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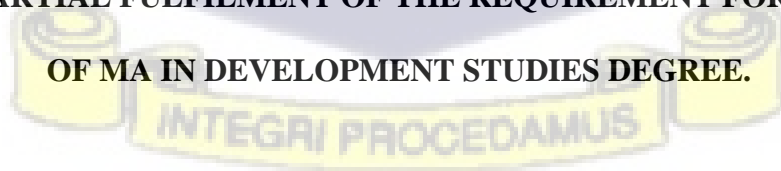
**CHALLENGES AFFECTING THE IMPLEMENTATION OF INFORMAL SECTOR
PENSION SCHEME IN GHANA: THE CASE OF GA EAST MUNICIPALITY**

BY

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**THIS DISSERTATION IS SUBMITTED TO THE UNIVERSITY OF GHANA,
LEGON IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD
OF MA IN DEVELOPMENT STUDIES DEGREE.**



INSTITUTE OF STATISTICAL, SOCIAL AND ECONOMIC RESEARCH

AUGUST 2022

DECLARATION

I hereby declare that, apart from works by other authors that have been duly acknowledged, this dissertation is the result of my own work done under supervision and has never been presented either in whole or in part for any degree in this university or elsewhere for the award of a degree or any certificate.



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DEDICATION

I dedicate this work to my dear wife, Nana Ama Owusu, for her love and selfless commitment to all my endeavours.



ACKNOWLEDGEMENTS

I am grateful to the Most High God, the Source of all knowledge and understanding, whose grace has enabled me to sail this far. May His name be praised now and forever! My sincere gratitude goes to Rev. Dr. Kwadwo Boateng Bempah, my father in the Lord and greatest mentor, through whom the Lord has guided my course through the maze of life and given me all the support I needed to step into the next chapter of God's blueprint for my life. Daddy, I thank God for giving me the opportunity to know you. To Pastor Mrs. Patience Bempah, I wish to express my heartfelt appreciation for being a mother and source of inspiration to me in all things. I am eternally grateful to my parents, Mr. John Kwabena Owusu Asamoah and Miss Joyce Baidoo, for teaching me the ways of God from my childhood and sacrificing their comfort to lay a solid foundation for my education.

This work would not have been completed without the guidance and assistance of my supervisor, Dr. Isaac Osei-Akoto – Head of Survey and Statistics at the Institute of Statistical, Social and Economic Research (ISSER), University of Ghana. Thank you, Sir for your time and attention. Additionally, I would like to thank all my lecturers: Dr. Simon Bawakyillenuo, Prof. Johnson Essuman, Prof. Augustin K. Fosu, Dr. Dan-Bright Dzorgbo, Dr. Fred Dzanku, Prof. Peter Quartey, Dr. Martha Awo, Prof. Kwabena Anaman, Prof. William Steel, Dr. Aba Crentsil, Dr. Ama Pokuaa Fenny, Prof. George Owusu, Dr. Cynthia Addoquaye Tagoe and Prof. Felix Asante, the Director of the Institute. Finally, I would like to use this opportunity to appreciate those who have contributed immensely to my career and professional life: Mr. William Yeboah, Mr. Kwame Gyan Ayew, Mr. Daniel Ofori-Dankwah, Mr. de-Graft Johnson, and Mr. Richard Marfo.

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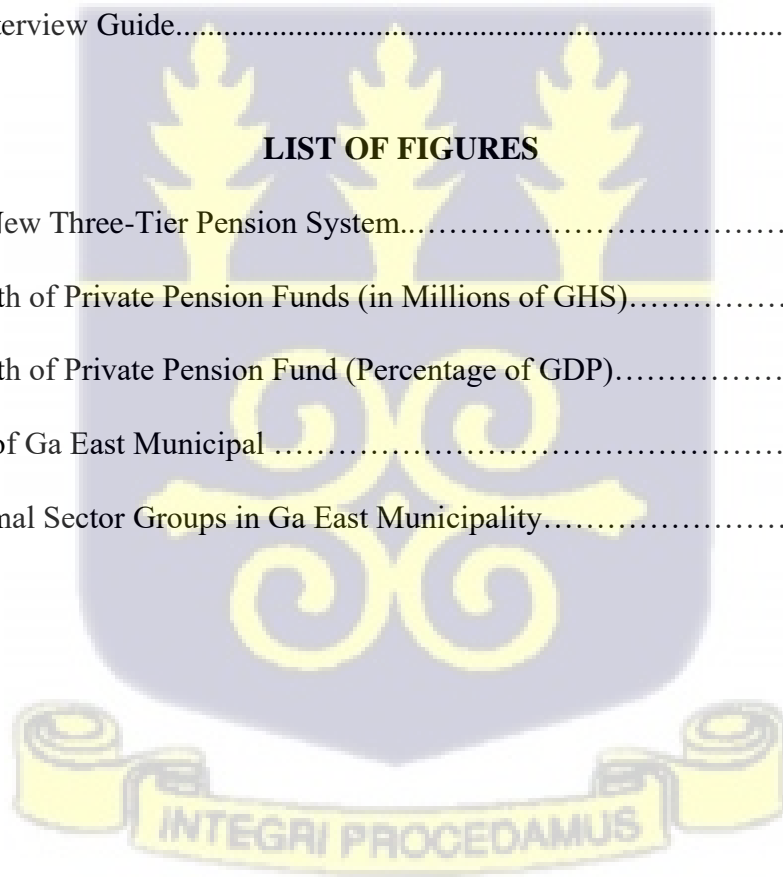
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ABBREVIATIONS

ADB	Asian Development Bank
DB	Defined Benefit
DC	Defined Contribution
DFID	Department for International Development
FGD	Focus Group Discussions
GDP	Gross Domestic Product
GEMA	Ga East Municipal Assembly
GLSS 6	Ghana Living Standards Survey Round 6
GSS	Ghana Statistical Services
IED	Institute of Economic Affairs
ILFS	Integrated Labour Force Surveys
ILO	International Labour Organisation
ISSA	International Social Security Association
NCCE	National Commission for Civic Education
NPRA	National Pensions Regulatory Authority
OECD	Organisation for Economic Co-operation and Development
PENCOM	National Pension Commission
ROSCA	Rotating Savings and Credit Association
SISPF	SSNIT Informal Sector Pension Fund
SSF	Social Security Fund
SSNIT	Social Security and National Insurance Trust
UGBS	University of Ghana Business School
UNDP	United Nations Development Project

ABSTRACT

This qualitative study, which was carried out in Ga East Municipal Area (GEMA) of the Greater Accra Region, sought to provide insight into essential issues underlying barriers to the implementation of the new three-tier pension scheme in the informal sector in Ghana. Focus Group Discussions (FGDs) and in-depth interviews with informal sector workers and officials of authorised pension service providers were used to gather data for the study. Analyses of the data, using the Contextual Interaction Theory, revealed that there is low motivation among pension fund institutions to extend their services to the informal sector as a result of (1) limited economic incentive, (2) lack of understanding of the savings culture among informal sector workers and (3) the voluntary nature of informal sector pensions. On the other hand, informal sector clients are not enthused about participating in the new scheme because it does not offer convenient means of savings, access to loans and other short-term benefits that naturally motivate them to save. That aside, people's confidence in the scheme is low because they are not adequately informed about it. To address these challenges, the study recommends the enactment of a separate regulatory framework for the management and administration of informal sector pensions in Ghana. This will create room for the pension regulator to make necessary changes that will provide some form of incentive or motivation to pension fund trustees to show keen interest in informal sector pensions. Additionally, it is recommended that service providers deploy cutting-edge technologies in delivering products and services that suit the peculiar needs, income levels and savings pattern of informal sector clients. These efforts should be backed by a strong commitment to intensify public education on pensions to help boost people's knowledge and confidence in the system.

CHAPTER ONE

INTRODUCTION

1.0 Background to the Study

In recent years, many countries around the world have reformed their pension systems in response to changing demographic and socio-economic conditions (Schwarz and Demirguc-Kunt, 1999). The World Bank (2005, pg. 1) identifies “pressures of global population ageing, the erosion of informal and traditional family support systems, and weaknesses in the governance and administration of existing pension systems” as major driving forces behind these reforms.

Arguing along similar path, Bonoli and Shinkawa (2005) explain that growing proportion of older people in an economy implies greater financial responsibility on state and family support systems. In this regard, the World Bank (2005) has provided policy advice and technical assistance to governments around the world to restructure their pension systems to make them more sustainable amidst changing socio-economic trends. For instance, the Chilean pay-as-you-go pension regime was reformed in the late 1980s; it was replaced with a fully-funded pension system managed by private fund administrators (Schwarz and Demirguc-Kunt, 1999).

The new system allowed individual workers in public and private sector employment to select their own fund administrators to manage their pension contributions. Additionally, self-employed people were given the option to make voluntary retirement savings to enhance their income security (Schwarz and Demirguc-Kunt, 1999). Following the Chilean model, Nigeria launched a new defined contribution (DC) pension system in July 2004 to replace its old defined benefit (DB) scheme which was experiencing many setbacks at that time. Among other

priorities, the objectives for the reform were to ensure the provision of retirement benefit to all workers and establish rules, regulations and standards for pension administration in the country (Ackson and Masabo, 2013).

Pension provision in Ghana dates back to 1947 when the then colonial government promulgated the Pension Ordinance to institute a non-contributory pension scheme (known as CAP 30) for senior civil servants. Later, in 1965, a new law was passed for the establishment of the Social Security Fund (SSF), which operated for about twenty-five years. In order to address some challenges associated with the 1965 SSF, the Social Security Decree (NRCD 127) was passed, leading to the establishment of the Social Security and National Insurance Trust (SSNIT) in 1972.

The old CAP 30 scheme became extinct following the enactment of the PNDC Law 247 in February 1991 to restructure SSNIT and to bring about improvement in its operation (NPRA, 2010). In spite of all these transformations, workers continued to express dissatisfaction and agitations over inadequacies of pension benefits. This, among other considerations, drew government's attention to the need to reform the country's pension system to ensure a universal pension scheme, and to further address concerns of all Ghanaian workers.

Consequently, the government set up a Presidential Commission in July 2004 to spearhead a major reform of the pension sector. The Commission was mandated to examine the existing pension regime and to make recommendations for the establishment of a more sustainable pension scheme that would meet the expectations of all Ghanaian workers.

In March 2006, the Commission submitted its final report to government, recommending the establishment of a novel contributory Three-Tier Pension System for Ghana. Furthermore, the Commission noted the need for formal arrangement to be made to take care of the needs of workers in the informal sector, in accordance with Article 37(6) (a) of the 1992 Constitution, which enjoins the government to “ensure that contributory schemes are instituted and maintained that will guarantee economic security for self-employed and other citizens of Ghana” (Mensah, 2009).

The government accepted the Commission’s recommendations and issued a White Paper in July 2006, thereby preparing the grounds for the enactment of a new pension law – the National Pensions Act (2008), Act 766 – which established the new Three-Tier Pension Scheme in December 2008.

1.1 Structure of Ghana’s Three-Tier Pension Scheme

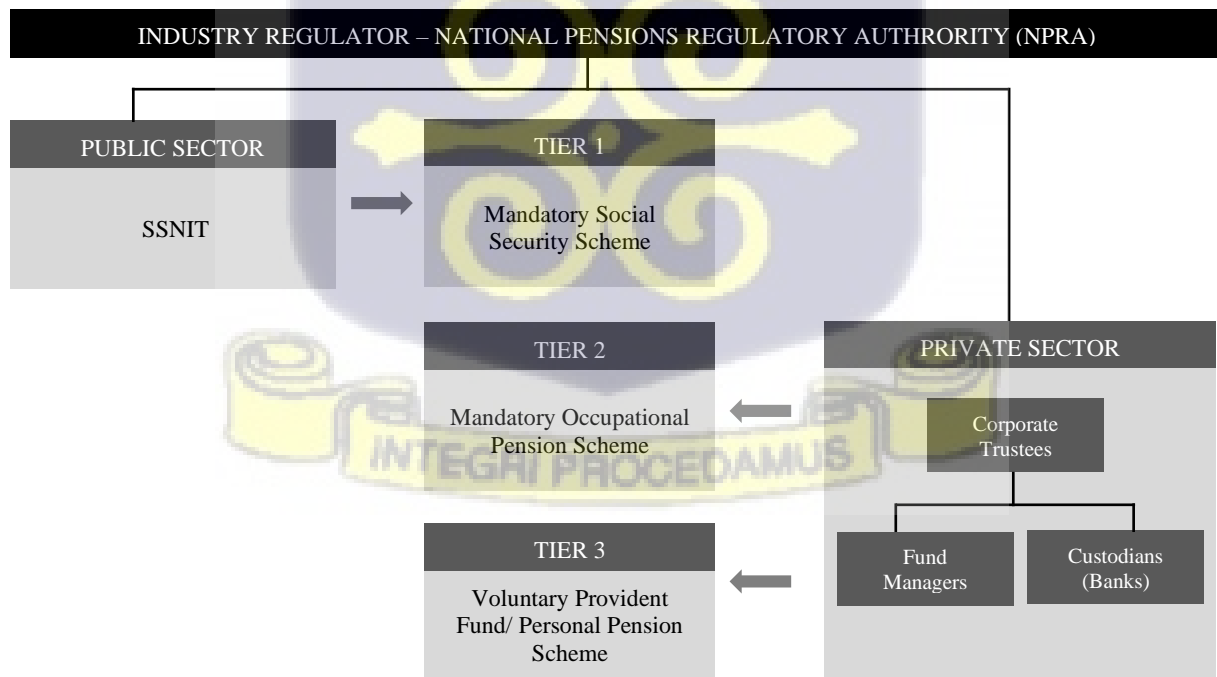
The new pension scheme comprises two mandatory schemes and a voluntary scheme: a first-tier mandatory basic national social security scheme managed by SSNIT; a second-tier occupational (or work-based) pension scheme managed by private pension fund trustees; and a third-tier voluntary provident fund and personal pension schemes, also managed by private pension fund trustees.

In terms of benefits, there has been a major shift with the introduction of this new scheme; unlike previously, SSNIT now provides only monthly pension based on first-tier contributions while licensed corporate trustees provide lump sum benefit from accumulated second-tier contributions. Employees who make voluntary contributions under the third tier enjoy

additional lump sum benefits. Informal sector workers are also allowed to make voluntary contributions to schemes registered under the third tier of the new pension system (National Pensions Act (2008), Act 766).

As part of the reforms, a new regulatory body – the National Pensions Regulatory Authority (NPRO) – was instituted to oversee the operations of SSNIT and private service providers (corporate trustees, fund managers and custodians) which are licensed to manage the second and third-tier pension schemes. Corporate trustees have the responsibility to manage the overall operations of approved pension schemes. Fund managers and custodians, appointed and supervised by the corporate trustees, handle the investment and safe-keeping of scheme assets respectively (National Pensions Act (2008), Act 766). Figure 1 illustrates the structure of the new Three-Tier Pension System: the various schemes and the different categories of service providers.

Figure 1: The New Three-Tier Pension System



Source: Author’s Construct Based on Responses from NPRO

1.2 Informal Sector Pension Scheme

The International Labour Organisation (ILO) describes “informal sector” activities as basically those of “petty traders, street hawkers, shoeshine boys and other groups [who are] ‘under-employed’...” (Bangasser, 2000). Onyango (2014) holds the view that the definition of “informal sector” varies by country, but generally it refers to self-employed people, who are “working in very small unregistered [enterprises], often....in industries such as agriculture, construction, and services”.

In a recent study undertaken in Ghana – the Integrated Business Establishment Survey (IBES) – GSS (2015) defined the informal sector as business establishments which do not keep proper accounting records and are not listed in the books of Registrar General’s Department (RGD). People who work in the sector are usually self-employed persons like farmers, artisans, craft-workers, traders, food vendors and so on (GSS, 2014).

The National Pensions Act (2008), Act 766 describes “informal sector” as “production units which are engaged in legitimate economic transactions and are normally operated at a low level of organisation, with little or no division between labour and capital which operates on a small scale”.

It is estimated that the informal sector employs over 90 percent of the economically active population in Ghana (GSS, 2015), yet it is the sector with the lowest pension coverage (Mensah, 2009). According to Section 109 of the National Pensions Act (2008), a “self-employed person may join and pay contributions to a personal pension scheme [established by a corporate trustee]....” The Act explains further that contributions made by informal sector workers go

into two separate accounts: (a) the personal savings account, which allows members to withdraw part of their savings prior to retirement, and (b) the retirement account, from which members are paid monthly or quarterly pension upon retirement.

It is worth noting that prior to the enactment of the National Pension Act in 2008, the SSNIT Informal Sector Pension Fund (SISPF) had already been established in 2005. It is estimated that as of October 2011, the SISPF scheme had registered about 91,000 informal sector contributors and had an accumulated asset of about GHS 21.5 million (University of Ghana Business School (UGBS), 2015).

1.3 Problem Definition

The World Bank (2006), cited in Doyo (2013), indicates that globally the informal sector contributes significantly to job creation, poverty alleviation and economic growth through the establishment of small enterprises. Unfortunately, majority of workers in this sector are inadvertently excluded from state pension and social security programmes, making them susceptible to income security risks. Such is the case in Ghana where the execution of the new pension system for informal sector workers has faced major challenge (NPRA, 2016).

Thus, the Government of Ghana took a major step to reform the country's pension system to provide enhanced pension benefit to all Ghanaian workers and also expand coverage to those in informal employment (National Pensions Act, 2008). Despite the fact that the new pension scheme has been implemented, these challenges still persist. As indicated in the 2015 annual report of the National Pensions Regulatory Authority, the involvement in the scheme by informal sector is minimal and less effective (NPRA, 2016).

As at June 2015, a total of 256 private pension schemes had been registered with the NPRA. A study conducted by the University of Ghana Business School (UGBS, 2016) revealed that only 16 out of the total number of registered schemes are targeted at the informal sector, which employs over 90 percent of the country's workforce. Among these informal sector schemes, only 6 were found to be active compared to over 200 schemes designed for about 1.2 million employees in the formal sector (UGBS, 2016).

The UGBS (2016) notes further that pensions in Ghana cover about 10 percent of the working population, majority of which are employed in the formal sector. Although the informal sector covers over 90 percent of the total working population, only about 11 percent are covered. This clearly shows that execution of the new pension scheme in the informal sector has faced some challenges. Hence, this study sought to gain in-depth understanding of the challenges hampering the effective implementation of the new pension scheme in the informal economy in Ghana.

1.4 Research Gap

A research gap refers to an area of study which has not yet been explored or under-explored and, therefore, provide an opportunity for further studies leading to contribution to existing literature (Boateng, 2015). It could also be explained as a missing piece in the body of knowledge – a subject area that has not been fully or sufficiently researched (Abass et al., 2020).

Research gaps typically fall into either of these categories: issue gap, theory gap, method gap, context gap or practical gap. When an issue is less discussed in literature or very little is known about it, there is considered to be an issue gap. A theory gap ensues when current theories or conceptual frameworks are insufficient to address a particular research issue. A method gap applies to a research methodology which is under-explored in literature with regards to a specific research topic.

A research context, such as a sector, industry, or geographic area, that has not been given much attention in literature with regard to a particular study subject is a context gap (Boateng, 2015). Practical gaps are gaps in the application of research findings to practical situations. For instance, further studies may be required to understand how to apply evidence-based practices in real-life situations or to ascertain barriers to implementing such practices (Abass et al., 2020).

In the context of this study, there is a practical gap in view of the fact that there is no practical application of pensions within the informal sector of Ghana (NPRA, 2016, UGBS, 2016). Additionally, informal sector pensions is less talked about in Ghana (Akor, 2013). This is a context gap which this study is set to fill. Furthermore, at the micro level of analysis, the issue of informal sector pensions is less emphasised (Adzawla, Baanni, Wontumi, 2015). Hence, this study was set to fill this gap. Even though there have been some studies on the issue of pensions in the informal sector in Ghana, further research is required to test previous conclusions in different context to enhance our understanding of the barriers to effective implementation of informal sector pensions.

1.5 Objectives of the Study

The study sought to investigate the challenges affecting the implementation of the new pension scheme in the informal sector in Ghana. Specifically, the study was aimed at achieving following:

1. To investigate the factors influencing the decision of pension fund service providers to extend their services to informal sector clients;
2. To identify factors that motivate informal sector workers to enroll in the new pension scheme;
3. To identify the challenges affecting the implementation of the new pension scheme in the informal sector.

1.6 Research Questions

The study was guided by the following research questions:

1. What factors influence pension fund service providers' decision to extend their services to informal sector clients?
2. What factors motivate informal sector workers to enroll in the new pension scheme?
3. What are the challenges affecting the implementation of the scheme?

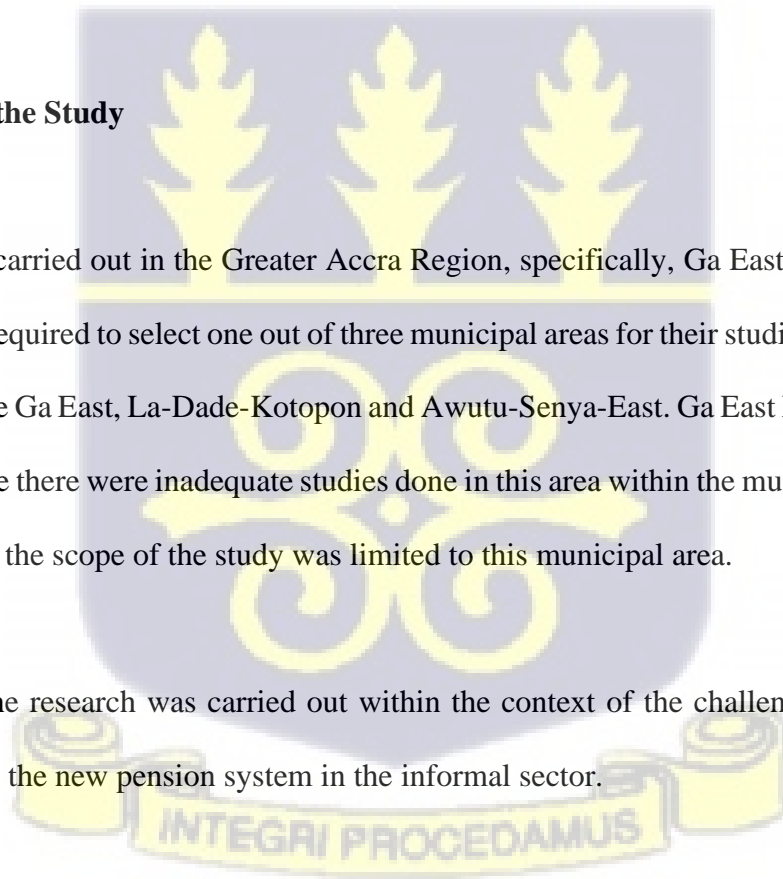
1.7 Significance of the Study

First, this study will serve as a basis for policy formulation and implementation of programmes that will help in addressing key challenges inhibiting the extension of social security coverage to informal sector workers in Ghana. Second, it will contribute to knowledge in the area of public policy implementation in Ghana. It could be used as a reference material for both public and private institutions in the design and implementation of policy initiatives. Additionally, apart from complementing the work of other authors, the outcome of this research is expected to enlighten civil societies and political actors on effective ways of implementing policies.

1.8 Scope of the Study

The study was carried out in the Greater Accra Region, specifically, Ga East Municipal Area. Students were required to select one out of three municipal areas for their studies. The approved study areas were Ga East, La-Dade-Kotopon and Awutu-Senya-East. Ga East Municipality was selected because there were inadequate studies done in this area within the municipality. Thus, geographically, the scope of the study was limited to this municipal area.

Additionally, the research was carried out within the context of the challenges affecting the implementation the new pension system in the informal sector.



1.9 Organisation of the Study

The research is categorised into five chapters. Chapter One deals with introduction to the study and it comprises the background, statement of problem, objectives, questions and significance of the research. The second chapter reviews literature relevant to the study, as well as the theoretical framework. The third and fourth chapters cover methodology and analysis of field data respectively. Summary of findings, recommendations and conclusion are discussed in the fifth chapter.



CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

This chapter reviews previous studies that are relevant to this study and explains the main theories guiding the study.

2.1 The Concept of Implementation

Paudel (2009) defines implementation as the process of “carrying out, accomplishing, fulfilling, producing or completing a given task.” Further, citing Pressman and Wildavsky (1984), he explains policy implementation as a process of interaction between the determination of goals and actions geared to achieve them. It involves actions undertaken by public or private institutions with the intention to achieve policy goals and objectives. “This includes both one-time efforts to transform decisions into operational terms and continuing efforts to achieve the large and small changes mandated by policy decisions” (Van Meter and Van Horn, 1975, cited in Paudel, 2009).

Lester et al., (1995), cited in Paudel (2009) conceptualizes implementation as “a process, output and outcome.” It involves a series of decisions and actions, which are aimed at putting a policy decision into effect. A fundamental feature of implementation process is the timely and satisfactory performance of tasks that are directed towards the realization of the policy goals and objectives. Implementation can also be seen as the extent to which policy objectives have been achieved.

Mazmanian and Sabatier (1983: cited in Cerna, 2013)) define implementation as “the carrying out of a basic policy decision, usually incorporated in a statute but which can also take the form of important executive orders or court decisions.” A policy decision “identifies the problem(s) to be addressed, stipulates the objective(s) to be pursued and structures the implementation process” (Sabatier and Mazmanian 1980).

2.2 Evolution of Implementation Theories

Research undertaken by Pressman and Wildavsky (1973) set the foundation for further studies in the field of policy implementation (Mushkat, 2008). Subsequently, a number of researchers carried out studies on policy implementation, which brought about the proliferation of implementation theories (O’Toole, 2000). These studies have helped in understanding a number of problems that institutions responsible for programme implementation may face and have identified some factors that may account for variation in programme results (Goggin et al., 1990: cited in Valire and Sandra, 1995).

Generally, implementation research is known to have evolved through three generations. The first generation of implementation research ranged from the early 1970s to the 1980s whereas the second generation research ranged from the 1980s to the 1990s. The third generation research ranged from the 1990s and beyond (Matland, 1995: cited in Paudel, 2009).

2.2.1 First Generation Implementation

The first generation was largely non-theoretical, case-specific studies that sought to explore the forces that facilitated or constrained policy implementation. This helped in understanding how local factors such as intra-organisational relationships, commitment, institutional capacity and complexities influenced responses to policy implementation (Paudel, 2009). “The first-generation implementation research was focused on how a single authoritative decision was carried out, either at a single location or at multiple sites... Pressman and Wildavsky’s work is a prime example of the first generation research” (Goggin et al., 1990; Hill and Hupe, 2002: cited in Paudel, 2009).

2.2.2 Second Generation Implementation

The second-generation researchers were mainly interested in understanding the relationships between policy and practice. Through their research, a number of important lessons were generated to serve as a guide for policy, practice and further studies. McLaughlin (1987), for instance, argued in his study that individual incentives and beliefs can affect the outcome of a policy.

Therefore, policy implementation must be strategically planned in order to be successful. Furthermore, second generation researchers were concerned about explaining implementation success or failure, relying heavily on an explicit or implicit model of policy implementation process (Goggin, et al., 1990: quoted in Paudel, 2009). They were engaged in the development of analytical frameworks.

As implementation research evolved, two perspectives for studying and understanding policy implementation emerged: the top-down and bottom-up perspectives (Winter 2003).

The Top-Down Perspective

The top-down approach, pioneered by (Pressman and Wildavsky, 1973), works on the basis of the assumption that a policy can be executed effectively through certain mechanisms instituted by decision makers who are at the top of the political hierarchy (Palumbo and Calista, 1990; Paudel, 2009). In other words, they believed that policymakers can design policies and implement them successfully through the use of established structures. This perspective is policy-centered in the sense that it represents the views and aspirations of the policymakers.

Pressman and Wildavsky (1973) note that traditionally, policy implementation has been conceived as a top-down process, which begins with a clear expression of the policymaker's goals and objectives as well as the step-by-step activities that need to be undertaken to ensure the success of the policy. "At the bottom of the process, one states, again with as much precision as possible, what a satisfactory outcome would be, measured in the terms of the original statement of intent" (Elmore, 1978).

It is premised on the notion that in order to get a policy successfully implemented, there must be a system to control the stage-by-stage activities that need to be carried out by people. The idea is to develop a system of control and coordination that reduces conflict and deviation from policy goals and objectives (Pressman and Wildavsky, 1973). Furthermore, the top-down approach lays much emphasis on the use of formal approach to handling of problems (Paudel, 2009).

The policymakers' attention is usually on issues such as funding procedures, formal organisation structures and authority relationships between administrative units, regulations and controls like budget, planning and assessments (Elmore, 1978). Winter (1990) notes that the top-down perspective largely limits its interest to actors who are formally involved in the implementation of a specific program. The researchers focus on a specific policy decision, and follow the implementation down through the system, often with special interest in top-hierarchy decision makers.

From the above, it can be seen that earlier scholars who supported the top-down approach commonly agreed that in order to ensure successful policy implementation, the problem, policy objectives and expected outcomes must be clearly defined. Also, they believed that there should be a formal structure or system of control to drive the implementation process. Another important issue that runs through most of the studies undertaken by the earlier scholars is availability of resources.

Although the top-down approach is useful in terms of the ideas it offers for successful policy implementation, it faces a number of criticisms. First, it fails to take into account the importance of preliminary events and actions, which form part of the policy-making process. It rather considers the law as the starting point of the policy development without paying attention to the concerns of relevant interest groups (Paudel, 2009).

Second, proponents of this model see implementation as a purely administrative process. Hence, they try to either ignore or eliminate the political aspects of the whole process (Berman 1978; March and Sætren, 1986). They do not recognize “the political realities that account for policies with multiple goals, vague language and complex implementation structures” (May,

2003, p224). Third, they put a lot of emphasis on framers of the law as key actors in the policy-making process.

According to Elmore (1979), this criticism has two primary variants. One argues from a normative viewpoint that policy makers are experts and have the knowledge of the true problems; therefore, they are in a better position to propose purposeful policy. Another criticism is that the top-down approach disregards the reality of policy modification or distortion at the hands of implementers. The second argument is from a positive perspective that discretion for street-level bureaucrats is inevitably so great that it is simply unrealistic to expect policy designers to be able to control the actions of these agents (Paudel, 2009).

The Bottom-Up Perspective

Following the criticism of the top-down approach, Elmore (1978), Lipsky (1971), and Hjern, Hanf, and Porter (1978) also developed the bottom-up approach, which starts at the substructure by identifying and knowing the objectives, plans, actions and contacts of stakeholders engaged in service delivery in various local areas (Lester et al., 1987; Sabatier, 1986). Subsequently, based on the information gathered from the local actors, a network technique is developed for identifying key stakeholders involved in the planning, funding, and implementation of important policies at all levels of the political structure (Sabatier, 1986).

One cardinal idea upon which the bottom-up approach is founded is the fact that conditions at the local level are very critical to the success of policy implementation. The focus is mainly on individuals and their behaviour. In this regard, field workers (street bureaucrats) are made central in the policy-making-process because they are considered to have a better understanding of what clients need. In other words, the skills of personnel at the local level,

and their familiarity with the policy conditions are key considerations that should be covered in the policy.

The bottom-up perspective is people-centered and it begins from a problem in society. While delivering policies to individual citizens, field workers make certain discretionary decisions. This discretionary role in delivering services or enforcing regulations makes field officers important actors in the implementation of public policies (Paudel, 2009). Indeed, field officers are regarded as the real policymakers (Winter, 2003).

This is because the street-level bureaucrats are perceived to have a better understanding of what clients need since they have direct contact with the public. The theory of 'street-level bureaucracy,' pioneered by Michael Lipsky (1980), emphasizes the discretionary power exercised by field officers and its influence on the policy execution process (Paudel, 2009).

Although the bottom-up tried to tackle some drawbacks of the top-down approach, it also has its own limitations. In recent times, the main theoretical perspectives on policy implementation have been the top-down and bottom-up approaches as well as a fusion of both (Paudel, 2009).

2.2.3 Third Generation Implementation

Both the first- and second-generation implementation studies have undoubtedly added much to our understanding about the issue of policy implementation. Although the two approaches seem to be in conflict against each other, they all seek to explain the same concept of policy implementation. One complements the other by explaining the aspect of implementation overlooked by the other. This served as a basis for the call for a synthesis of both approaches

by scholars such as Elmore (1980, 1982, 1985), Goggin et al. (1990), Thomas and Grindle (1990), and Matland (1995).

Elmore (1982) held the view that policymakers should ensure that their policies take into account the needs and concerns of target groups. This idea was challenged on the basis of the fact that no hypothesis and testing of specific relationship was carried out to arrive at that prescription; therefore, it could not be considered as a theory (Matland (1995). Related to this, Winter (2003) observed that both first- and second-generation implementation research studies have failed in unraveling the relative importance of the explanatory variables that may influence policy outcome. He argues further, “A substantial part of the studies could be criticized as merely presenting—often long – checklists of variables that might affect implementation.”

Thomas and Grindle (1990) proposed another approach which involves a combination of top-level state officials and junior level implementing officers. Their argument was that policy reform come about through the influence of interest groups operating at the top and/or the bottom. Paudel (2009) argued that “this model can lead to a more realistic approach to policy especially where the question of implementation feasibility assumes major importance.”

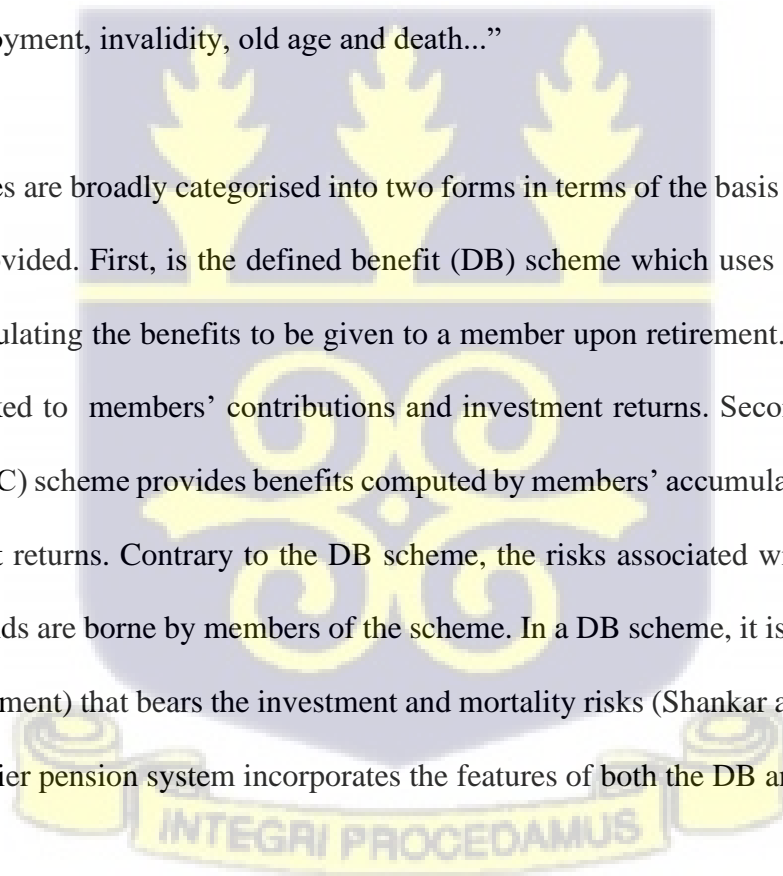
2.3 Social Security and Pension Provision

Social security refers to any arrangements which are aimed at providing some form of protection and care to people in times of need. This includes provisions made to ensure income security for people to cushion them against the risk of loss of income and economic hardship, which may be as a result of old age and retirement from work (Anuwa-Amarh, 2015).

According to Modigliani and Muralidhar (2004), referenced by Adzawla, Baanni and Wontumi (2014), the primary purpose of a pension system is to assist people in their active ages to insure themselves against future uncertainties regarding retirement income.

According to Dorfman and Palacios (2012), pensions and social insurance programs are an integral part of any social protection system, which helps in providing protection against decline in income and poverty in old-age. The Institute of Economic Affairs (IEA, 2004, pg. 2) summarises ILO's definition of social security as follows: "a scheme [which is primarily] aimed at [protecting] of members of society against economic and social distress caused by the substantial reduction of earnings, which may be as a result of sickness, maternity, employment injury, unemployment, invalidity, old age and death..."

Pension schemes are broadly categorised into two forms in terms of the basis upon which their benefits are provided. First, is the defined benefit (DB) scheme which uses a pre-determined formula in calculating the benefits to be given to a member upon retirement. The benefits are usually not linked to members' contributions and investment returns. Secondly, the defined contribution (DC) scheme provides benefits computed by members' accumulated contributions plus investment returns. Contrary to the DB scheme, the risks associated with investment of DC pension funds are borne by members of the scheme. In a DB scheme, it is the plan sponsor (usually government) that bears the investment and mortality risks (Shankar and Asher, 2011). Ghana's three-tier pension system incorporates the features of both the DB and DC schemes.



2.4 The Family as a Social Security System

The traditional family system has been a major source of social and income security for the aged in developing countries around the world, especially in Africa (Aboderin, 2005; cited in Akor, 2013). Poor people suffer economic insecurity because low and irregular incomes along with limited access to financial services usually leave them with little to no savings as they grow older. Consequently, they depend on their children and grandchildren to provide them shelter and financial support (Ledgerwood, Earne and Nelson, 2013). However, over the years, the support given by families has been declining due to changing socio-economic conditions (Aboderin, 2005; cited in Akor, 2013).

Adzawla, Baanni and Wontumi (2014) similarly remark that for most elderly people in Africa, the extended family has been the conventional safety net. According to Collins-Sowah, Kumornu and Tsegai (2013) Traditional African societies understood the need to make provision for future eventualities through communal and family support systems before the advent modernisation. However, as a result of changing socio-economic conditions in recent times, the support given by the extended family to the aged is gradually weakening (Adzawla, Baanni and Wontumi, 2014).

Dei (2001) and Kpessa (2010), cited in Collins-Sowah, Kumornu and Tsegai (2013), share a similar opinion: the traditional family system was regarded as a form of social security for the aged before Africa's colonisation. However, in recent times, the significance of the family as a primary safety net for most people is dwindling due to socio-economic and demographic transitions; the traditional family support system is being challenged as many young people migrate to cities, leading to a reduction in family sizes and the adoption of more individualistic

attitudes by people (Collins-Sowah, Kumornu and Tsegai (2013). Consequently, extension of social security or protection to all workers, especially those within the informal economy, is crucial (Adzawla, Baanni and Wontumi, 2014).

2.5 Informal Sector Pension Schemes

Pension plans for informal sector workers are usually designed as a DC scheme; they operate on the basis of voluntary savings, accumulated over a protracted period of time and invested in various financial instruments on behalf of its members. Upon retirement, a member may decide to have all his accumulated benefits paid to him as a lump sum or in installments over a period of time (Shankar and Asher, 2011). Most often, the benefits are paid in the form of a lump sum from members' accumulated contributions and investment returns (Kpessa, 2011).

Pension provision for the informal economy is one of the important social protection instruments which are central to ensuring sustained poverty alleviation and development. Hence, the role of social security in lowering vulnerability in that sector has become popularity among researchers, policy makers, industry professionals and other stakeholders in recent times (Adzawla, Baanni and Wontumi, 2014).

In a recent study by Akor (2013), the International Social Security Association (ISSA, 2009) was noted as acknowledging the fact that extension of pension coverage in Africa is one of the major challenges. In this regard, attention to the informal economy is highlighted as an important priority area, noting that formal market-based pension and social security systems have reached only a few people in Africa.

The challenge with pension provision in many developing countries stem from the fact that the labour market is characterised by increasing informal employment. For instance, in Tanzania over 94 percent of the population is working in the informal sector. These included street vendors, hawkers, petty traders, farmers and others who were not covered under any social security plan (Integrated Labour Force Surveys (ILFS), 2006 cited in Ackson and Masabo, 2012).

Adu-Amankwah (1999), cited in Akor (2013), asserts that the informal sector is absorbing an ever-increasing number of labour force and, therefore, much attention is being given to it in all areas of development, including the provision of pensions and social security. He claims that attendees of the 89th International Labour Conference, held by the International Labour Organization (ILO) in Geneva, concurred that developing nations must pay close attention to the workforce in the informal economy because they make up a larger portion of the population that generates income.

Accordingly, the Njuguna (2012) remarks, “With majority of the population working in the informal sector, appropriate pension arrangements are needed to ensure that the informal sector participants do not fall into the poverty trap after retirement.”

Assessing the degree of pension coverage in the informal economy in Ghana, Anuwa-Amarh (2015) observed that less than 30 percent of the respondents said they were making provision for their retirement. Among this category of people, only 21 percent said they were contributing to the SSNIT Informal Sector Scheme. Over 56 percent of them indicated that their pension provision was in the form of personal savings while about 23 percent of them utilised life insurance policies as alternative retirement plan.

He indicated further that as at March 2011, a total of 83,448 people had subscribed to the SSNIT Informal Sector Fund. Although the informal sector was the primary target market, participation in the program was voluntary and open to all kinds of workers. Among the 83,448 members of the scheme, 85 percent of them were from the formal sector, accentuating the fact that majority of informal sector employees, accounting for over 85 percent of total employment in Ghana are without pension provision and therefore at serious risk in terms of economic security (Anuwa-Amarh, 2015).

Therefore, in order to prevent participants in the informal sector from falling into poverty after retirement, it is important to take the necessary steps to expand pension coverage to them (United States International University, 2012).

2.6 Savings Culture among Informal Sector Workers

2.6.1 Forms of Savings

Workers in the informal economy practice various forms of savings through both formal and non-formal methods and at varying frequencies, such as daily, weekly and monthly or multiple times over a period of time. In Nigeria, non-formal methods of savings utilised by the informal sector workers include ‘contribution’ (known as *Akawo* in the local dialect), home savings (through the use of ‘money box’) and investment in assets such as land, gold, coral beads, and farms (PENCOM, 2014).

Preference for the first two methods is motivated by two main factors – proximity and ease of access in times of need. Investment in assets is motivated by the fact that their values increase in the long-term; hence, they could be re-sold in time of need to generate revenue (PENCOM, 2014). In addition to these informal channels, people in the informal economy save through various platforms operated by commercial banks and microfinance institutions (PENCOM, 2014).

In Ghana, another study undertaken by Akor (2013) found similar pattern of savings within the informal economy. According to her, most of the people operating within the informal sector operate both in-cash and in-kind savings. The in-cash method of savings includes daily *susu* savings as well as regular deposits with savings and loans companies and microfinance institutions.

Vonderlack and Schreiner (2001), in Ansah (2013), assert that workers in the informal sector use informal savings methods to prepare for emergencies and also meet their immediate and distant needs, suggesting that they want to save but with low transaction costs and assistance to maintain consistent savings culture. They outline four common channels through which market women operating within the informal economy save: house-to-house or shop-to-shop deposit collectors, Rotating Savings and Credit Associations (ROSCAs), Annual Savings Clubs and in-kind storage.

The door-to-door savings method involves the use of people (agents) to collect small amount of money directly from people on a daily or weekly basis, often at their homes or shops. For instance, market women in Ghana deposit 30 little amounts each month. However, their funds are returned to them at the end of the month in the form of a lump sum that is equal to 28 times

their daily deposit amount. This shows that low-income people are willing to pay (instead of earning interest) to save as long as high transactions costs are eliminated.

The Rotating Savings and Credit Associations (ROSCAs) are often small groups of individuals who have made an agreement to make set contributions at predetermined periods, such as once a month. One participant receives the total contribution at the end of each period. Up until the final member of the group, they take turns doing this. The usage of ROCSAs eliminates greater transaction costs and the need to save frequently, much as the use of deposit collectors (Arderner and Burman, 1995 in Ansah, 2013).

The Annual Savings Clubs, which are typically run by social clubs, religious organizations, or trade associations, are more flexible than ROSCAs in that they permit each member to choose the amount they can save at regular group meetings. Savings accumulate interest. The annual cycle typically starts and ends around significant occasions like Christmas or harvest times that need or create huge cash flows.

Lastly, the savings in-kind takes the form of storage of high-value goods, such as jewellery, cloths, land, cattle, etc., that can be sold for cash in times of need (Ansah, 2013). These savings practices among informal sector people suggest that they value the idea of savings. However, they are more concerned about their immediate needs than their future security, especially in their old age (Ansah 2013). This is similar to Akor's (2013) finding: Most low-income earners do not value long-term savings. Instead, they believe that once they can establish their enterprises and care for their children, it should be sufficient to protect them from old age and any other unforeseen events.

2.6.2 Motive for Savings

In a study which was carried out by the National Pension Commission (PENCOM, 2014) of Nigeria, it was observed that most informal sector workers use their savings in similar ways regardless of their gender, age or locations. Most of the respondents selected for the study claimed that they save for the purposes of business expansion, carrying out planned projects, paying bills (such as rent, school fees, medical expenses, etc.), providing assistance to parents and other family members, as well as meeting other basic responsibilities.

According to Mensah (2013), people save for bequest motives apart from consumption purposes. He continues by indicating that people can store money in the form of an inheritance for their children, relatives, or friends. He asserts, “The bequest model suggests that every individual has a multi- generational time horizon, that is, a time as a child (dependent), and adult (independent) and a retired person (dependent). In the stages of dependence of a man’s life, he may depend on bequest savings from beneficiaries.”

Furthermore, people save for precautionary or safety reasons. They save with the intention of cushioning themselves against unforeseen circumstances and events such as death, income disruptions and health problems (Santen, 2013 cited in Mensah, 2013). Others make significant financial contributions to their accounts in order to access credit facilities from financial institutions (Akor, 2013).

2.6.3 Knowledge and Perception about Pensions

Ansah (2013) argues that lack of knowledge on pensions is one reason why people may not join a pension scheme. In support of this argument, he indicates that in India about 80 percent of the informal sector employees interviewed by the Asian Development Bank (ADB) did not know anything about pensions. Hence, very few of them were contributors to the Public Provident Fund.

In another study carried out by PENCOM (2014) the main objective was to investigate how Nigeria's contributory pension scheme could be extended to the informal economy. Among other issues, the study provided in-depth understanding about people's level of awareness and perceptions about pensions, and their willingness to participate in a pension scheme. The study found that a number of informal sector employees had negative perceptions about pensions, influenced by reports about pensioners' undesirable experiences.

Majority of the respondents disclosed that they knew about the cumbersome verification exercises and difficulties some pensioners face in accessing their retirement benefits. Notwithstanding these bad perceptions, they viewed pensions as beneficial in the sense that it gives workers the hope of receiving financial support in their old age. However, they lacked deep understanding of how pensions work.

2.6.4 Alternative Pension Arrangements

In terms of preparation towards retirement, many low-income workers operating in the informal economy share a common opinion that investing in their children will guarantee their

comfort in old-age. This is based on the expectation that when their children mature and become established they will take care of them (PENCOM, 2014). Thus, they consider investing in their children's education as an alternative provision for their future security.

Interestingly and on the contrary, Akor (2013) observed from his study that most respondents did not consider their children as a source of old-age security. To substantiate his finding, he cited Aboderin (2005) who shares a similar view: "both the developing and western societies have experienced a decline in the material family support for older people due to social and economic change." Others view investment in valuable assets or properties and their businesses as a source of security (Akor, 2013).

2.7 Challenges with Informal Sector Pensions

According Njuguna (2012), informal sector workers have specific characteristics that alienate them from formal pension arrangements. These include, among other things, their constant change of jobs, the temporary nature of their employment contracts, low level of education and lack of knowledge about pensions and lack of experience in dealing with formal financial institutions. Keizi (2006) argues that low pension coverage in the informal economy is as a result of the extreme difficulty faced by pension fund administrators in the area of contributions collection.

Another major problem is that many of these workers in the informal sector think that the benefits offered by a pension scheme are irrelevant to their immediate or priority needs. For many of them, old age seems very remote; therefore, the idea of retirement is unreal. Others

are just reluctant towards the idea of retirement savings due to how some schemes have been mismanaged in the past (Keizi, 2006).

Ackson and Masabo (2013) identify a number of challenges that impede the operation, growth and development of informal sector pension schemes. First, they point out that workers in the informal sector are usually hesitant when it comes to contributing part of their monthly income to a pension scheme; they prefer to rather keep their low income to be able to satisfy their current needs than to invest into their future. They argue that there are considerable disparities between what pension providers offer and what informal sector workers want.

Usually, informal sector workers are concerned with immediate needs such as access to credit facilities, healthcare, child education, housing, etc. On the other hand, pension institutions provide long-term benefits such as retirement, invalidity and survivors' lump sum. The second challenge they identify relates to the irregularities, uncertainties and seasonality of income in the informal sector, arguing that these have the tendency to negatively affect members' contributions and future benefits.

Another area of difficulty has to do with the level of awareness. There are challenges with the extension of social security coverage to workers in the informal sector because they are unaware of the core functions and operations of pension and social security schemes (Ackson and Masabo, 2013).

Njuguna (2012) identified similar challenges in their study on informal sector pension schemes. Among other factors, they observed that low income, inaccessibility of retirement benefits in

the short-term and lack of knowledge on operations of pension schemes posed challenges for the smooth operation and sustainability of informal sector pensions.

Other challenges they identified include complexity of pension schemes, difficulty in accessing benefits upon retirement, lack of involvement in management of the scheme, irregularity of income flow, lack of trust in the system, low rates of return and the perception that pension schemes are for the formal sector.

2.8 Critical Success Factors for Informal Sector Pensions

Several proposals have been put forward by different authors with regards to ensuring successful implementation and expansion of pensions in the informal sector. Some of these recommendations are discussed below:

2.8.1 Public Awareness and Educational Campaigns

Awareness creation and public education about pensions, through television, radio, handbills and other means of communication, is highly recommended. Ansah (2013) recommends that, through various media platforms, informal sector participants should be educated on the need to save for retirement. She remarks that the public education programmes should provide more information on the current pension arrangement in terms of the roles of the various service providers with emphasis on the simplicity of processes, ability to claim benefits and assurance of security.

Seminars for targeted groups and the use of informal sector associations as a means to disseminate information are also proposed (PENCOM, 2014). Keizi (2006) holds the opinion that pension regulators need to forge strategic partnerships with industry actors, development agencies, donor partners and other stakeholders to ensure a strong support for the implementation of effective public education and awareness campaign on pensions.

Stewart (2006), in Ansah (2013), opines that public education on pensions holds the potential to lead to increased pension coverage in the informal sector. In the UK, a specific awareness campaign was initiated in 2006 to help self-employed people understand current pension arrangements available to them, with the aim of including them into the formal private pension system (Ansah, 2013). Shankar and Asher (2011) propose that personnel of institutions involved in the provision of pension services must be trained to explain the concepts of pension plans to prospective clients.

They argue further that the education of prospective clients should precede sales and marketing of the pension products. This will enable the clients to better understand their utility. Complementary to the idea of education campaign is the recommendation that pension regulators should seek to improve the general understanding of pensions and social security through intensive research on expanding coverage to the informal economy (Keizi, 2006).

“Implications of alternative designs and delivery systems for micro-pensions need to be rigorously researched to ascertain their likely financial sustainability and impact on the level of benefits to members,” Shankar and Asher (2011) assert. Specialised personnel should be employed and trained to handle the informal sector market (United States International University, 2012). For instance, in China, projects have been undertaken to provide training

for some local officials to equip them with the skill of educating and effectively explaining pension benefits available to eligible rural workers (Ansah, 2013).

2.8.2 Flexibility in Scheme Design

The National Pensions Commission (PENCOM, 2014) of Nigeria recommends that in designing informal sector pensions, service providers should incorporate attributes that suit the savings behaviour of people working in that sector. In relation to this, they suggest further that contribution collection points should be made widely accessible to members to enable them to choose the locations nearest to them.

An extension to this idea was the recommendation that electronic payment channels should be utilised in pension distribution. They assert, “Electronic payment instruments offer a widespread and inclusive approach for contributing and paying out pensions within the informal sector.” They note, however, that the majority of respondents were skeptical about carrying out financial transactions on their mobile phones because they did not understand how it worked.

Additionally, it is recommended that contributors should be allowed to choose the frequency of savings according to their ability. This recommendation is based on the argument that businesses operated by informal sector workers have different peak periods; hence, the members do not have a regular stream of income to contribute a standard amount. This calls for some flexibility in the design of pension schemes for the informal sector market.

According to Ansah (2013), the issue of inflexibility, e.g. with regards to payment of contributions, enrollment requirements, etc., is one of the major reasons why informal sector workers do not want to participate in voluntary pension schemes. She believes that participation could be enhanced by creating room for flexibility in the system. To back her argument, she notes that in Chile and in other developing countries where there is a large agricultural sector, flexible contributions are allowed to encourage participation by farmers and other seasonal workers. When there is bumper harvest, farmers can pay higher pension contributions.

However, in bad seasons, they may not have sufficient money to meet their basic needs; hence they may not be able to put aside extra money for pension contributions. It is, therefore, worthwhile to permit irregular contributions which are in harmony with the income pattern of informal sector workers (Ansah, 2013).

According to Shankar and Asher (2011), “A pension product for [informal sector] groups should be designed to take into account the constraints faced by, and the needs of, these individuals. As income streams may be uncertain or volatile, the product should offer a degree of financial flexibility calling for low or no minimum contribution requirements so as to encourage membership. However, contributions that are set too low or which are paid in a sporadic manner may not provide sufficient income security.”

Low-income groups usually prefer lower-value and frequent savings rather than infrequent larger-value deposits (Rutherford, 2008 in Shankar and Asher, 2011). This is because there are competing demands on their resources, thereby making it difficult for them to accumulate large amounts of money. “The tradeoff is between current needs and future income security in retirement” (Shankar and Asher, 2011).

2.8.3 The Use of Innovative Payment Mechanisms

Generally, most social security and pension systems rely on the banking system for the collection of contributions and payment benefits. Unfortunately, research has shown that more than half of the world's adult population does not have access to banking services (Koech, 2012 in Kwena and Turner, 2013). The situation is worse in developing countries, where about 64 percent of adults do not have bank accounts, compared to 17 percent in developed countries (Kwena and Turner, 2013).

On the contrary, 75 percent of the world's adult population has access to cell phones. Koech (2012) cited in Kwena and Turner (2013) indicates that at the global level, mobile phone subscriptions have increased from 7119 million in 2000 to 6 billion in 2011. According to him, much of the growth has occurred in developing countries as a result of the fact that it is relatively inexpensive for one to purchase a phone and prepaid airtime. He argues, "In Africa, cell phone connectivity has gone from virtually zero in the 1990s to more than 60 per cent of Africans having mobile phone coverage." For instance, in South Africa, Algeria and Ghana, mobile phone subscriptions are more than twice the number of bank accounts (Koech, 2012 in Kwena and Turner, 2013).

Growing cell phone usage has precipitated the development of mobile banking, which allows people to use their cell phones to make deposits and withdrawals, transfer funds and pay bills. As of 2012, 129 mobile banking programmes were operating around the globe. In developing economies, mobile banking provides the opportunity to extend financial services, such as pensions, to many people. Unlike traditional cash-based systems, mobile banking is an inexpensive, easy, and safe way of undertaking financial transactions. The risks associated with

physical delivery of cash, such as fraud and theft of the cash in transit, are minimized considerably (Vincent and Cull, 2011).

In Kenya, only 24 percent of the adult population has bank accounts while about 75 percent of them use mobile phone. Therefore, the Mbao Pension Plan utilises M-PESA, a mobile phone-based money transfer system, as an alternative to banks to facilitate its collection and payment transactions (Koech, 2012 in Kwena and Turner, 2013). Within eight months of its launch, over 1 million people had been enrolled as M-PESA subscribers (Safaricom, 2007). “By 2008, a survey found that 43 per cent of households used M-PESA, and by 2009 it was nearly 70 per cent” (Kwena and Turner, 2013).

In deed, “The use of automated payment technologies such as mobile phones, automated teller machines (ATMs), internet payment processors and smart cards are promising developments that could make products such as micro-pensions, which revolve around large number of small value money transfers, highly attractive” (Shankar and Asher, 2011).

2.8.4 Cost Reduction

Recommendations made by Njuguna (2012) in this regard include the adoption of a suitable and an effective fund administration and accounting system that is able to reduce administrative and transaction costs. This should be accompanied with a strong commitment to serving the low-end market through intensive financial literacy programmes, waiving of transaction costs for clients, and customizing the pension products to suit the characteristics, needs and aspirations of the informal economy.

On the part of government, they call for the provision of subsidy or ‘co-contribution’ to supplement members’ ‘small’ contributions (United States International University, 2012).

2.8.5 Regulatory Reforms

Taking cognizance of the peculiarities of the informal sector, the design of a unique or separate regulatory framework for informal sector pensions is also recommended (United States International University, 2012).

On the issue of regulations, Keizi (2006) highlights the fact that every government is obliged to ensure the safety and success of pension funds for its labour force. He contends that this regulatory function has to be strengthened, especially in emerging nations where the majority of workers are unfamiliar with how contemporary financial systems operate. He points out that pension regulators should develop systems for monitoring and receiving feedback on selling practices of service providers and take steps to enforce punitive measures against those who engage in unethical practices, such as misleading prospective clients regarding the pension products being sold (Shankar and Asher, 2011).

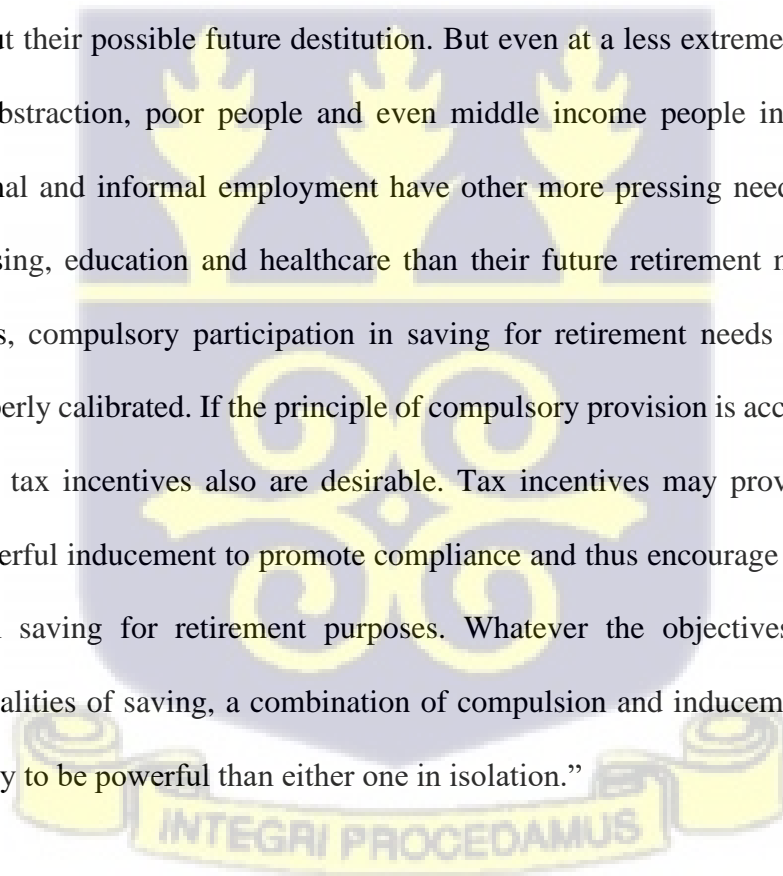
2.8.6 Application of Inducement or Compulsion

Interesting proposals offered by other authors relate to the use of inducement or compulsion. In 1981, for instance, Chile launched a new pension system under which all formal sector employees were required to contribute into individual pension accounts. Further reforms undertaken by the government in Chile has resulted in making participation mandatory for all self-employed people who form a large proportion of the informal sector (Ansah, 2013).

Keizi's (2006) position on this is a combination of both approaches –persuasion and coercion.

He asserts:

“Poor people in the informal sector also tend to have a high discount rate. Forcing these people to save raises some important policy, even ethical, issues. How fair is it to compel poor people to defer their already low level of consumption for their future retirement needs? At an extreme level of abstraction, depriving poor people of the ability to meet their basic needs may cause more problems, thus negating any concern about their possible future destitution. But even at a less extreme level of abstraction, poor people and even middle income people in both formal and informal employment have other more pressing needs for housing, education and healthcare than their future retirement needs. Thus, compulsory participation in saving for retirement needs to be properly calibrated. If the principle of compulsory provision is accepted then tax incentives also are desirable. Tax incentives may provide a powerful inducement to promote compliance and thus encourage long-term saving for retirement purposes. Whatever the objectives and modalities of saving, a combination of compulsion and inducement is likely to be powerful than either one in isolation.”



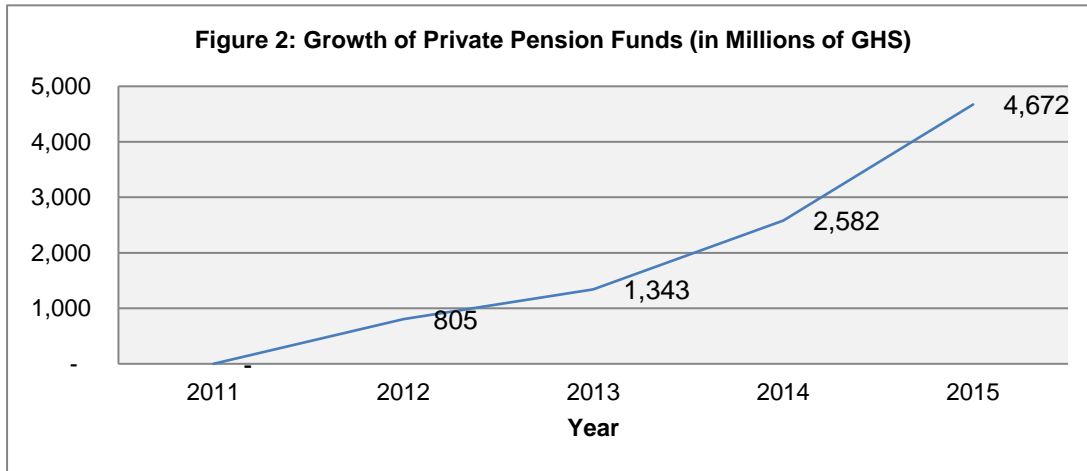
2.9 Significance of Pensions

The significant role of pension schemes in economic growth and development is acknowledged globally; pension funds contribute directly to Gross Domestic Product (GDP), accumulation of savings, financial market development and reducing old-age poverty in world economies, among other benefits (Njuguna, 2010 in Umar and Tsado, 2012). To substantiate this assertion, a number of country-specific examples are cited. First, in Australia, pension assets amounted to 1 trillion AU\$ in 2004 (representing about 20 percent of the country's GDP).

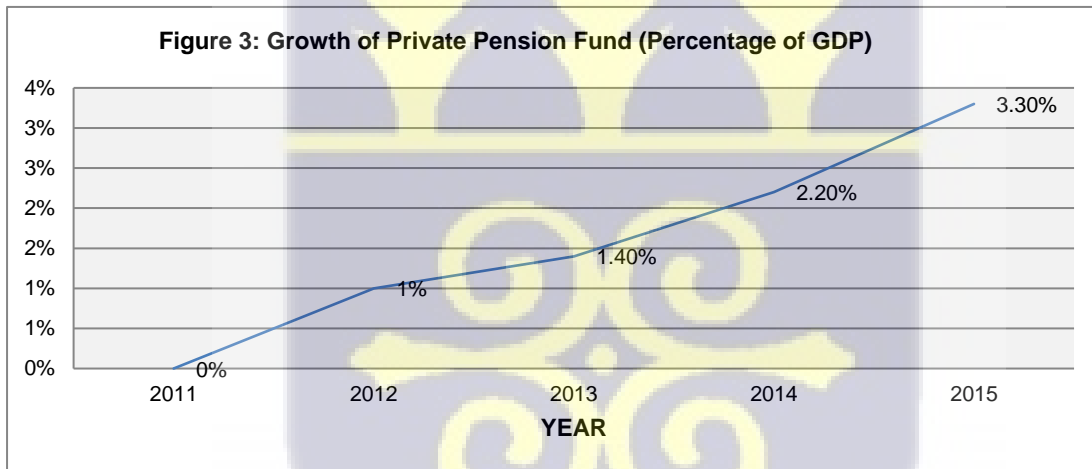
Belgium's pension assets totaled 140 billion Euros during that time (Njuguna, 2010 in Umar and Tsado, 2012). In 2003, China's pension funds totaled RMB 714 billion, compared to Canada's total pension assets of 1.3 trillion Canadian Dollars (30 percent of GDP) (24 percent of GDP). "In Nigeria, the pension industry under the new scheme is expected to generate over N900 billion long term loan-able fund annually. The implication of [this] on Nigerian economy, apart from its potentials to contribute to GDP, is that these funds provided will be made available to finance infrastructural projects such as electricity, railway, tourism etc.," according to Balogun (2006); cited in Umar and Tsado (2012).

In Ghana, recent industry statistics published by the National Pensions Regulatory Authority (2015) indicate that private pension funds have grown from over GHS 800 million (1 percent of GDP) in 2012 to over GHS 4 billion (3.3 percent of GDP) in 2015. Contributions to the old SSNIT Informal Sector Fund alone have risen to GHS 75 million in May 2016 (Graphic Business, 2016). According to the University of Ghana Business School (2016), "As at March 2015, approximately GHS 1,464 million had been accrued for six (6) active schemes out of 16 registered informal sector schemes."

This suggests that informal sector pensions, if properly harnessed, hold the potential to generate long-term capital for economic development in Ghana (Graphic Business, 2016).



Source: The NPRA



Source: The NPRA



2.10 Theoretical Framework for the Study

2.10.1 The Contextual Interaction Theory

The Contextual Interaction Theory was developed by Dutch researchers, including Hans Bressers, at the University of Twente in the Netherlands and their U.S. and European-based collaborators working on governance and sustainable natural resource management. It was adopted for this study because it provides a relatively simple, empirically-tested framework for identifying the essential issues underlying barriers within an implementation network (Spratt, 2009).

The theory is based on the assumption that the course and outcome of the policy implementation process do not only depend on the content of the policy document itself, but more importantly on the characteristics of the actors involved – their motivation, information and power. Proponents of this theory acknowledge the fact that other factors may influence the implementation process; however, their influence can best be understood by assessing their impact on the motivation, information, and power of the actors (stakeholders) involved (Bressers, 2004: cited in Spratt, 2009).

They argue further that the factors influencing the implementation process are interactive. Hence, how one factor influences the policy implementation process or outcome depends on the particular contextual circumstances. The theory recognizes a set of “core circumstances” or constructs related to the actors involved, which jointly contribute to implementation (Spratt, 2009). The constructs, according to Spratt (2009), are motivation, information, power and interaction. Only the first three of the constructs are applied in this study.

Motivation

Motivation is the level of importance actors place on a particular policy or programme and the degree to which it contributes to their goals and objectives. This can affect implementation positively or negatively. For instance, if actors have low motivation regarding a specific issue, they may ignore the policy; issue a “symbolic policy” not supported by a serious commitment of resources; or, in some cases, actively work to undermine the policy or program. Analysing motivation helps stakeholders to understand the perspectives of implementers—their belief systems, value priorities, and perceptions of the importance and magnitude of specific problems and policy solutions—often revealing the root causes of implementation barriers.

Information

Information refers to technical knowledge of the matter at hand and levels and patterns of communication among actors. It also includes relevant policy information which should be known to target beneficiaries. Successful policy implementation requires that those involved have sufficient information. For example, do those responsible for implementation actually know with whom they should be working and who the policy is supposed to benefit (target groups)? Have guidelines and protocols been developed, and are they readily available? Do beneficiaries have sufficient and appropriate information to benefit from the program?

Power

Power may be derived from formal sources, such as legal or regulatory systems. It may also be derived from informal sources, such as being dependent on another party for the achievement of other objectives. It is important to understand who is empowered and charged with the responsibility to implement a policy and the extent to which they can implement it. “In most

interactive processes, informal sources of power may be highly important and, in many cases, can balance the more formal powers of the implementing authorities.”

Spratt (2009) notes, “Specifying these constructs allows for the development of tools to measure the level at which each of the core constructs contributes to implementation barriers, thus informing the design of interventions that will reduce barriers more effectively.”

2.10.2 Sustainable Livelihood Framework

The Sustainable Livelihood Framework is a tool designed by the Department for International Development (DFID, UK) to enhance our understanding of livelihoods of poor people. It shows the key factors that affect people’s livelihoods and how these factors are inter-related (DFID, 1999).

The core aspect of the framework is the livelihood assets, which measures five essential domains of human well-being: (1) physical capital (roads, houses, and infrastructure); (2) financial or economic capital (income and savings); (3) human capital (education and health); (4) natural capital (water, forest and air); and (5) social capital (social networks and family relations).

The aspect of the framework which is more relevant to this study is financial capital. It refers to the financial resources that people use to achieve their livelihood objectives. It originates from two main sources: (1) available stocks – savings which are usually held in various forms such as cash, bank deposits or liquid assets such as livestock and jewellery; and (2) regular

inflows of money, including pensions, or other transfers from the state, and remittances. These inflows must be reliable in order to make significant contribution to financial capital.

Financial capital is the asset that is hardly available to the poor. Therefore, it is recommended that development stakeholders adopt indirect avenues to build financial capital for the poor. This could be done by making financial services easily accessible to the poor and increasing the productivity of existing savings and financial flows by helping to develop effective, tailored financial services for the poor. So long as they are trusted, accessible and widely-known they may encourage people to save. Additionally, major reforms could be undertaken in the environment in which financial services operate to help governments provide better safety nets, such as pensions, for the poor.

Financial capital alone is not capable of solving the problem of poverty and economic insecurity although it is versatile. For instance, people may not be able to put their financial resources to good use due to lack of knowledge and appropriate markets and strong regulatory environment, appropriate structures and processes (DFID (1999)). Hence, people who lack knowledge and understanding about pensions may not appreciate the need to save a portion of their financial resources (monthly income) to protect themselves against potential economic shocks arising from old age and retirement from work.

Additionally, the absence of appropriate market systems and strong regulatory framework will expose pension contributors to risks that may jeopardize their long-term livelihood aspirations. This explains why the combined efforts of the pension regulator, private pension administration companies and other industry actors are needed to develop a comprehensive strategy to ensure the successful implementation of the new pension scheme in the informal sector in Ghana.

CHAPTER THREE

RESEARCH METHODOLOGY

3.0 Introduction

This chapter explains the methodology that was employed in carrying out this study. It covers profile of the study area, the research design, the target population and the sampling procedure adopted. Additionally, it discusses the methods that were used in gathering data for the study and how the data were analysed.

3.1 Study Area

The study was carried out in the Ga East Municipal Area of the Greater Accra Region. Students were required to select one out of three municipal areas for their studies. The approved study areas were Ga East, La-Dade-Kotopon and Awutu-Senya-East. Ga East Municipality was selected because there were inadequate studies done in this area within the municipality.

Ga East Municipal Assembly (GEMA) was part of the previous Ga East District, which was created in 2004 by a parliamentary act. In 2008, another legislative instrument was passed to transform the district into a municipality. Later, the municipality was split into two administrative areas – Ga East Municipal Assembly (headquartered in Abokobi) and La-Nkwantanang Municipal Assembly (headquartered in Madina) (GEMA, 2013).

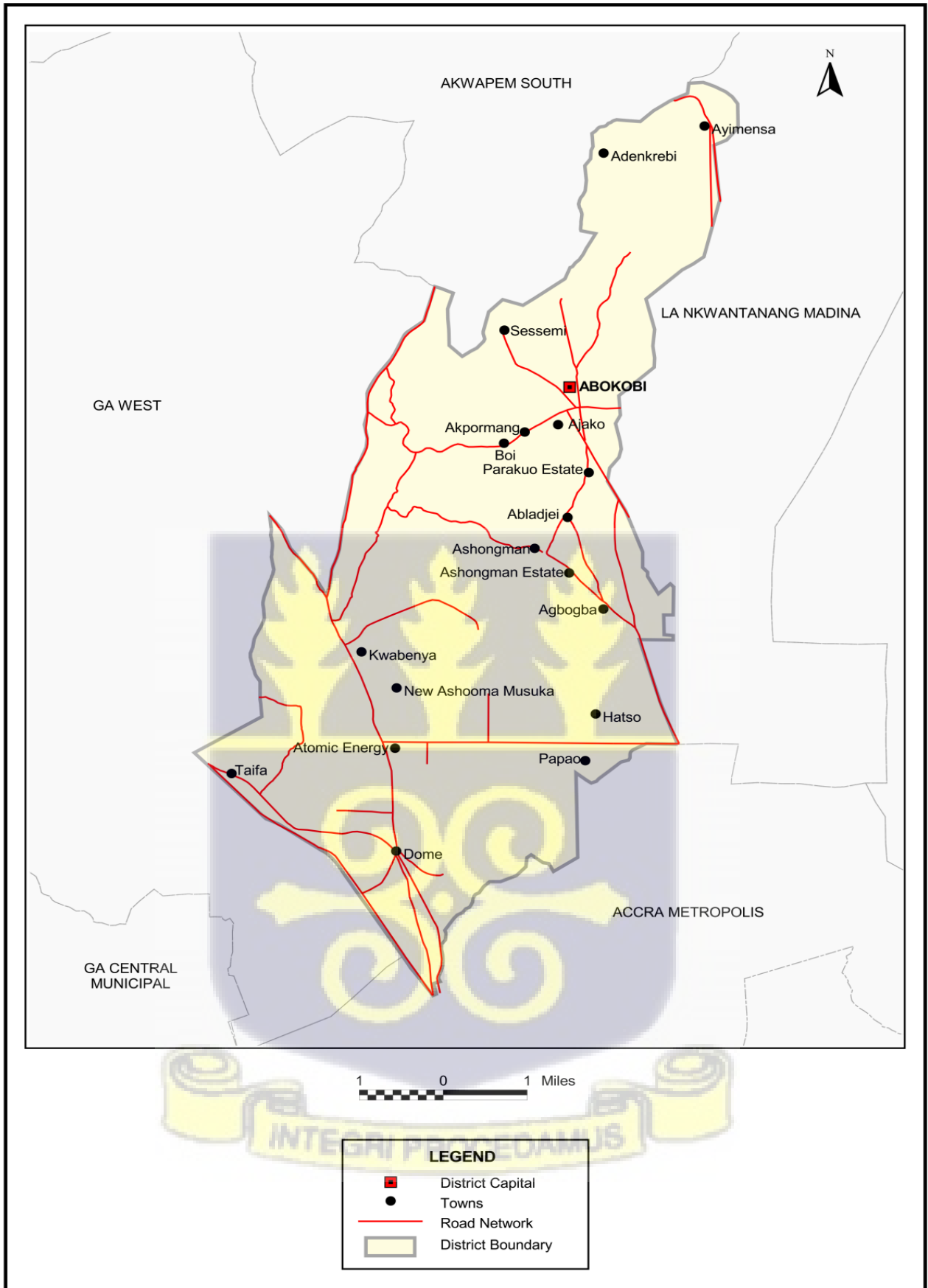
Ga East Municipality is situated in the northern part of the Greater Accra Region and it covers a land area of about 96 square kilometres. It has an estimated population of about 198,000

people, with an inter-censal growth rate of 4.2 percent and an average household size of about 5 people (Ghana Statistical Services (GSS), 2010). The population, which comprises 51 percent males and 49 percent females, is concentrated mainly along the urban and peri-urban areas such as Dome, Taifa, Haatso, among others (GEMA, 2013).

There are four main economic activities in Abokobi which are commerce, agriculture, service and industry. Close to 64 percent of the population falls within the economically active age group. The current dependency ratio is estimated to be 1:0.52 or 52 percent, which means that for every 100 people aged 15-65 years, there are approximately 52 people depending on them for survival (GSS, 2012).



Figure 4: Map of Ga East Municipal



Source: Ga East Municipal Assembly

3.2 Target Population

The target population of the study were representatives of cooperative societies (informal sector groups) operating within Ga East Municipality of Greater Accra Region. It also included officers of relevant industry actors: selected service providers – private companies which are licensed by the NPRA to manage private pensions for all workers. The main motivation for selecting this population for the study was their in-depth knowledge on the issues under investigation.

For instance, the informal sector representatives were contacted to solicit information on why they fail to enroll onto the new pension scheme or engage the services of pension institutions. On the other hand, the officials of the selected trustees also threw light on the coverage of their operation with emphasis on the informal sector.

3.3 Research Design

Due to the in-depth nature of the study, qualitative research approach was employed in order to gain deeper understanding of the challenges with the implementation of the new three-tier pension scheme in the Informal Sector in Ghana. This is in line with Rovai, Baker and Ponton's (2014) description of qualitative research: "the investigation of social phenomena in order to gather an in-depth understanding of human behaviour and the reasons that govern such behaviour. It seeks out the "why" and the "how" of specific phenomena through the analysis of unstructured information."

Explaining the basic features of qualitative research, Creswell (2012) in Rovai, Baker and Ponton (2014) notes that “qualitative study is exploratory in an attempt to generate in-depth understanding of a targeted ‘central phenomenon’ with little, if any, knowledge of relevant variables.” Hence, the intention of the study was to produce findings not arrived at by statistical analysis but through the application of non-mathematical process of interpretation (Strauss and Corbin, 1998 in Rovai, Baker and Ponton, 2014).

Since this study sought to explore the barriers to the implementation of the informal sector pension scheme within its own context using a variety of data sources, it was expedient to employ the case study approach to qualitative research (Baxter & Jack, 2008). The design, which is built on constructivist philosophical background (Stake, 1995; Yin, 2003), allowed study participants to construct their own reality or stories, providing opportunity to better understand the participants’ actions (Baxter & Jack, 2008).

Again, in trying to explore the “why” behind the ineffective implementation of the programme, the case study approach or design offered me the opportunity to analyse the programme or the policy from two major perspectives: the informal sector (individuals) and institutional (implementers) points of view.

3.4 Sampling Method

Selecting participants for the study, purposeful sampling method was used. This was as a result of the qualitative approach adopted for the study. Patton (2002) in Rovai, Baker and Ponton (2014) asserts that in qualitative research purposive sampling is applied. Explaining further, he argues that in qualitative study samples are selected based on the purpose of the study, unlike

quantitative research in which a sample is usually chosen to represent a population and the sample size is based on statistical considerations. The researcher deliberately selects those respondents who will best fit the purpose of the research (Harding, 2013).

In this study, the targeted respondents were contacted, and the intent of the study well explained to them, and they agreed to participate in the study. Their selection was purely based on their association with objectives of the study.

3.5 Sample Size

Representatives from the three main cooperative societies (informal sector groups) operating in the agricultural, industrial and transport sectors were chosen for the study. These cooperative groups form a greater proportion of the informal sector of the study area. From each of these cooperative societies, a total of 10 representatives, comprising leaders and members, were selected. Additionally, representatives of 6 out of 25 pension fund administration companies (service providers) were selected for in-depth interviews. Information were solicited from these respondents until saturation was attained. This meant that, there was no need to add any more additional respondent since the “collection of new data would not shed any further light on the issue under investigation” (Glaser & Strauss, 1967).

In the view of Patton (2002), since sample size depends on what you want to know, the purpose of the inquiry, what is at stake, what will be useful, what will have credibility, and what can be done with available time and resources”, it was appropriate to work with a total of 36 respondents for this study. Furthermore, in Mason’s estimation, samples for qualitative studies have generally been much smaller in most studies, and that it is deemed appropriate to have

such a smaller number because, according to Ritchie, Lewis and Elam (2003), as the study goes on more data does not necessarily lead to more information, and that, that smaller number is what is needed to ensure that it becomes part of the analysis framework.

3.6 Data Collection Methods

In view of the qualitative approach of the study, the researcher employed Focus Group Discussions (FGDs) and in-depth interviews (IDI) for collection of primary data. Creswell (2012) in Rovai, Baker and Ponton (2014) indicate that in qualitative research data are usually gathered through observations, existing documents, interviews, questionnaires and audio-visual materials. Supplementary data for the study were gleaned from research papers, industry reports published by the NPRA, journals, newspaper articles and official records.

3.6.1 Focus Group Discussions (FGDs)

A focus group discussion involves discussion with a group of respondents who have some common experience or knowledge relevant to the research objective (Rovai, Baker and Ponton, 2014).

The FGDs for this study involved respondents from three main cooperative societies or informal sector groups, comprising agricultural societies, industrial societies (traders and artisans), and transport service providers operating within the study area. Three FGD sessions, one for each group, were conducted. Averagely, each session lasted for about forty-five minutes. In terms of participation, each group had 10 representatives. Although there is no ideal number of respondents for a focus group, marketing research material tends to recommend a

group of 10–12 people whereas the ideal figure for social sciences is often a group of 6–8 people (Barbour, 2007 cited in Harding, 2013).

A voice recorder, discussion guide, note pads and pens were used as support materials. The discussions were done in *Twi*, a widely-spoken local language, to enable the respondents to express themselves easily. The voice recording of the discussions were transcribed and reviewed in order to bring out the relevant data.

3.6.2 Interviews

In-depth interviews were arranged with senior officers of private pension service providers (corporate trustees) and the National Pensions Regulatory Authority (NPRA). This provided the researcher with opportunity to capture the views or experiences of individual respondents from the selected institutions and to ask probing questions to explore ideas relevant to the objective of the study (Harding, 2013). A total of 6 service providers, two from each peer group,¹ were purposively selected for the study based on length of industry experience.

3.7 Analysis of Data

Data gathered from the field were analysed qualitatively based on themes. The application of qualitative analysis was compatible with the goal of the study, which was to find out the challenges restraining the operation of informal sector pension schemes under the reformed pension system and to explore ways by which those challenges could be addressed Since the

¹ The NPRA (2015) has categorised all Corporate Trustees into three peer groups based on their total value of assets under management (AUM). Peer Group 1 comprise companies with AUM equal to or greater than 10 percent of the market share whereas those in Peer Group 2 have AUM which is greater than 5 percent but less than 10 percent of market share. Trustees whose AUM is less than 5 percent of market share are classified under Peer Group 3.

sample size was not that large, and for that matter the data gathered not so huge, I had to do the analysis manually by coding the data into themes, in accordance with the objectives of the study.

3.8 Limitations of the Study

Due to time and budget constraints, the researcher could not cover a larger number of informal sector respondents within Ga East Municipality. Similarly, the in-depth interviews were limited to only 6 out of 25 pension fund trustees. In subsequent related studies, the scope of respondents could be expanded to include other industry participants and stakeholders.

Another limitation is the qualitative research approach which was used for the study; it makes the generalization of the research findings impossible. Future studies employing quantitative research methodology are needed to generalize the findings. Furthermore, the study's conclusions only take into account issues that make it difficult to implement the three-tier pension scheme in the informal sector. The scope of the study could be expanded in the future to examine the implementation of the whole three-tier pension system in Ghana.

Despite these limitations, the results of the study are significant to policy formulation and implementation.



CHAPTER FOUR

RESULTS AND DISCUSSION

4.0 Introduction

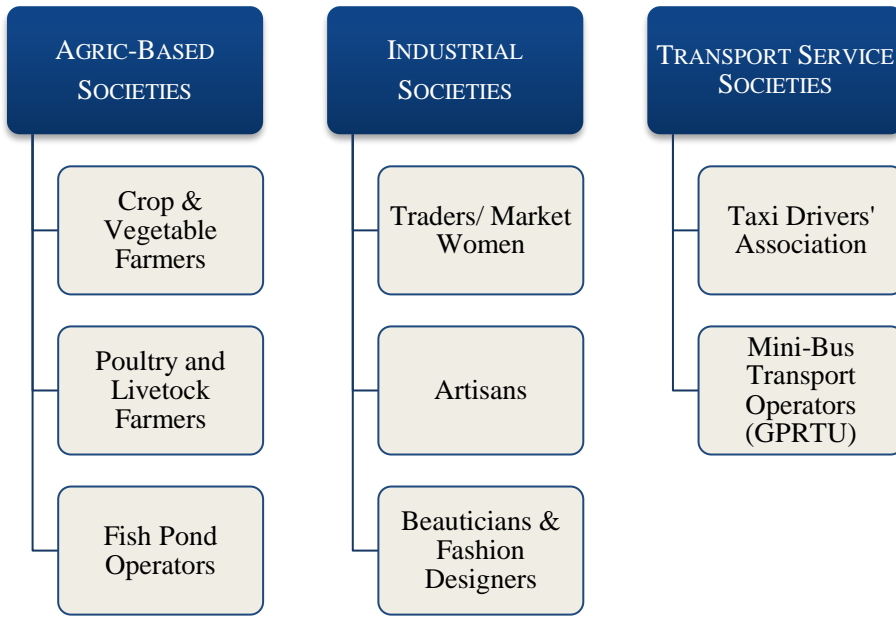
This chapter presents the findings of the study based on analyses of the data that were gathered from the respondents regarding the motivation pension fund service providers, the motivation of informal sector clients as well as challenges affecting the implementation of the new pension scheme in the informal sector all in line with the study objectives.

4.1 Demographic Characteristics of Informal Sector Groups

Informal Sector workers in Ga East Municipality are categorised under three main groups. First, there are agric-based societies made up of crop and vegetable farmers, poultry and livestock farmers and fish pond operators. The second group is made up of industrial societies, which comprise traders, artisans, beauticians and other small-scale business operators. The final group, transport service providers, comprises taxi and mini-bus drivers. Altogether, these informal sector groups have a total membership of 727 comprising 305 males and 422 females. Respondents for this study were between the ages of 24 to over 65 (Department of Cooperatives, Ga East Municipal Assembly (GEMA), 2016).

Majority of members in all the three groups are secondary/ technical school certificate holders. The rest are either primary school leavers or have not had any formal education.

Figure 3: Informal Sector Groups in Ga East Municipality



Source: Ga East Municipal Assembly

4.2 Responses from Focus Group Discussions and In-depth Interviews

4.2.1 Respondents' Motivation

The responses to questions exploring motivation clustered around a number of themes, particularly the motivation of approved service providers to run informal sector pension schemes and the motivation of informal sector clients to participate in the new scheme. According to the Contextual Interaction Theory, discussed in Chapter Two, actors are likely to ignore a policy if they feel it will not make significant contribution to the achievement of their goals and objectives.

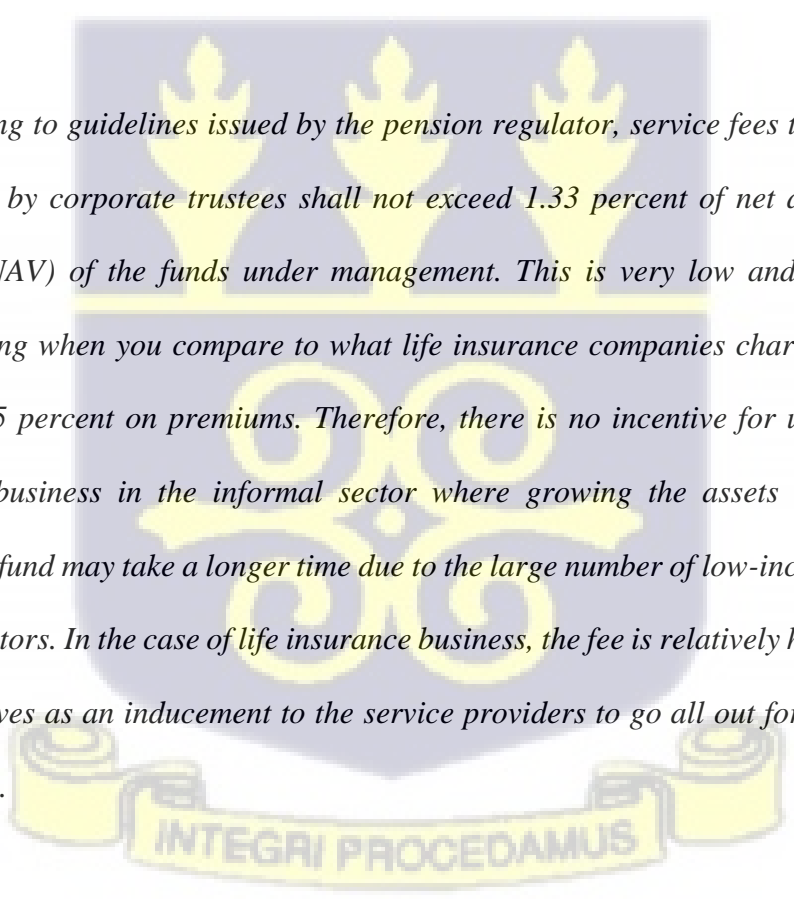
Motivation among Service Providers to Operate Informal Sector Pension Funds

Data gathered from in-depth interviews with officers of selected private pension companies indicated that there is low motivation among service providers to pursue clients in the informal

sector. This was attributed to a number of factors, such as low economic incentive, voluntary informal sector schemes, disorganised informal sector, and irregularity of income of informal sector workers. These factors are discussed below.

Low Economic Incentive

Motivation on the part of service providers were found to be low in the informal sector, as compared to life insurance companies, that are allowed by regulation to charge higher fees. Pension fund trustees are permitted to charge a menial net asset value of the funds under management. For instance, the chief executive officer of a licensed corporate trustee in an interview remarked:



According to guidelines issued by the pension regulator, service fees to be charged by corporate trustees shall not exceed 1.33 percent of net asset value (NAV) of the funds under management. This is very low and demotivating when you compare to what life insurance companies charge – about 25 percent on premiums. Therefore, there is no incentive for us to pursue business in the informal sector where growing the assets of a pension fund may take a longer time due to the large number of low-income contributors. In the case of life insurance business, the fee is relatively high. This serves as an inducement to the service providers to go all out for the business.

This is a clear indication that the corporate trustees (service providers) are primarily interested in exploring business opportunities that will enhance their profitability. Sharing their views on the viability of the informal sector market, all the respondents acknowledged the informal

sector as a market with untapped potential for pension business, considering the fact that it employs over 80 percent of the country's working population. However, most of them were of the opinion that operating informal sector pension scheme is relatively not viable since most of the prospective clients in that sector are low-income earners, who cannot contribute substantial amounts.

In its biennial report on business development in Ghana, the University of Ghana Business School (UGBS, 2016) notes: "Pension scheme trustees are concentrating on companies and employees mainly in the urban areas since most do not find it economically beneficial to extend their services in the rural and non-urban areas [where there are many low-income informal sector workers]."

Voluntary Informal Sector Schemes

Another issue that demotivates service providers from showing keen interest in informal sector clients is that participation in informal sector schemes is voluntary. Again, this is in contrast to the position in the formal sector, where all employees are required by section 63 of the National Pensions Act, 2008, to participate in the scheme (Act 766). As a result of this, most of the service providers have decided to concentrate on the formal sector instead of pursuing business in the informal sector.

A senior officer of a licensed corporate trustee made the following remarks in connection with this issue:

Since the launch of the new pension scheme, the focus of most service providers has been on the formal sector. This is because the law made it

mandatory for all formal sector employees to contribute to the scheme. As a result, it is easier to bring employees in this sector on board than those in the informal sector, who are given the liberty to decide which way to go – whether to join or not. Therefore, at this stage of the market, it makes business sense to invest our resources in the formal sector; our goal now is to reach as many contributors as we can from the formal sector before we begin to explore the informal sector on a full scale.

Thus, generally most of the interviewees held the opinion that tackling the informal sector now would require a lot of time, resources and an entirely different approach which will suit their conditions and socio-economic characteristics. Therefore, it appears that most service providers have not given the informal sector the attention it deserves because they are faced with the challenge of determining the appropriate business model that will be able to handle the irregularities that characterise the sector.

Disorganised Informal Sector

Another source of disincentive to the service providers is the disorganised nature of the informal sector. There are fears among service providers that this may generate operational setbacks, particularly with regards to managing the collection, validation and reconciliation of members' contributions. In relation to this issue, one of the interviewees, a representative of a leading pension fund trustee, remarked:

Unlike the formal sector, the informal sector is quite disorganised. This makes it difficult for us to determine a disciplined approach to collect contributions from members. I think we need a new set of arrangements and guidelines with regards to how we should manage informal sector pensions.

Another officer's (a Pension Fund Administrator) remarks was captured as follows:

Managing business in the formal sector is relatively simple and straightforward. For instance, in the area of contribution collection, we do one transaction per member per month; so within a year, we do not more than 12 entries per member. On the other hand, those in the informal sector usually prefer to make their contributions in small amounts for several times within a month. This implies that for each informal sector client, we may have to do multiple entries, perhaps more than 20 times (if contributions are collected on a daily basis). Therefore, the effort, time and resources applied in serving clients in the formal sector would have to be quadrupled to serve those in the informal sector who are not giving you much in terms of revenue. I don't think we are ready to make that kind of investment now.

Managing an informal sector scheme means a lot of work arising from reconciliation of bulky contributions data, constant changes in contributions amount and membership information.

Irregularity of Income

Additionally, almost all the interviewees expressed their worry about the fact that many informal sector clients do not earn income on a regular basis. Hence, they may not be able to contribute to the scheme regularly, and this may negatively affect their retirement benefit in the long run. According to Ackson and Masabo (2012) irregularities, uncertainties and

seasonality of income among informal sector members have the tendency to negatively affect their contributions and future benefits.

From the issues discussed above, it is clear that service providers, who are authorised under the new law to manage private pensions, are not enthused about extending their services to informal sector clients because of their low levels of income and poor savings culture. In other words, as postulated by the Contextual Interaction Theory, the service providers do not place much importance on operating a pension scheme for clients in the informal sector because it may not contribute much to achieving their ultimate goal of enhancing their profitability.

Most of the interviewees unanimously proposed that a different set of arrangements should be designed for the management and administration of informal sector pension schemes. They were of the opinion that such reforms should be spearheaded by the pension regulator and supported by the collaborative effort of service providers and other industry stakeholders.

Similarly, Njuguna (2012) recommends the design of a separate regulatory framework for informal sector pensions, taking cognizance of the peculiarities of the sector. The Sustainable Livelihoods Framework underscores the need for regulatory reforms in the financial services environment to ensure the provision of more suitable safety nets, such as pensions, for low-income clients (DFID, 1999).

Some of the respondents recommended that participation in the scheme should be made mandatory for all informal sector workers.

I think that the personal pension scheme, which is currently a voluntary scheme, should be made mandatory for those who are not covered by the first-tier and second-tier schemes. This will ensure full pension coverage in Ghana.

(a Retirement Benefits Consultant of a leading Pension Fund
Trustee)

According to the CEO of a major pension fund trustee, the majority of workers in the informal sector might be enrolled in the new pension platform in the following ways:

Steps should be taken to formalize activities within the informal sector to enhance their inclusion in the existing social security and pension system. To begin with, the pension regulator could explore automatic of enrollment of informal sector workers who have bank and 'mobile money' accounts.

Motivation among Informal Sector Clients to Enroll in the new Pension Scheme

Focus group discussions held with the various informal sector groups, showed that informal sector clients appreciate the need for savings towards retirement. However, their motivation to save is influenced by a number of factors or conditions, which are discussed in the ensuing paragraphs.

Convenient Means of Savings

Informal sector workers have poor savings culture. However, they are motivated to save when they have access to convenient means of savings. Usually, they give consideration to issues such as proximity to point of deposit and ease of access to funds. In all the focus group

discussions, most of the respondents indicated that they prefer to save through various savings schemes operated by microfinance institutions. Explaining why they prefer to save with microfinance institutions, a female trader in a FGD stated that:

Saving with microfinance companies is more convenient because they allow us to save small amounts of money through their agents who come to our shops to collect our savings. It is difficult for most of us to leave our businesses and go to the bank to make deposits or withdraw cash. So we are comfortable with the way the microfinance people deal with us.

This shows that informal sector clients want to save but with low transaction costs and assistance to maintain consistent savings culture (PENCOM, 2014; Vonderlack and Schreiner, 2001 in Ansah, 2013). Microfinance Institutions and personal *Susu* collectors provide savings platforms that are easily accessible to informal sector clients.

On the other hand, pension fund trustees collect their monthly contributions through authorised custodians, mostly commercial banks, who are operating on controlled platforms that are more suitable to the formal sector than the informal sector. For instance, most of these pension fund custodians do not use cash mobilisation agents that make savings easier for informal sector clients. This is a major barrier to informal sector clients who may be interested in enrolling in the new pension scheme. Consequently, implementation of the new scheme in the informal sector would be negatively affected.

Financial Incentive

It was also discovered from the focus group discussions that many informal sector clients save with the intention of building their account deposits to enhance their chances of securing a credit facility from their various financial institutions. Hence, they are motivated to save with financial institutions that offer them loans.

One trader remarked:

Microfinance companies give loans after you have saved with them for some months. The 'big' banks [referring to commercial banks] don't do that. The loans help us to expand our businesses and undertake personal projects such as buying a plot of land or building a house.

Negative Perception

One major challenge that was identified through the focus group discussions was the issue of wrong perceptions about long-term savings and investments. Some of the people who participated expressed dissatisfaction with how their savings with some financial institutions have been mismanaged. Recounting their past experiences, some of them expressed fears about the likelihood of losing their life-time savings to dishonest institutions if they join the new pension scheme. The story of one respondent, a member of the Dome Taxi Drivers' Cooperative Society, is captured as follows:

Some years ago, I joined a similar savings scheme at Bogoso in the Western Region. The company managing the scheme enticed us with a lot of juicy promises, so we invested heavily in it with expectations of earning high

returns. We became so disappointed and heart-broken when we discovered later that the company had almost collapsed. I rushed quickly to their office to collect my money but I could not get it because I had lost my membership card. They told me they could not refund my savings unless I provide my membership card. I never got my money back till date. What is the guarantee that this new pension scheme will not lead to similar outcomes.

As a result of these bad experiences, coupled with recent scandals that hit the microfinance sector in Ghana, informal sector employees who know about the new pension scheme seem rather skeptical towards the new pension scheme, thereby hindering their decision to enroll in it.

The implementation of the new pension scheme in the informal sector is affected by additional issues, which are discussed in the analysis that follows.

4.2.2 Information

Information refers to relevant policy information which should be known to target beneficiaries. It involves analyses of the policy development process – particularly ascertaining the extent to which relevant stakeholders were involved in the policy-making process. Thus, the point of interest in this study was whether informal sector representatives were included in the development of the new pension policy.

It also refers to the extent to which the policy is known among target beneficiaries. According to the Contextual Interaction Theory, successful policy implementation requires that those

involved have sufficient information. For instance, lack of sufficient and appropriate policy information among target beneficiaries may hinder the effective implementation of the policy.

In assessing the policy development process, it was realised that prior to the launch of the new pension scheme, the Presidential Commission on Pensions held discussions with a cross-section of the informal sector to appropriately capture their concerns and needs. According to the NPRA (2010), those who participated in the discussions were representatives of the Council of Indigenous Business Association (CIBA), Ghana Union of Traders' Association (GUTA), Ghana Cocoa, Coffee and Sheanut Farmers Association, the Ghana Private Road Transport Union of TUC (GPRTU), the Greater Accra Markets Associations (GAMA) and the Ghana National Association of Garages. Their views were solicited to enable the Commission to design a retirement scheme that is suitable for their members.

However, from all the focus group discussions, it became evident that many of the respondents had not had sufficient information regarding the new scheme. Although they had heard about it, they did not understand its features, operations and benefits. An official of Dome Taxi Drivers' Cooperative Society (Dome, New Station) expressed:

At the beginning of the year, some officers from one of the private pension companies came to talk to us about the new pension scheme. They sold the idea of joining their pension scheme to us but we have not made up our minds yet; we need to understand it well before we commit ourselves.

Another respondent [a farmer] in a FGD said:

We have heard about the new pension scheme but we do not understand how it operates. I think it is a good idea but we need further explanations about it from the authorities in charge.

It was observed from these remarks that the pension regulator's efforts to sensitize the public, especially the informal sector, about the new pension scheme has yielded some results by making people aware of the existence of the scheme. However, there is a gap that needs to be filled: although some people are aware of the scheme, they do not have relevant details such as features of the scheme, enrollment requirements, scheme benefits and related conditions. Hence, they were unwilling to participate in the scheme.

A manager in charge of operations at a pension fund trustee expressed his thoughts on the issue of information as follows:

I can say that, even though the pension regulator is doing its best to promote awareness of the scheme among the public, most people in the informal sector are unaware of it. And even the few people who are aware and have started contributing to the scheme may not be able to explain what they are contributing to.

In view of this, he underscored the need for the strengthening of efforts towards awareness creation and public education on pensions through the collective effort of the pension regulator

and other stakeholders in the industry. To emphasize the need for educating the public on pensions, a senior officer in charge of informal sector made the following suggestion:

In my view, the education should precede our marketing and sales especially when one is dealing with the informal sector. People should be made to understand what pensions is all about before we start selling our products to them. This responsibility falls on both the pension regulator and the service providers, although greater part of it lies on the regulator. How can people patronise something they know nothing about?

Similarly, in one of the informal sector group discussions, a number of suggestions were made. First, they recommended that awareness creation and education on the features and benefits of the new pension scheme should be intensified through radio, television and various communication channels. In addition, they recommended using in-person communication to supplement the usage of radio, television, and other media channels. Explaining why the face-to-face interaction is important, one hairdresser remarked:

We do not listen to radio and watch television all the time. Besides, even if I watch television or listen to the radio, I cannot ask questions in case I don't understand something. Therefore, if the officials come to us in person to explain things to us, it will be better. It will give us opportunity to ask all the questions bothering our mind on the issue of pensions.

4.2.3 Power

The Contextual Interaction Theory considers power as a relevant factor in the policy implementation process. Therefore, those responsible for the implementation of a policy must be adequately empowered and resourced to carry out their mandate. As postulated by the theory, power may be derived from the law or by dependence on other parties through informal relationships.

The National Pensions Regulatory Authority (NPR) is the main implementing agency for the new pension scheme. The National Pensions Act (Act 766) confers on the regulatory authority the power to oversee the implementation and smooth operation of the new pension scheme. Among other key responsibilities, the pension regulator is required to sensitise the public on matters related to pensions.

Thus, since its establishment, the NPR commenced a nationwide sensitization and education programme on the new pension scheme, holding meetings with various target groups within the formal and informal sectors of the economy. However, publications made by the authority on its awareness-raising initiatives imply that the authority has not given the informal sector much thought. This could be a contributing factor to the ineffective execution of the new pension scheme in the informal sector.

Furthermore, according to the Contextual Interaction Theory, power may also be derived from informal sources, such as being dependent on another party for the achievement of policy objectives. Proponents of the theory note, "In most interactive processes, informal sources of power may be highly important and, in many cases, can balance the more formal powers of the

implementing authorities.” A review of available literature shows that the NPRA has not utilized a lot of informal relationships with other institutions, such as the Ministry of Information, National Commission for Civic Education (NCCE), etc., to advance its sensitization programme.



CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This chapter presents a summary of the findings, conclusion, and recommendations for the study.

5.1 Summary of Findings

Findings from the study indicate that there are barriers to implementing the three-tier pension scheme in the informal sector in Ghana. In line with the Contextual Interaction Theory and the study objectives, these barriers are summarised under three main themes: motivation, information and power.

Motivation

First, there is lack of motivation among service providers to extend pension provision to clients in the informal sector. Although they acknowledge the informal sector as a market with great business prospects for the pension industry, they have not shown keen interest in it owing to the fact that:

1. Participation in the scheme is voluntary for informal sector employees whereas it is mandatory for those engaged in formal employment. Thus, most of the service providers have decided to concentrate on the formal sector where they can generate more business;

2. Clients in the informal sector are perceived to be low-income earners who cannot pay higher pension contributions. This means that it will take a longer time to grow an informal sector scheme. All service providers authorized to manage employees' retirement benefits under the 2nd and 3rd tiers of the new pension scheme are private companies who are in business for profit within a short-to-medium time horizon. Therefore, most of these private companies do not consider the informal sector as an attractive market.
3. Irregularity of income among informal sector workers have the tendency to constrain the growth of the scheme, and may subsequently affect service providers' profitability.
4. The informal sector is not very organised like the formal sector. Therefore, there are fears among service providers that they may have operational challenges, especially in dealing with issues such as the collection, validation and reconciliation of member contributions. To be able to deal with these issues, most of the service providers believe that a lot of time, resources and a suitable business model are required.

Secondly, although interaction with informal sector groups suggest they are enthused about the idea of retirement savings, they are not committed to it in practical terms. This is because the current pension system does not offer convenient means of savings, access to loans and other benefits that naturally motivate them to save. Moreover, some of them seem not to have confidence in the system as a result of negative perceptions.

Information

Assessment of the policy development process revealed that the views and concerns of informal sector representatives were taken into account in the design of the new pension policy. Unfortunately, in its nationwide sensitization and education programmes, the NPRA seem to have given more attention to the formal sector than the informal sector. Hence, although some people are aware of the existence of the new scheme, they have no sufficient details regarding its features, enrollment requirements, benefits and related conditions. Hence, they were unwilling to participate in the scheme.

Power

A review of available literature shows that the NPRA has not utilized a lot of informal relationships with other institutions to advance its sensitization programme.

5.2 Conclusion

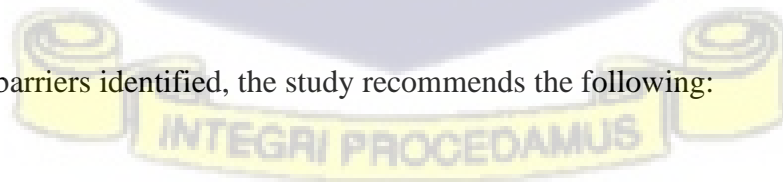
The study sought to fill a practical and context gap as discussed in Chapter One, Section 1.4. The findings of this study have clearly established that there are practical and contextual gaps, given that informal sector pension is not widely discussed in Ghana and has not been effectively implemented since the introduction of the three-tier pension system in 2008 (NPRA, 2016, UGBS, 2016; Akor, 2013). Hence, this study was set to contribute to filling these gaps by examining the problem in a different context to enhance our understanding of the barriers to effective implementation of informal sector pensions in Ghana.

From the analysis of responses of study respondents, and content of relevant documents, the study draws these conclusions:

1. There is lack of motivation among service providers to extend pension provision to clients in the informal sector on the account of low economic incentive, the voluntary nature of informal sector schemes, disorganisation, and irregularity of income among informal sector workers.
2. The current pension system does not offer convenient means of savings, access to loans and other benefits that naturally motivate informal sector workers to save in such long-term savings scheme.
3. There is a dearth of knowledge and understanding of the features and benefits of the scheme among informal sector workers.
4. NPRA has not utilized a lot of informal relationships with other institutions to advance its sensitization programme.

5.3 Recommendations

To address the barriers identified, the study recommends the following:



5.3.1 Enactment of a Separate Regulatory Framework for Informal Sector Pensions

The study recommends the enactment of a separate legal and regulatory framework for the management and administration of informal sector pensions in Ghana. This will allow the NPRA to implement the necessary adjustments that will encourage trustees of pension funds to offer their services to the unorganized sector. For instance, as part of the regulatory reforms, enrollment onto the scheme could be made mandatory for all informal sector workers. Additionally, fund management fees for informal sector schemes could be adjusted upward to stimulate service providers' interest in informal sector clients.

The provision of special tax incentives could be incorporated into the reforms in order to motivate informal sector clients to patronize the scheme.

5.3.2 Offering Suitable Products and Technologies

To encourage more informal sector workers to enroll onto the new pension scheme, service providers should design their pension products in a way that is suitable to the peculiar needs, income levels and savings pattern of informal sector employees.

For instance, in 2001 Grameen Bank launched its Deposit Pension Scheme (GPS) for low-income workers. The clients were allowed to make equal monthly deposits in sums as little as USD 1.00 during weekly group meetings. After five years, in 2005, the GPS had attracted more than 3 million low-income clients with total assets of approximately USD 83 million. By the end of October 2011 the balance was USD 513 million (Frankiewicz and Churchill, 2011 in Ledgerwood, Earne and Nelson, 2013).

Furthermore, service providers need to invest in cutting-edge systems and technologies that will facilitate the efficient management and administration of informal sector pension schemes. This includes the use of integrated electronic platforms for collection of contributions and payment of retirement benefits to clients. The use of electronic payment instruments offer a widespread and inclusive approach for collecting contributions and paying out pension benefits within the informal sector (PENCOM, 2014). Ledgerwood, Earne and Nelson (2013) assert that retirement savings could be promoted through electronic channels and linking these channels to easily accessible, basic transaction accounts, thereby helping to draw more low-income clients into the formal [pension] sector.

5.3.3 Inspiring Confidence in the Pension System

The NPRA should ensure that service providers adhere strictly to provisions of the pensions act and regulations designed to preserve the integrity of the entire pension system and safeguard client confidence. The service providers should embrace transparency and corporate governance standards that foster client confidence. Punitive measures should be taken against service providers who are found to be engaging in activities that are contrary to the dictates of the pension act.

5.3.4 Intensifying Public Education on Pensions

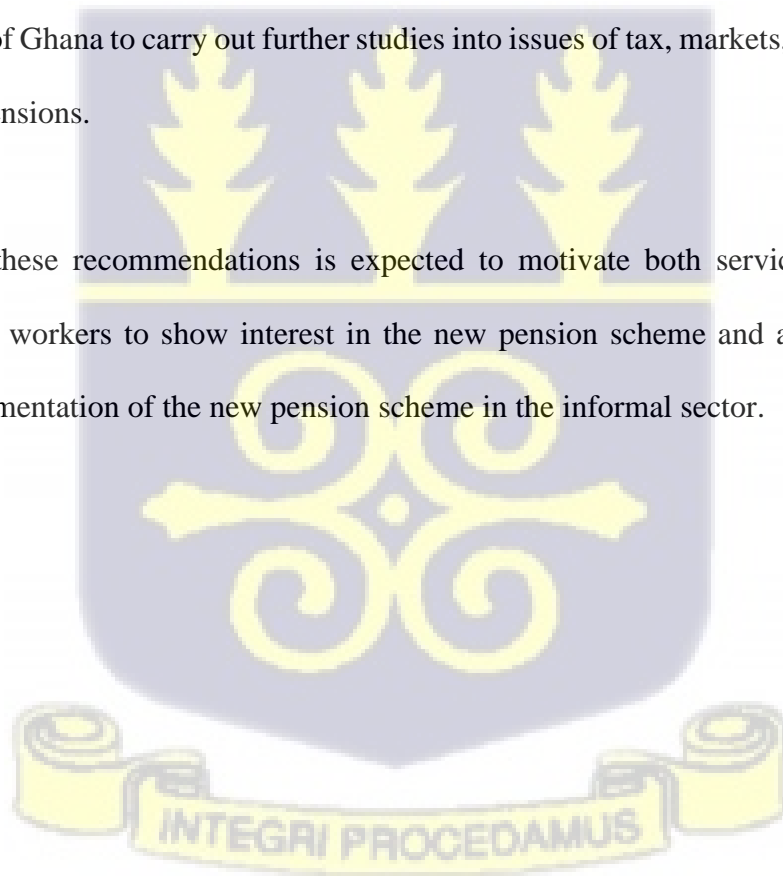
The NPRA should intensify its public awareness and education programme by collaborating with pension fund trustees, investment managers, custodians and other stakeholders. The focus

should mainly be on workers operating within the informal sector, who need more education on pensions.

5.3.5 Partnering with Other Institutions

The NPRA should endeavour to forge strategic partnerships with other institutions such as the Ministry of Information, Ministry of Employment and Labour Relations, and National Commission for Civic Education (NCCE) in order to augment efforts towards its public education and sensitization programme. Moreover, the pension regulator could partner with research institutions like the Institute of Statistical, Social and Economic Research (ISSER) of the University of Ghana to carry out further studies into issues of tax, markets, and associations in relation to pensions.

Implementing these recommendations is expected to motivate both service providers and informal sector workers to show interest in the new pension scheme and also facilitate the effective implementation of the new pension scheme in the informal sector.



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APPENDICES

Appendix 1: Focus Group Discussion Guide



UNIVERSITY OF GHANA, LEGON
(COLLEGE OF HUMANITIES)

INSTITUTE OF STATISTICAL, SOCIAL AND ECONOMIC RESEARCH (ISSER)

FOCUS GROUP DISCUSSION GUIDE
(REPRESENTATIVES OF INFORMAL SECTOR GROUPS IN GA EAST)

1. What forms of savings do you practice?
2. How often do you save?
3. What are your reasons for saving?
4. In case a pension scheme is established for your group today, would you be willing to participate in it?
5. Do you think saving towards retirement or old age is important? Give reasons for your answer.
6. What would discourage you from saving towards retirement?
7. What should be done to encourage or promote retirement savings among people of your group and other informal sector groups?
8. Are you aware of the new pension scheme which was established by the government in 2008?
9. If YES, what do you know about it and through what medium were you informed?

Appendix 2: Interview Guide



UNIVERSITY OF GHANA, LEGON

COLLEGE OF HUMANITIES

INSTITUTE OF STATISTICAL, SOCIAL AND ECONOMIC RESEARCH (ISSER)

**INTERVIEW GUIDE/ QUESTIONNAIRE
(FOR SELECTED PENSION FUND TRUSTEES)**

PRELIMINARY INFORMATION

1. Company Name

2. Business Commencement Date (Year)

INFORMAL SECTOR PENSIONS

3. Do you consider the Informal Sector as a viable market for Ghana's Pension Industry? Please, explain.
4. What challenges do you find with Informal Sector pension market in Ghana in relation to the following:
- Regulatory Framework
 - Public Awareness and Marketing
 - Cash Mobilization/ Contribution Collection
 - Fund Administration, Accounting and Reporting
 - Investments
 - Other Areas
5. Are there any plans or strategies by your company to address these challenges in order to harness the full potential of the Informal Sector market?
6. Do you think the Pension Regulator (NPRA) is doing its best to create the enabling environment for the smooth operation of Informal Sector pension schemes in Ghana?
7. What strategies or policy initiatives would you recommend for the growth, development and sustainability of Informal Sector pension schemes in Ghana?