

## **Extending Ghana's Pension Scheme to the Informal Sector for Small and Micro Business Operators within Accra Business District: Challenge and Prospects**

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### **Abstract**

*The study examines the challenges and prospects for extending Ghana's Pension Scheme to the Informal sector for small and micro business operators within the Accra business district. Information for addressing the objectives of the study comes from small business operators as well as officials of the Ghana's Social Security and National Insurance Trust (SSNIT). Systematic Random Sampling technique has been employed in selecting small business operator's respondents while purposive sampling technique was used in targeting relevant SSNIT officials for their views on the study. Both interview guide and the questionnaire technique have been used as research instruments while statistical package for social studies (SPSS) has been employed to assist with data analysis. Constraints put forward by the small business operators which have the potential of kicking against their integration into the pension scheme ranged from their low income which will breach regular monthly contribution, frequent prosecution of contribution defaulters, relatively small returns (sometimes less than 10%) on SSNIT investments and the apparent high operating cost of SSNIT. The study further found out that upon membership, small business operator will have access to housing schemes, enjoy monthly pension income after retirement, access first class medical attention and also make good friends of common interest when they join the well-organized Pension Associations. The study recommends to SSNIT to streamline its operations in respect of doing away with contribution default prosecutions, high penalty levies as well as create alternate convenient channels for receiving periodic contributions. This way the Trust will appear attractive and pension friendly for a good number of small and micro business operators to join with their employees.*

### **Introduction**

Globally Pension schemes provide avenues for setting aside funds to help rehabilitate the senior citizens or retirees. The concept thrives on the fact that energetic employees will eventually grow old and retire from active service and for that matter some arrangements ought to be put in place to ensure their continuous financial security and happiness of employee when they proceed on retirement. With most pension schemes the employee contributes a fraction of the monthly emolument while the employers virtually add twice as much to make up the total monthly contributions. Retiring ages differ globally yet the range is between 60 and 70 years. In Ghana the public sector as well as the formal sector private organizations, retire their employees at 60 years. In the judiciary service members of the bench i.e. the judges retire at 65. Reputable religious organisations like the Methodist church, Anglican, Catholic and Presbyterian Churches retire their clergy officially at 70 years. In the informal private sector, small and micro scale business operators often do not retire at any definite age. According to Afrane (2006) most of them go home at the on-set of terminal diseases like diabetes, acute high blood pressure, rheumatism, stroke etc. which often disrupts their physical mobility, vision or general wellbeing. Regrettably in such situations cost of treatment of such ailments might have eroded their working capital base so badly that there is virtually nothing to live on. Such retired small business operators often can no longer afford to reside in rented premises and for that matter return to their hometowns. Those with economically viable children live on the benevolence of their offspring while the less fortunate ones register with the government's poverty alleviation fund i.e. Livelihood Empowerment Against Poverty (LEAP) for the meagre monthly stipends(USD 9.00 which hardly covers cost of drugs let alone feeding, clothing and maintaining them. The informal private sector small business operators ought to be assisted to enjoy formal retirement pension benefits. Some special

arrangement is necessary to integrate them unto Ghana's official Pension Scheme and this constitutes the thrust of the study.

### **Objective of the study**

The overall objective of the study is to investigate the challenges and prospects associated with extending Ghana's Pension Scheme to the informal sector's small business operators within Accra business district. Specific objectives include:

- i. To investigate how small and micro business operators in Accra business district understand and appreciate the pension scheme concept
- ii. To evolve a strategy for the smooth integration of the informal sector small and micro business operators unto the SSNIT pension scheme.
- iii. To identify challenges that will confront small and micro business operators in Accra Business district as they join the SSNIT pension scheme and the way forward.

### **Literature review**

Contemporary literature reviewed hereunder relate to importance and types of Pension Schemes, Management of informal sector in pension schemes as well as nature of small and micro scale businesses.

#### **Importance and types of pension scheme**

One of the key living concerns of mankind is being through the ages and economic security. Economic security, in the opinion of Rofman and Oliveri (2012) is composed of basic social security defined by access to basic needs infrastructure pertaining to health, education, dwelling, information, and social protection on one hand, and work related security on the other. All peoples throughout all of human history have faced the uncertainties brought on by unemployment, illness, disability, death and old age. These inevitable facets of life are said to be threats to one's economic security (Boon, 2007). Pension schemes often help in alleviating the financial insecurity of retirees or senior citizens.

According to Agyeman (2011), Pension schemes and systems in Ghana have the primary focus on the provision of retirement income to the aged. The provision of supplementary income for injured or disabled persons who formally held employment positions and also the provision for beneficiaries of deceased working individuals have been a secondary focus of pension policy makers. Kpessa (2011) further defines Pension as a series of periodic money payments made to a person who retires from employment because of age, disability, or the completion of an agreed span of service.

Ampratioum (2011) also corroborates the fact that, retirement is a process that separates an individual from a job role or as termination of a pattern of life and a transition. The causes of the detachment or separation may be due to old age, poor health, social pressure or apathy. Many people chose to retire when they are eligible for private or public pension benefits, although some are forced to retire when physical conditions do not allow the person to work anymore (by illness or accident) or as a result of legislations concerning their position.

Globally the importance of social security schemes cannot be overemphasized. Dorfman and Palacios (2012) stressed the importance of social security schemes. Social security schemes provide important sources of finance for both the public and private sectors in most countries. SSNIT makes available to the government of Ghana long term loans for the financing of current and capital expenditures for national development. Furthermore, Whitaker (1998) posits that it would be ideal, if every member of a community could be protected by social security as that fosters solidarity.

Limited (2012) is of the opinion that pensions and social insurance programs aim to prevent a substantial loss in consumption power as a result of old age, disability or death and hence form an integral part of any social protection system. Besides, Rofman and Oliveri (2012) argue that social security schemes are programs instituted by the state to transfer the responsibility of social risks (disabilities, old age, victim of natural disasters, among others) to the state where the informal or traditional systems of social protection are insufficient or not properly working. Authority (2012) emphasized the advantages of funded pension systems in their OECD working paper. According to them, developing funded pension systems alleviates government costs by reducing government

expenditure levels. This thereby releases government funds to other key policy challenges and initiatives.

### **Types of pension schemes in Ghana**

In Ghana the Pensions Act of 2008 has introduced two new pension tiers namely the tier 2 and tier 3 to operate in conjunction with the SSNIT pension scheme being operated (Agyeman, 2011). The addition of these two new tiers provides significant benefits for the Ghana workforce in general and not only the formal sector. Tier 2 is a mandatory defined contribution scheme to which every employee with employer backing contributes 5% of their gross salary. Tier 3 is also a defined contribution scheme; however tier 3 is a voluntary scheme and it is up to the employee or the employer if he/she wishes to contribute to this scheme. Only private pension houses manage these two new tiers.

### **Management of informal sector in pension scheme**

According to Freiku, z (2011) the informal sector has been branded as the sphere of trade and commerce for individuals who have had very little or no formal education. The exemption of the informal sector from the tax structure stems from the fact that no reasonable estimates can be made in respect of how much can be obtained from the sector. These two factors are the most obvious and primary in the state of the informal sector in many countries (Tonks, 2005).

Tonks (2005) explains further that most studies on the informal sector undertaken since the early 1970's have used a specific approach based on the production rationale of the sector itself mainly to guarantee the subsistence of the family group. Those who could get a job in the formal sector must certainly devise a way of obtaining an income. The informal sector was seen as the result of manpower surplus in respect of employment in the formal sector (Kpessa, 2011). Within this approach solutions for the problems of the informal sector were usually sought in the sphere of employment and income policies. Argued by one school of thought that the solutions of the informal sector does indeed lie in certain income policies, such as educational grants to wards of individuals in the informal sector, welfare benefits and so forth. According to Freiku (2011), there is that belief that the improvement in the standard of living by the free provision of certain social amenities such as hospitals and school for the informal sector will buffer the process of increasing the formal sector. This premise has been challenged over decades, and other constructive views raised. The formalizing of the informal sector has been discussed as the most optimal way in designing a fully engaged pension structure.

According to Rofman and Oliveri (2012), most pension systems provide at least basic protection against the risks associated with old age for formal-sector workers. However, most workers engaged in the informal sector, particularly in developing countries, are left out of the traditional pension systems. It has been estimated that between half and three fourths of non-agricultural employment in developing countries is informal, although the degree of informality varies across countries and regions.

In Ghana, the role of SSNIT in the management funds for the informal sector is managed by a separate social security scheme that is purposely tailored to suit the needs of workers in the informal sector of Ghana (Agyeman, 2011). This subsidiary, the SSNIT Informal Sector Fund was established in 2005 after research conducted by the Trust's Research Department and a team from the World Bank revealed that the SSNIT pension scheme was not compatible with the informal sector. More specifically, the patterns of incomes in the informal sector were unpredictable and irregular for contributors to make monthly contributions towards the Trust (SSNIT Informal Sector Fund 2011).

Contributions under the Informal Sector fund are not fixed but are based on an "individual's preference as well as his ability to pay which could be either, daily, weekly, monthly, annually or even when the contributor has some money to spare"(The Corporate Guardian 2009). Since its inception in 2005, the SSNIT Informal Sector Funds has been doing very well. Reports from "The Chronicle" indicate a steady growth in total contributions of about GHC 21, 495, 358.89 in 2011. This figure is due to a rise in the membership for the fund from 6,577 in 2005 to about 90,913 in 2011 (Freiku 2011). In the case of Ghana, the reason for low coverage of informal sector workers in the SSNIT pension was not due to a lack of understanding or distrust of management as Okine (2012) made it out to be, it was instead due to failure of the SSNIT scheme to suit the contribution needs of these workers.

The SSNIT Informal Sector Fund (SISF) was established by SSNIT as a subsidiary company to compete for the management of pension contributions from the informal sector (SSNIT; 2009). It acts as a fund manager and custodians for the informal sector pensions received. The scheme was designed to work in line with the statutory provisions of the regulatory body and not a government mandated body to oversee the activities of the informal sector pensions. SISF was said to be doing well and reports from the Business and Financial Times confirmed the willingness and rapid participation in enrollment (Okine, 2012).

### **Global picture on capital management of pension scheme contribution**

Generally Pension funds are often invested in capital markets to make profit, thus to maximize or increase return and reduce losses and expenditure. They need a future economic recovery that is robust and lasts, because of the nature pension investments. Pension investments are long term normally ranging from ten to thirty years (Eme, 2011). Hence, fund investors are cautious not to take on too much short - term risky financial instruments, more long haul, reliable financial instruments are preferred in the management of pension funds. This is basically to make sure pension funds are not lost, whilst irrational investors take risky decisions. Capital management structures vary from country to country, in the United States, prior the recession, hedge fund managers, fund managers and even management of institutions could regulate and manage contributions and pool of funds with very little regulation (Ampratun, 2011). Companies and pension fund managers found themselves taken on risky but mouth-watering financial assets such as stocks and derivatives and losing focus on the long - term goal of pension fund managers. Investors who put traded on Enron holding found themselves losing millions of retirement money and pension pools (Boon, 2007).

In the case of Chile and Cuba, with their profound history of wrong investment decisions, there is an illustration of the possible evolution as funds mature and tend to move towards riskier portfolios, even within the very conservative limits. As funds mature, the ideal is to turn towards other investment vehicles, which primarily have had better returns than traditional pension portfolios but with considerable risks (Dorfman and Palacios, 2012). In Ghana, under the new pension scheme, with the involvement of private pension trusts, there are more conservative approaches to pension fund investments, to ensure that decisions are made in the best interest of the contributor.

With the new pension scheme in Ghana, Okine (2012) observes that, Pension Trusts are devising new and innovative ways to go about investments efficiently. The diagram above shows the trust is in charge of the entire investment chain. The Trust in this case is responsible for the broad asset allocation that is how much of the pool of funds should be invested in fixed income, equity, debt etc (Kpessa, 2011). They also scan through various fund managers, and select one for each asset class, in the view of competition resulting in optimal returns. Pools of funds are not kept by the Pension Trust themselves but rather by an independent bank, which is solely responsible for holding cash assets. The separation of power under this system employed by a Pension Trust seems optimal in regards to conservation and growth of funds.

### **Nature of small and micro business ghana**

In the opinion of Mensah (2014) Small and Micro Size Enterprises (SMEs) continentally continue to play significant role in the socio-economic development of countries. Their influence in economic attainments in developing economies like Ghana cannot be over emphasized. Adjei (2012) indicates that in Ghana SMEs constituted 88% of registered companies in the records at the registrar General Department. SMEs also create a chunk of employment avenues of the country as well as provide training grounds for inculcating skills in the young graduates who turn out from the various tertiary institutions. SMEs, by their numbers, are further essential development partners in that they contribute huge tax revenue to strengthen the spending arm of the central government. It is therefore needless to even mention the enviable contribution that the SME sector to the GDP growth of the country (Okibo and Makanga, 2014). This presupposes that if the pension scheme in Ghana is well reformed to suit the convenience of the small business operators the pension fund could be hugely augmented for helping to fund more developmental projects.

Small and Micro-Scale Enterprises are at the centre of the development agenda of most countries. They are widely recognized as the drivers of growth owing to their capacity to generate employment and create wealth. According to Kumoda (2003) “projected economic growth will continue to elude the country unless resources are found to promote the growth of small and medium-scale enterprises (SMEs)”. Mensah (2014) also explains that, SMEs play a valuable role in job creation and make significant contributions to economic growth in developed and developing economies.

Development is expected to make the country move ahead socio-economically on many fronts. Areas that readily come into mind include financial resources improvements, housing development, more investment in enterprise sector, environment, agriculture, local government, health and transportation sectors and human and natural resources (Afrane, 2006). These are all areas where medium and small scale companies are making serious in roads and the contributions of all these and many others in productive terms provide what is normally referred to as Gross Domestic Product (GDP) that is, the total value of all goods and services produced in an economy in a year. SMEs can therefore be said to be a crucial sector if any meaningful gain is to be made in the growth rate of the GDP. Access to finance has been identified as a dominant constraint facing SMEs (Quaye, 2011).

Traditionally, Haron et al (2013) indicate that, commercial banks and other financial institutions have been known to be granting loans to every sector of the populace. Individuals, micro enterprises, small scale enterprises, large scale manufacturers, civil servants and even the central government do contract loans from financial institutions (Quaye, 2011). Nevertheless in recent times some players in the banking industry consider the SMEs as high risk zones and are therefore highly skeptical when granting loans to the sector. In the view of Afrane (2006) most of the bad debt in the books of banks emanate from their association with SMEs.

According to Cofie (2012), SMEs usually lack structured management skills for large business. Formal business structure is based on an organizational chart. This clearly stipulates the role that each official is expected to play. The chief executive officer (CEO) usually has a deputy or a general manager (GM) as his assistant. The GM also has sector managers or line managers in charge of Accounts, Marketing, production etc. as the functional heads. In the view of Ackah and Vuvor (2011), some SMEs often find such arrangement expensive and therefore it is usual to see the sole proprietor being in charge of everything resulting in gross mismanagement of the outfit. According to Akibo and Makanga (2014) top management members of most SMEs in Ghana have low educational background or are simply illiterates. Some small scale operators even do not understand why they should pay tax.

Adjei (2012) and Cofie (2012) all castigate SMEs for having weak capacity in that they fail to employ qualified and reliable accountants and therefore is no proper or adequate records kept. Aku (2008) explains that the concept of financial planning is completely absent from the vocabulary of most local SMEs.

From the fore-going it is obvious that when proper structures are created to attract the small and micro business operators unto the SSNIT scheme the pension fund can be hugely enhanced to help accelerate the socio – economic growth of Ghana.,

## **Research methodology**

The research design adopted was descriptive survey, aimed at asking a set of closed ended questions of a large number of individuals in order to quantitatively describe a phenomenon (Fraenkel & Wallen, 2009). The choice of this design was appropriate because the study sought the views of small and micro scale businesses operators in eight key market centres forming the Accra business district. These market places include Kaneshie, Agbobloshie, Okaisie, Adabraka, Osu, Dansoman, Nkrumah Circle and La dadekotopon markets. Each market was regarded as a stratum (plural strata) from which random sampling technique was employed to select ten (10) respondents. An orally administered questionnaire was used as the main research instrument. It is well documented that Ghanaians generally prefer to communicate in local languages and speak English less frequently (Opoku-Amankwaa, 2009). Thus, questionnaires were orally administered with research assistants translating questions into local dialects for respondents, and filling out the questionnaires on their behalf.

The questions on the questionnaire were categorized into three. The first section dealt with issues relating research objective one on how the small and micro businesses understand and appreciate the concept of pension scheme.

The second segment of questions related to strategies for integrating the non-formal small and micro businesses in the Accra business district unto the national pension scheme. The third set of questions sought to identify challenges that confront small businesses in joining the national pension scheme. In all out of the 80 respondents slated for interview, 56 were available at the interview date representing 70% response rate. The study received serious setbacks at the beginning when the potential respondents were skeptical as to the rationale behind the research. The interviewee thought the Ghana Revenue Authority (GRA) was sponsoring the study and that it was an attempt to investigate their trading activities for increasing their tax liabilities. The researcher had to put in a lot of efforts in disabusing the minds of the prospective interviewees against any direct governments or GRA stake in this study.

Data was analyzed quantitatively with the aid of a software: Statistical Package for Social Science (SPSS) version 20. Descriptive statistics such as frequency, means, and standard deviation were used to make meaning out of the data collected.

## Findings and discussion

The following paragraphs present the results of the investigations which have been organized in consonance with the specific objectives of the study.

### Small and micro business operators and the concept of pension scheme

In order to encourage non-formal small business operators to join the national pension scheme, it was deemed appropriate to investigate how interviewees understand the idea of pension schemes. Table 1 shows the various responses obtained from them.

**Table 1.** Frequency table on respondents' view on concept of pension scheme

<b>Response types : views on the Concept of Pension Scheme</b>	<b>N</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>Variance</b>	<b>Ranking</b>
Pension scheme is an attempt at investing in future happiness.	56	4.25	.977	.955	1
Pension is a way of strengthening future financial security.	56	4.05	.999	.997	2
Savings for the future.	56	4.00	1.079	1.164	3
Pension helps to extend current happiness into the future.	56	3.77	1.307	1.709	4
Pension schemes help to reduce dependence on children in future.	56	3.43	1.059	1.122	5
Pension helps to reduce dependence on government benevolence.	56	3.26	.838	.702	6

Source: Field data (2018).

It is obvious from table 1, that the small and micro business operators within the Accra business district do have a very fair knowledge of the pension scheme concept. Ranked first was the most popular view that a pension scheme is an attempt to invest to ensure future happiness. This view is shared by Dorfman and Palocios (2012) who noted in their article on World Bank's support for pension and social security schemes, that most senior citizens without pension benefits often become liabilities upon their families especially their children and this usually creates social friction in the family leading to isolation of such retirees without financial security. Baron (2007) also corroborates the view that Pension schemes have the propensity of making retiree somehow comfortable provided the senior citizen has relatively lighter responsibility in terms of dependency load especially payment of wards' school fees. A good number of respondents also pointed out that pension schemes offer an avenue for strengthening future financial security. Agyeman (2011) conducted an analysis of Employee Pension returns in Ghana

and concluded among others that pension schemes are really offering financial security for most retirees in Ghana.

The source indicated that with unemployment burden assuming frightening proportions amongst university graduates and trained paramedics, parents can no longer regard their children as future financial security. Pension scheme was also seen as savings for the future. In his article on retirement benefits in Nigeria, Nwejagu (2010) observed that most informal sector small traders regard pensions as ‘Susu’ i.e. savings for the future. This author explained that in their day to day livelihood, Nigerians employ the Susu system to set aside funds on daily basis for paying monthly rent, children school fees as well as procuring capital goods especially land. Structuring the pension scheme for small business operator along the lines of Susu, in the opinion of Nwajagu (2007) is a step in the right direction.

Dilating on Pension reforms in the developing economies, Ozo-Eson (2004) noted that extending pension scheme to the informal small and table top traders should be conducted on patterns that are familiar to them. The Susu pattern therefore forms an important vehicle for selling the pension scheme concept to this segment of potential pension fund contributors. The view, that pension scheme removes future poverty is supported by Okine (2012) as well as Rofman & Oliveri (2012). These writers all acknowledge the fact that poverty patterns amongst senior citizens have been greatly reduced with the advent of various Pension schemes. Ubhenin (2012) is of the opinion that the typical African man wants a large family and for that matter at pension age of 60, some retirees will still have school fees paying responsibilities. In such circumstances acquiring a property only becomes a mirage. Pension benefits come into bail out and lessen the burden of such retirees.

Other views expressed referred to Pension scheme as an avenue for extending current happiness into the future while others also saw pension scheme as a template for reducing one’s dependency upon children in the future. Government as a poverty reduction intervention often comes out with monthly stipends for the destitute in society. Views expressed pointed out that pension benefit reduces one’s tendency of relying upon government support like the Livelihood Empowerment Against Poverty (LEAP) programme in Ghana which does not go too far in terms of maintenance of the senior citizen.

### Strategies for attracting small business operators unto SSNIT pension scheme

Details in table 2 are views on how to smoothly integrate small business operators unto the social security and national insurance Trust SSNIT pension scheme.

**Table 2.** Frequency table on strategies for attracting small business operators unto SSNIT

Response types	N	Mean Score	Standard Deviation	Variance	Ranking
Flexible contribution collection periods i.e. daily or weekly	56	4.114	0.916	0.942	1
Agents stationed on the markets to facilitate collections.	56	4.068	0.982	0.998	2
Periodic dispensation of statement of contributions made.	56	3.946	1.012	1.116	3
There should be no prosecution of defaulters.	56	3.769	1.125	1.241	4
Knowledgeable agents to swiftly address grievances.	56	3.701	1.136	1.314	5
SSNIT products should include loans to small businesses.	56	3.482	1.169	1.378	6

Source: Field data (2018)

It is clear from table 2 that one of the most effective means of getting small business operators unto the SSNIT scheme of Ghana is to put up a flexible contribution collection structure which will ensure that potential contributors could pay daily or weekly in consonance with their financial circumstances. In an article on reviewing pension processes in Nigeria, Ozor (2006) argued that the existing monthly contributions for the formal sector cannot be ideal for the small scale private business operators since incomes for such people do not flow monthly. Rofman & Oliveri (2012) also share the view that

extending the coverage of pension scheme to the informal sectors should entail making compromises on existing customer administration framework especially contribution collection frequency. Ranked second in terms of how to attract small businesses is the idea that there is the need to plant agency offices on the various markets so as to facilitate operations. Agyeman (2011) corroborates this view and made an analogy that the insurance companies have their agency offices at most lorry parks and this seems to have very positive influence on the mode of operations.

A good number of respondents noted that SSNIT should ensure that informal contributors receive contribution statements as frequently as possible. One serious setback of SSNIT's operations, according to studies by Kumado and Gockel (2003) has to do with persecution of defaulting employees especially private sector operators. This scares a lot of potential contributors since the small business operator eventually had to borrow to meet court fines. One would have expected SSNIT to negotiate on such delayed payments rather than instituting a legal action against defaulters. It is therefore not surprising that potential small business operators want the SSNIT law on prosecuting contributory defaulters, repelled.

Respondents were also not happy about the penalty payment regime. It came to light that SSNIT currently takes 3% per day as penalty for delayed contribution, which works out to 1,000% per annum. Loans from the commercial banks for expanding business operations, attract not more than 35% per annum. The SSNIT penalty obviously is unreasonable and has the propensity of collapsing many small businesses in Ghana. In a paper on social security and economic development, Akintala-Bella (2004) noted that taking cognizance of the importance of the pension fund to the socio-economic development of the country, it is essential that all bottle necks are removed so as to widen the scope of contributors. The source specifically mentioned informal sector small business operators as one segment which could help augment the pension fund for national development.

Views also had it that there is the need to fill, the yet to be established, agency office vacancies with knowledge officials who could swiftly address the concerns and grievances of contributors. This point is supported by Kotler (2012) who reiterated the fact that increasing business prospects also depends upon well trained personnel who will act as good ambassadors for effective propagation of company's goods as well as services. A good number of interviewees also argued that since SSNIT invests its pension fund, there is nothing wrong with the scheme investing in small loans to shore up their operations. This way the potential contributors believe that their businesses could make more income to enable them increase their contribution to better secure their future happiness.

### **Challenges associated with small businesses joining pension scheme**

The study also created the structures to identify the challenges that small business will encounter if they joined the SSNIT Pension Scheme. The results have been presented in table 3.

**Table 3.** Frequency table on Challenge associated with small businesses joining Pension Scheme

<b>Response Type on challenges</b>	<b>N</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>Variance</b>	<b>Ranking</b>
Inflexible contribution system	56	4.214	1.214	1.123	1
Irregular income of small business operators	56	4.128	1.136	1.312	2
Small return i.e. 10% or less on pension fund	56	4.014	1.096	1.412	3
High cost of SSNIT operations	56	3.949	0.945	1.156	4
Frequency prosecution of defaulting contributor	56	3.848	0.877	1.391	5
	56	3.744	0.845	0.981	6

Source: Field data (2018)

It is obvious from table 3 that challenges and problems likely to be encountered when small businesses within the Accra business district eventually join government pension scheme of Ghana will include inflexible contribution system, irregular income of small business operators, Small Pension



fund return i.e. 10% or less on pension fund, High cost of SSNIT operations, and frequency prosecution of defaulting contributors. According to the respondents, pension scheme contributions are supposed to be made at a particular time within a month and this may disturb their operations. Others also cited the irregular nature of income of their businesses as a serious challenge since in some months, very little amounts of sales are made which will not allow them to honour contributions.

Other respondents appeared worried about the seemingly small returns i.e. 10% or less often declared on SSNIT Pension investment. This is disturbing because even government Treasury Bill yields 16% which is over and above the 10% investment return that SSNIT fund has been registering for some time now. Other respondents complained about the high cost of SSNIT operations especially the colossal salaries paid to staffs and management members. Recent newspaper reports in the Ghanaian listed the CEO of SSNIT, the Governor of Bank of Ghana and the CEO of Ghana's Cocoa board as three highest paid public servants whose monthly emoluments range from GH¢75,000 to GH¢ 80,000. This amount is about three times the salary of the president and four times the emolument of ministers and parliamentarians. If a chunk of the pension fund goes into workers compensation packages then it stands to reason, that in the near future, SSNIT could encounter serious challenges in paying pension benefits. SSNIT must certainly take a look at its operating cost as well as mend all procurement leakages so as to register a more acceptable return on pension funds.

Another challenge mentioned has to do with frequent prosecution of contribution defaulters at the law court. In the view of the respondents, the nature of their businesses might not allow them to be regular with their payment and should such circumstances attract legal sanctions then it is not advisable joining the scheme at all.

Various writers on pension returns in developing economies have criticized the low level of income associated with pension fund investment. Agyeman (2011) registered his disappointment over the abysmal performance on SSNIT investment over the years and wondered whether its investment portfolio are in the right direction. This source agreed that SSNIT has social responsibilities of building houses for contributors yet in his opinion, such residential accommodation should attracts very fair economic rates. Ozo-Eson (2004) also noted that Pension schemes in developing economies require reforms which must touch on the kind on investment that the pension funds are put into.

Generally the challenges identified are surmountable and for that matter stakeholders should strive to create structures to facilitate the integration of these small and table top businesses operators so as to increase the fund base for national development.

#### **Prospects of small business joining SSNIT pension scheme**

Having examined the challenges associated with integrating the informal sector small business operators in Ghana's pension scheme, it is worthwhile looking at the prospects or benefits that these potential contributors can gain from joining the scheme. The results of such interaction have been presented in table 4.

**Table 4.** Frequency table on prospects of small business operators joining SSNIT pension scheme

<b>Response Type</b>	<b>N</b>	<b>Mean Score</b>	<b>Standard Deviation</b>	<b>Variance</b>	<b>Ranking</b>
Regular monthly income after retirement.	56	4.528	1.312	0.942	1
Members have access to affordable housing scheme.	56	4.208	1.142	0.996	2
Members could act as guarantors for student loans.	56	4.146	1.089	1.125	3
Members could access quality health care.	56	3.960	0.979	1.165	4
Pension association members enjoy productive information.	56	3.816	0.911	1.241	5
Contributing to pension fund for developing Ghana.	56	3.785	0.848	1.286	6

Source: Field Data, (2018)

Views of respondents in respect of benefits to be gained in signing onto Ghana's pension scheme have been reflected in table 4. Ranking first is the fact that the prospective contributors will receive regular income after retiring from active business. This statement is supported by Okine (2012) who pointed out that, the cardinal principle behind pension scheme has to do with ensuring financial security of retirees or senior citizens. It is therefore not surprising that very serious efforts are being made across the world to engage all manner of business people in pension schemes. Kpessa (2011) also supports the second ranked prospects i.e. membership of pension schemes entitles one to have access to affordable housing scheme.

In Ghana, company's file (2017) speaks of well over 7000 housing units across the country which have been built for the benefits of contributors while 8,000 other structures are in various stages of completion to help solve the acute housing deficit facing Ghanaians. It also came to light that membership of the pension scheme could empower the contributor to act as a guarantor for a relative who is in the process of accessing students loan to undertake a tertiary institution programme. Perhaps it might be worth indicating that the SSNIT pension fund in Ghana finances the student loan scheme. By being a member of pension scheme in Ghana, contributors also have access to specialist health care at various well equipped modern medical centers established by the pension fund. Here members enjoy concessionary rates on all services ranging from primary health care to terminal diseases.

The study further revealed that upon retirements, contributors join pension association scattered throughout the country where productive pieces of information on health, aging, grand-children upbringing, nutrition and other social enhancement and longevity topics are discussed. Some of these members make friends and even find suitable old age partners to continue their life cycle. Recently in Ghana, Company files (2017) point to the fact that based on appeal made by the various executives of pension associations, the board of directors of the scheme decided to absorb the cost of treatment of certain ailment which was previously borne by the retiree. Again based on recommendation from the association, the minimum pension benefits were increased in consonance with the economic realities of the country.

Some interviewees also mentioned the fact that, by joining the scheme, they will be contributing towards the pension fund which goes a very long way to help with the socio-economic development of the country.

## **Recommendation**

In the light of the challenges uncovered in the study, the following recommendations are worth considering by the SSNIT authorities of Ghana.

### **Establishing more agency offices at various market places**

The study noted that potential small business operators may not be able to desert their businesses to make way for SSNIT offices to pay contributions and this could adversely affect the relationship between the contributor and the collector. It is hereby recommended that management of SSNIT endeavors to establish various offices across the main market places so as to facilitate the contribution payment system. Such agency offices will also help the contributors in paying their periodic premiums either daily or weekly depending upon their financial circumstances.

### **Better investment strategy for pension fund**

The parliamentary subcommittee on finance recently criticized SSNIT board for the low returns on investment recorded over the years. This concern is really widespread and for that matter authorities of the pension scheme should develop better strategies for enhancing its investment portfolio. It is an opening secret that some financed houses are paying as much as 29% per annum investment income on long term fixed deposit, it is therefore difficult to understand why SSNIT continues to register low returns on investment. Perhaps management must take a serious look at its operating cost especially the unreasonable salaries allotted to themselves. If this high salary regime continues, it will not be surprising that contributors will push for liberalization of pension schemes just as motor insurance is no longer the preserve of state insurance company (SIC) but that public vehicles can be insured at any reputable insurance outfit.

### **Relaxing the law on prosecuting defaulters**

Successful Modern businesses thrive on Know-Your-Customer (KYC) concept and for that matter one expects SSNIT officials to interact more with contributors to know their problems rather than using the law court to punish defaulting contributors who obviously have cash flow challenges. SSNIT must work closer with contributors and forget about this concept of using the law to intimidate contributors. Contributors who eventually get badly affected by such court action often close down their businesses and ask employees to seek their daily bread from SSNIT. Prosecuting the defaulter is the not the best of actions and only scares away the potential small and table top business operator. Consequently, more acceptable means could be adopted to encourage free flow of contributions to the fund.

### **Abolishing penalties associated with delayed payment in contributions**

The study revealed unequivocally that Ghana pensions scheme charges defaulting contributor 3% per day as penalty and this works out to over 1000% per annum. This the respondents point out is not only reprehensible but totally unacceptable especially where loans contracted from commercial banks for expanding operations, even at a yearly interest rate do not exceed 30%. As a matter of urgency, if SSNIT really wants to woo the informal sectors operator especially small and table top businesses into the pension scheme, then the penalty regime must be struck out entirely. It is advisable for management to investigate the impact of this penalty principle on the operations of small businesses within its pension scheme enclave. Again the KYC system must be adopted and penalty arrangement abolished.

### **Conclusion**

Taking cognizance of the important role pension funds play in the lives of developing economies like Ghana, it stands to reason that every effort must be made to increase the contribution base so as to augment the pension fund for social development. Bringing on board the informal sector, small and table top operators will certainly boost up the revenue base of the pension scheme. However, certain administrative structures like compulsory monthly payment, penalties in respects of delayed payments and court actions against defaulters must all be examined closely and reformed so as to attract this large segment of small business operators who control huge amount of funds that can be harnessed to better position the SSNIT pension fund and help uplift the living standards of Ghanaians.

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