizens and social security system, in terms of both the benefits provided and their financing (Msalange, 1998). The schemes, which were introduced during this period, were the first attempt to cover employees against contingencies, which threatened their ability to earn and sustain a living. The Civil Service Pension Scheme and Employers' Liability Scheme, for instance, were non-contributory. Civil Service Pension was paying benefits out of general revenue, while workers' compensation provided employment injury benefits from equalization funds by employers.

Pension reform, therefore, arouses great interest virtually everywhere. This follows from the notion that most existing pension regimes may be financially unsustainable and that as the population ages, they will require substantial reform to forestall the emergence of large public-sector deficits and reductions in national saving rates (Chand and Jaege 1996; Mackenzie, Gerson and Cuevas, 1997; Ogunbameru, 2000).

This paper is divided into five main sections. Following from this introductory section is a comparative overview of the pre-2004 and post-2004 pension schemes. The third section deals with factors associated with the failure of the PAYG system and its implication for the new pension scheme. Section 4 highlights lessons drawn from the Nordic experience with social policy while the last section is the conclusion.

2.0 PENSIONS IN THE PRE-2004 AND POST-2004 ERAS IN NIGERIA

2.1 Overview of Pensions Scheme in the Pre-2004 Era

Until 2004, the pension scheme that was in operation in Nigeria's public sector was based on the Pay-As You-Go (PAYG) system which corresponded with the state-led economic paradigm of the Nigerian state. The first public-sector pension scheme in Nigeria was the pension ordinance of 1951, with retroactive effect from January

1, 1946. The law provided public-sector employees with both pension and gratuity. This was, however, complemented by the Pensions Decrees 102 and 103[1] of 1979 were enacted, with retroactive effect from April 1974. There were also several government circulars and regulations that altered the provisions and implementations of existing laws. In 1992, for instance, the qualifying period for gratuity and pensions was reduced from 10 years to 5 years and from 15 years to 10 years respectively. In 1997, parastatals were allowed to have individual pension arrangements for their staff and appoint Boards of Trustees to administer their pension plans as specified in a Standard Trust Deed and Rules prepared by the Office of the Head of Service of the Federation. Each BOT was free to decide on whether to maintain an insured scheme or self-administered arrangement (Oshiomole, 2009).

The first private-sector pension scheme in Nigeria was set up for the employees of the Nigerian Breweries in 1954. This was followed by the United African Company (UAC) in 1957. National Provident Fund (NPF) was the first formal pension scheme in Nigeria established in 1961 for non-pensionable private-sector employees. It was largely a savings scheme, contributed by both the employee and employer on monthly basis. The scheme provided for only one-off lump sum benefits. With the establishment of the Nigeria Social Insurance Trust Fund (NSITF) by Decree No. 73 of 1993 which aimed at providing enhanced pension scheme to private sector employees, the NSITF took over the assets of the NPF and commenced operations in July 1994. Thus, all registered members of the NPF became automatic members of the NSITF. Similarly, all private-sector employers and employees were mandated to register as members as soon as they commenced operations and assumed duty respectively. Pension activities were regulated in the pre-2004 era by three bodies namely: Securities and Exchange Commission (SEC) that licensed pension fund managers, National Insurance Commission (NAICOM) - responsible for licensing and regulating insurance companies in the country and the Joint Tax Board (JTB) which approves and monitors all private pension schemes with enabling powers from Schedule 3 of the Personal Income Tax Decree 104 of 1993 (Oshiomole, 2009).

Hence the old pension scheme in the public sector was characterized as follows:

- Benefits were met on a PAYG basis – with significant pension and gratuity arrears.
- Significant unfunded Federal Government pension and gratuity obligations – some estimates exceeded N250 billion ($2.08 billion[2]).
- The system did not deliver financial security in retirement.

At the private-sector level:

- Funded Provident Funds were based on basic salary.
- Pension arrangements were anchored on banks and oil companies.
- Unfunded structured gratuity arrangements existed.
- Responsibility was placed on the Nigeria Social Insurance Trust Fund (NSITF)

2.2 Overview of Pensions Scheme in the Post-2004 Era

The Pension Reform Act 2004 provides, among others, that the Scheme shall apply to all employees in the Public Service of the Nigerian Federation, Federal Capital Territory and the Private-Sector organizations in which there are five or more employees. The objectives of the Scheme were to:

- Ensure that every person who worked in either the Public Service of the Federation, Federal Capital Territory or Private Sector receives his retirement benefits as and when due;
- Assist improvident individuals by ensuring that they save in order to cater for their livelihood during old age;
- Establish a uniform set of rules, regulations and standards for the administration and payments of retirement benefits for the Public Service of the Federation, Federal Capital Territory and the Private Sector.

The structure of the contributions is as provided in Section 9, sub-section 1 of the Pension Act 2004:

(a) in the case of the Public Service of the Federation and Federal Capital Territory

(i) a minimum of seven and half percent by the employer;

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[1] Decree 103 was specific to the military.
[2] Conversion rate used throughout this paper is N120 per $1.

(ii) a minimum of seven and half percent by the employee; or

(b) in the case of the Military
(i) a minimum of twelve and a half percent by the employer;

(ii) a minimum of two and half percent by the employee;

(c) in other cases
(i) a minimum of seven and a half percent by the employer, and

(ii) a minimum of seven and a half percent by the employee

2.3 Management Structure of the Post -2004 Pension Scheme

The National Pension Commission: Central to the administration of the new pension scheme in Nigeria is the National Pension Commission (NPC) – a government agency whose principal objective is to regulate, supervise and ensure the effective administration of pension matters in Nigeria. There is also a provision for a Director-General - the Chief Executive Officer of the NPC who must possess professional skills - with not less than twenty years cognate experience related to pension matters and or Insurance, Actuarial Science or other related field. The NPC has a part-time Chairman and four full-time Commissioners.

Pension Fund Custodians: The scheme also provides for Pension Fund Custodians (PFCs) responsible for the warehousing of the pension fund assets. The PFCs receive the total contributions remitted by the employer on behalf of the pension fund administrator within 24 hours of the receipt of contributions from any employer. The PFAs are not allowed to hold the pension funds assets. The employer sends the contributions directly to the Custodian, who notifies the PFA of the receipt of the contribution and the PFA subsequently credits the retirement savings account of the employee. The Custodian will execute transactions and undertake activities relating to the administration of pension fund investments upon instructions by the PFA.

To qualify for licence, the PFC is expected to fulfill the following requirements:
(a) be a limited liability company incorporated under the Companies and Allied Matters Act whose object is to manage pension funds;
(b) have a minimum paid-up share capital of NI50,000,000 ($125, 000) or such sum as may be prescribed, from time to time, by the Commission.
Pension Fund Administrators: The new pension scheme provides that pension funds be privately managed by licensed Pension Fund Administrators. Pension Fund Administrators (PFAs) are licensed to open Retirement Savings Accounts for employees, invest and manage the pension funds in a manner as the NPC may from time to time prescribe; maintain books of accounts on all transactions relating to the pension funds managed by it; provide regular information to employees or beneficiaries and pay retirement benefits to employees in accordance with the provisions of the Pension Reform Act 2004. To qualify for an operating licence, the PFA must be a limited liability company whose sole object is the management of pension funds, with a minimum paid-up share capital of NI50, 000, 000 or such sum as may be prescribed, from time to time by the NPC.

2.4 Funding Levels at the Pre-2004 and Post-2004 Era

The development between the old and new pension schemes can be gleaned from the analysis of Okpaise (2009) as follows:
In the pre-2004 era:

- Funding levels in pension schemes were low before the enactment of the Act as indicated from the combined data for 7 pension schemes below.
- Accrued pension liability N67,406,504 ($561,720.87).
- Value of assets available N30,517,902 ($254,315.85).
- Funding level was 45%.
- In practice, timely pension payments depended on the continued good financial standing of the companies.

For the post-2004 era requirements:

- Benefits are now fully funded for, as they accrue.

- Pension contributions now have to be met as when due.
- CPFAs have to be fully funded.
- Companies who continue to manage their pension payments in the order of the old scheme have to give a written undertaking to meet pensions as they fall due, hence improved financial security during post employment.

As a mark of improvement relative to the former scheme, investible funds in the post-2004 era have shown remarkable increases as indicated in Table 1 below with an average growth rate of 48.6% per annum.

Table 1: Increased Investible Funds Post -2004: Combined Data of 7 CPFAs)

Year Ended	Fund N billion
2004	31
2005	86
2006	109
2007	135
2008	151
Average Growth Rate	48.6 %p.a.

Source: Okpaise (2009)

From Table 1 above and Table 2 below, the steady increases in investible funds and related indicators represent a marked departure from the pre-2004 pension's era. Improvement suggests that the problems associated with the previous scheme have been overcome. Improvement is also indicative of the fact that assets held by PFCs are at arm's length to both the employer and PFAs. This conclusion can only be safely made if the factors that led to the failure of the pre-2004 pension scheme are critically accounted for.

Table 2: Increased Investible Funds Post-2004: Total Industry Assets Under Fund Management PFA+CPFAs

Year Ended	Fund N billion
2006	265
2007	815
2008	1,099
Average Growth Rate	103.6%p.a.

Source: Okpaise 2009

3.0 Factors Associated with the Failure of the Pre-2004 Pensions Scheme and Implications for the Success of the New Scheme

The failure of the PAYG system was attributed to several factors. From the viewpoint of the World Bank, the major factor that accounted for failure was declining contributions due to output contraction and rising system dependency ratio - the ratio between the population of age 65 and above to the population of age 15-64, reflecting both the decline in the number of contributors and the growth in the number of pensioners (World Bank, 1994).

Indeed, contrary to the World Bank's argument of ageing population that implies higher life expectancy at birth and increasing dependency ratio, Nigeria has since the 1980s been experienced declining life expectancy to 48 years in 2008. This further casts doubts on the World Bank position.

It is noteworthy, however, that the pension reform was part of the overall neo-liberal reforms in the post-1980 Nigeria that placed emphasis on the private sector-led economy. Moreover, and perhaps most important, was the fact that the PAYG system became ineffective due mainly to institutional weakness and official corruption.

Oshiomole (2009), for instance, attributed the failure to weak administrative process which resulted in the inability of the scheme to enforce compliance leading to large evasions and hence, inability to meet the objectives for which it was established. According to him, investment decisions were unduly influenced by the Boards of Trustees, which on many occasions lacked the requisite experience to take such decisions; this contributed to some of the difficulties encountered in the scheme.

That the institutional weakness became visible in Nigeria with the implementation of neo-liberal reforms from the 1980s within the framework of the Structural Adjustment Programme (SAP) imposed on Nigeria by the IMF and the World Bank, is also noteworthy. The one-size-fits-all approach (Stiglitz, 2002) associated with the implementation of SAP in African economies tended to produce a downward convergence in African development. The divesting of the state thesis and related efficiency argument deemphasizes the social dimensions of the policy in favour of growth. The labour aristocracy thesis which provided the ideological basis for keeping public sector wages low - even in the presence of high inflationary rates emanating from such SAP policies as devaluation and deregulation (See Table 3). This resulted in employee de-motivation and the draining away of high skilled professionals to higher paying private-sector organizations. The sense of amorality associated with this scenario, particularly when at the same period political leaders such as the late General Abacha were looting public funds and siphoning them abroad, compounded the problem of corruption in countries like Nigeria. This weakened the public sector and worsened its effectiveness and efficiency. The anomic tendency, brutal repression and underdevelopment associated with this have made some scholars to refer to the SAP period as Africa's lost decade (Adesina 1994; 2004; Ejiofor and Anigolu 1984; Mkandawire and Olukoshi 1995; Mkandawire and Soludo 1999; Oluwo, 2001; Onyeonoru 2002; 2003; UNDP 1997).

TABLE 3: REAL TAKE HOME WAGES AND SALARIES IN PUBLIC SECTOR

YEAR	NAIRA PER MONTH		
	GL. 01	GL. 08	GL. 15
1979 – 1983	244.00	737.22	1,947.70
1984 – 1988	164.29	427.64	1,064.06
1989 - 1993	149.23	272.64	576.14
1994 – 1998	82.1	198.2	369.7
1999 – 2003	139.4	340.3	728.9

Source: National Bureau of Statistics – Nigerian Facts Sheet

Note: Real take-home monthly wages and salaries in the public sector reflect the amount realized by deflating nominal salaries/wages with the Consumer Price Index. Wages and Salaries include basic salary and all allowances, less Taxes and other deductions. Real take-home wages and salaries are a milestone for understanding the full impact of inflation to purchasing power of local currency.

The wage crisis can be gleaned from Table 3 indicating more than 50% decline in real public-sector wages between the period 1979-1983 and 1999-2003. The layoffs or compulsory retirement of public-sector employees, which was part of the neo-liberal efficiency argument of lean workforce, also increased the burden of public-sector pensions and compounded the problem. In 2004, railway pensioners were owed 20 months pension money, which amounted to about 37 million dollars. The Nigerian Railway Corporation - which had 18,974 pensioners on its records, due to a mass retirement in 1996 required about 24 million dollars to pay the pensioners every year.

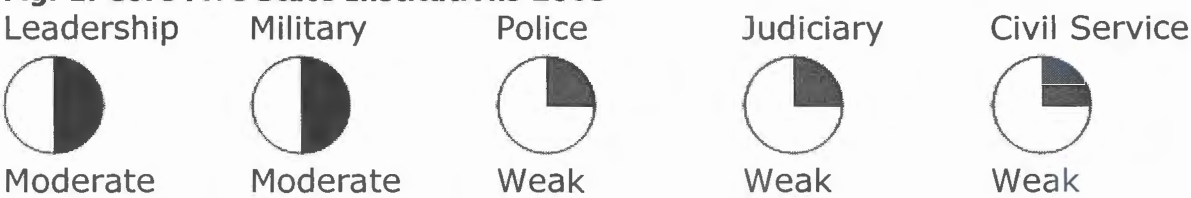
The growth emphasis of the World Bank and the implementation of the free trade policy have led to social dumping in Nigeria, particularly with the lowering of labour standards in a bid to attract foreign investors.

Another important factor that may account for the failure of the pre-2004 pension scheme was the fact that the activity of pension administrators were characterized by the lack of fiscal discipline, irregularities, and diversion of pension fund (Bayo, 2003). For instance, the Military Pension Board (MPB) between 1999 and 2003 was diverting pension fund to other uses. This placed limitations on the amount of funds available to care for monthly emolument of military pensioners. Officials resorted to the warehousing of pension fund in various interest-yielding accounts with commercial banks. Over N1.25 billion of military pension funds was also reported to have been put in fixed deposit accounts with various commercial banks between 1999 and 2003. From this investment, a total interest of more than N18 million was paid to the MPB. Out of that sum, only a paltry N3.9 million was paid into the treasury (Tell Magazine, 2004). The crisis situation was evident in the fact that pensioners were owed huge sums and several years of pensions in arrears; some of them became beggars on the streets (Olori, 2008). Media reports on retirees are replete with retirees who died in the process of efforts at obtaining their pensions (Akinloye 1998; Gbenoba 2003; Fanimon 2006). High-level corruption in the Department of Military Pensions was evident in money paid to "fake pensioners" who had collaborated with officials. A 2002 survey by the Presidential Technical Committee on Pensions revealed that 24,000 of such individuals had been collecting pensions from Nigeria's government for over a decade. Military pensioners in particular took to the streets of Lagos (the former national capital) and Abuja (the current national capital) to protest.

One of the major deficiencies of the PAYG Scheme was lack of transparency in its administration leading to corrupt practices that are still bedeviling the payment of benefits to those exempted from the Contributory Pension Scheme. In the private sector, pension assets were rarely separated from the assets of the institutions and sponsors had, on many occasions, utilized the pension assets whenever the institution was in need. On many of such occasions, no refunds were made and the pension fund was left to suffer the consequences (Oshiomole, 2009).

Unlike some countries in Africa, Nigeria has not recovered from the lost decade. It has since 2004 been ranked among the top corrupt countries of the world (Transparency International 2005; 2008) and in 2009 among the top 16 failed states of the world – from its 58th position in 2004 (Fund for Peace, 2005; 2009). This provides a shred of evidence of the country's weak institutional capacity – an issue that is germane to the success of the new pension scheme.

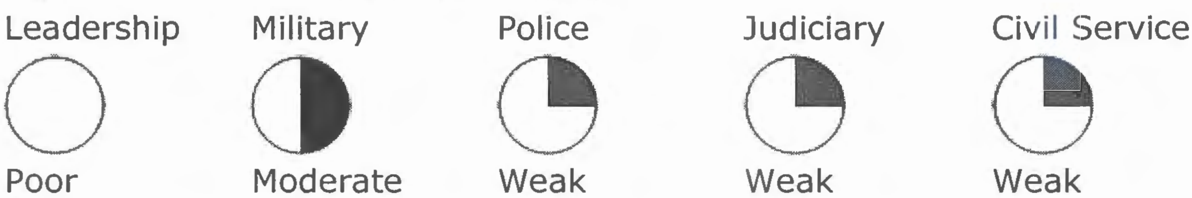
Fig. 1: Core Five State Institutions 2005



Source: The Fund For Peace, 2005

From figures 1 and 2 above, Nigeria's ranking on Failed States Index jumped from the 54th position (warning category) in 2005 Report to 16th position (alert category) in 2008 Report. The scenario is indicative of a downward trend in bureaucratic capacity between 2005 and 2009 in Nigeria – as reflected in the area of leadership – from moderate to poor.

Fig. 2: Core Five State Institutions 2008



Source: The Fund For Peace, 2009

By the 2009 report, all five indicators (with the exception of the military that is rated moderate) are either poor or weak. According to the Report:

> Many government officials continue to be corrupt. Although Nigeria is an oil-rich nation, oil revenues scarcely benefit the majority of Nigerians. Instead, elites and criminals benefit from

> the vast oil reserves. In order to improve its economy, oil revenues should increasingly be directed toward public service programs. Improving security and establishing a stronger rule of law and economic development in the Niger Delta region are essential to improving stability in Nigeria. Additionally, there is a need to improve infrastructure, address ethnic unrest, enact further economic reforms, and reduce corruption...The publicly-owned transportation infrastructure, however, remains a major impediment to growth. Electricity supply is erratic and non-functioning oil refineries deprive the country of reliable energy (Fund for Peace, 2005).

Trade unions and worker associations in Nigeria have responded to the social protection question through co-operatives that provide various forms of loans and post-work benefits. An example is the End-Well[3] Programme of the Nigeria Union of Teachers (NUT) – a programme in which a percentage of teachers' salaries were deducted from source into a fund managed by the union, the basic purpose of which is to guarantee social insurance after retirement. This was a response to the plight of pensioners in the pre-2004 period.

The need to go beyond ideological argument in analyzing the problem with pension scheme in Nigeria is also reflected in the fact that countries like Finland which operated the PAYG system utilized it for socioeconomic and infrastructural development (Kangas 2008) – a feat which Nigeria could not achieve at the time the system was in place.

4.0 Lessons from the Nordic Countries

Nordic countries continue to rank tops in human development and lowest in failed states rankings. This is not unrelated to their commitment to social policy as part of their development endeavors. The social and economic conditions of workers under globalization of neo-liberalism have been ridden with uncertainty and anxiety and this could be gleaned from the following statement:

> On October 18, 1993, USA Today revealed that the Golden State Warriors offered a S74.4 million, 15-year contract to 20-year-old Chris Webber, who had not yet played a minute of professional basketball at the time. On the same day, the Financial Times headlined the strong threat to the Jobs of 400,000 European auto part workers. Three months later, in January 1994, Business Week published a poll reporting that 90% of executives foresaw sales going up during the year. Yet, despite this optimism, over half the execs planned to maintain their payrolls as is – or lay off more employees. ... the world is wackier than ever. (Peters 1994:xiii)

As these discussions indicate, such anxiety when associated with the aged as in the case of pensioners - when adaptation is extremely difficult can be devastating. Pensions differ from most other types of social insurance because people hope to draw the benefit at a specified future time, and to go on drawing it as long as possible. This greatly raises their incentive to contribute to pension scheme. The social element of citizenship embraces the whole range from the right to a modicum of economic welfare and security to the right to share to the full in the social heritage and to live the life of a civilized being according to the standards prevailing in the society. The emphasis here is social citizenship often associated with the welfare state and social democracy. For developing countries like Nigeria, this has immense implication for citizens' perception of the social contract and nationality (Shipman, 1999).

The Finnish experience with pensions offers useful material for the study of two latent functions of social policy: attaining national integrity (after a severe civil war) and investing pension funds for national development. According to Konga (2008), the first national fully funded pension programme in 1937 was used to provide the country with electricity; the 1961 scheme funds were used to industrialize the country while the 1966 municipal pension scheme was partly invested in the production of housing, which consequently contributed to the transformation from an agrarian to an industrial and urban society. Arising from the foregoing, it is noteworthy that Finland – a symbol of the Nordic model was able to utilize her fully funded pension scheme for socioeconomic and industrial development, while Nigeria could not, but rather experienced an outright failure. This points to the need to critically account for underlying internal factors that are crucial for the success of social policies – such as the ones discussed in this paper.

[3] As the name implies, End Well refers to a happy retirement from work.

5.0 Conclusion

The contributory pension scheme which is successful elsewhere may not necessarily produce similar result in Nigeria – if critical factors integral to the failure of the previous scheme are not addressed. Hence, the basic issue of concern is not necessarily replacing PAYG with the contributory pension type but the capacity of the state to critically identify the most suitable pension system that will address the development aspirations at any point in time and effectively manage such a scheme to produce desirable results. Social policy issues, including pension, are very significant for ensuring social protection in poor countries. In Nigeria, where about 70% of the citizens are living below the poverty line of $1 a day, public-sector real wages are not only low but dismally downward; old age security is not also available outside formal occupation and unemployment benefits are not provided for the unemployed (meaning that the worker under the extended family system takes responsibility for these vulnerable groups). The policy direction should rarely be towards a contributory pension scheme, but a fully funded one. This, if conscientiously managed, can be used to realize social policy objectives for social protection.

The choice of the contributory pension scheme in Nigeria was not informed by the social policy considerations that should have determined it. Instead, the failure of the PAYG system which, as argued in this paper had little to do with its fully funded nature was used as a basis to muster support for the new system. But most importantly, the choice was based on the conformity of the contributory system with the neo-liberal economic paradigm which the Bretton Woods institutions insist upon. Where the contributory system becomes ideologically inevitable, equal percentage contribution between the employer and employee is not desirable. Though the post-2004 pension scheme is currently assessed to be an improvement on the pre-2004 system, the contributory nature may not guarantee its success since it cannot produce immunity against the inherent viruses associated with the failed system in Nigeria.

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