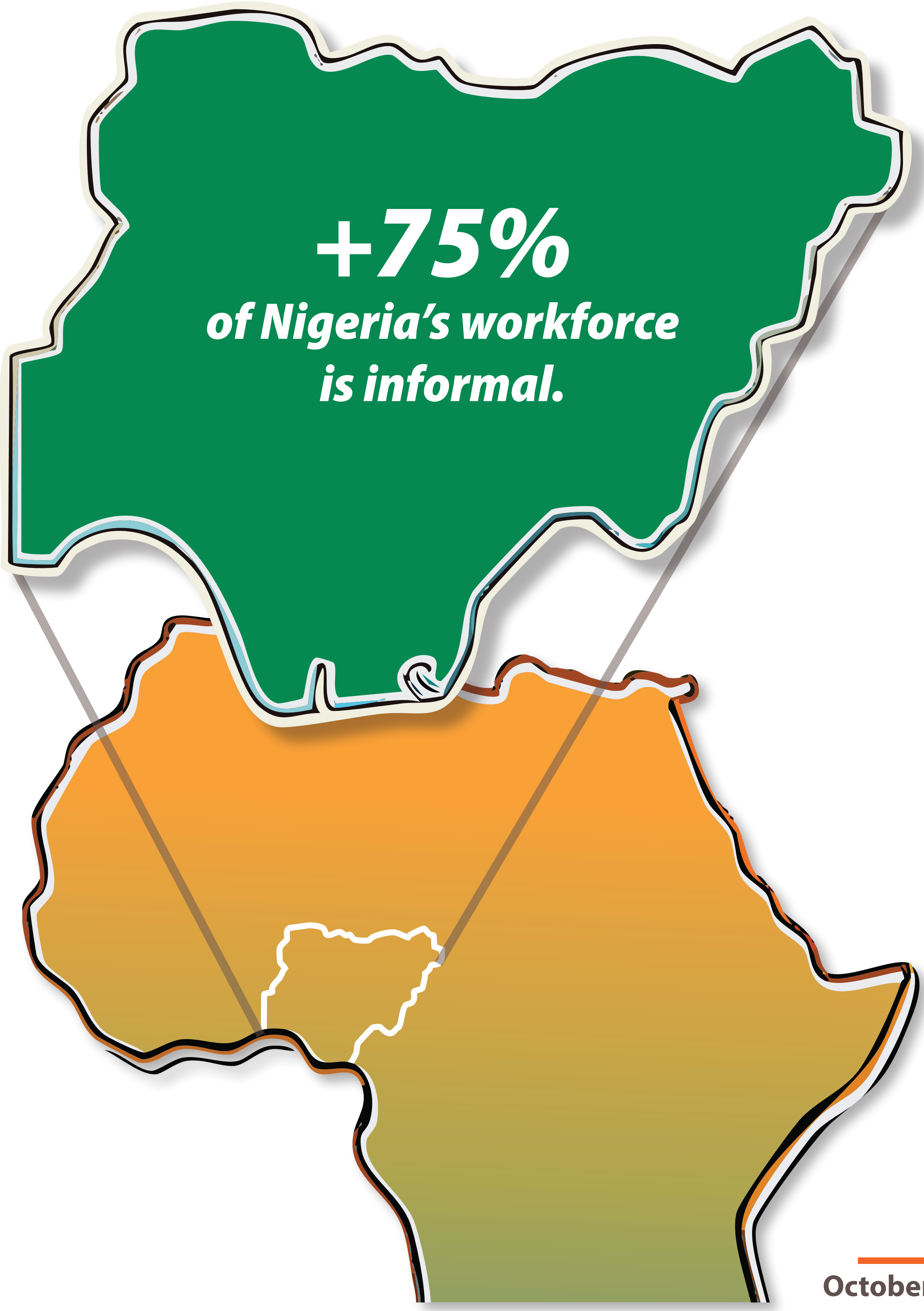
Evaluating and Improving the Adequacy of Nigeria's Micro Pension Scheme for Self-Employed Workers



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Nigeria's informal economy plays a pivotal role in the national economy, contributing over 58% to the gross domestic product and employing more than 75% of the workforce. However, pension coverage within this vast segment of the population remains extremely low.

In response to this challenge, in 2019 the National Pension Commission (PenCom) introduced the Micro Pension Plan (MPP) to extend pension benefits to workers in informal employment. Five years later, enrolment figures remain alarmingly low, with only 152,749 enrollees as of October 2024, reflecting a participation rate of just 0.2% of the 77 million workers in informal employment.

This study represents the first rigorous assessment of whether the MPP reaches its intended audience and objectives. The study jointly undertaken by the Federation of Informal Workers' Organizations of Nigeria (FIWON), Women in Informal Employment: Globalizing and Organizing (WIEGO), the International Labour Organization (ILO), Africa Regional Organization of the Trade Union Confederation (TUC-Africa), and the Africa Labour Research and Education Institute (ALREI), evaluates the adequacy and sustainability of the MPP, identifies barriers to enrolment and regular contributions, and proposes evidence-based policy options for expanding coverage and improving the plan's performance.

The research adopted a mixed-methods approach, combining desk reviews of pension systems from around the world with original qualitative and quantitative data collection and analysis. Focus group discussions were conducted with MPP enrollees and workers in informal employment who were not enrolled in Lagos, Abuja, Kano, and Kaduna. Key informant interviews were conducted with stakeholders from PenCom, pension fund administrators, trade unions, and organizations of workers in informal employment. Qualitative insights were supported by actuarial simulations on enrolment data, contribution patterns, and benefit projections.

While the establishment of the MPP is a welcome indicator that the Nigerian Government takes the issue of pensions seriously, its current design and implementation fall short of what is needed to effectively serve the majority of Nigeria's workers in informal employment. The sheer size of Nigeria's informal economy and the number of self-employed individuals who are willing to save for retirement – if given the proper support – represent an immense potential.

However, if reforms are not implemented quickly, the MPP risks continued underperformance and, eventually, irrelevance. Despite challenges, with strategic interventions grounded in evidence and by listening to the voices of Nigeria's informal self-employed workers, the MPP can make an important contribution towards a more inclusive pension system. This study attempts to contribute to that process by offering actionable insights and recommendations.

Recommendations

- Government co-contributions to self-employed workers' MPP savings.
- Streamline onboarding to allow remote registration.
- Empower pension fund administrators to collaborate with unions, organizations of workers in informal employment, cooperatives, religious bodies, and local governments.
- Tailor public awareness campaigns to the unique realities of worker groups.
- Design greater transparency in the management of contributions.
- Improve customer service.
- Simplify processes for checking balances and making withdrawals.
- Allow for periodic review of benefits.

Key findings of the study

1. **Low levels of awareness and trust:** Despite the launching of the MPP five years ago, there is a conspicuous awareness gap; many participants from the informal economy are unaware or have minimal understanding of the MPP. Distrust in government programmes emerged as a central theme among both non-enrollees and enrollees, and this is rooted in previous negative experiences with government-led financial initiatives and compounded by operational inefficiencies within the MPP.

"I am not aware of the scheme, which means that a good number of our members are likely not aware as well. This is why there is a need to create awareness for an important scheme like this through the union executives."
– Leader of a workers organization

"Based on our interaction among ourselves, most of us do not take it as something that will benefit us. We are seeing it as a scheme where you will put your money and cannot get it at the end of the day."
– Leader of a workers organization

2. **Low enrolment figures:** As of October 2024, the MPP had enrolled 152,749 workers in informal employment, representing a mere 0.198% of Nigeria's estimated 77.5 million workers in informal employment. This low enrolment rate falls significantly short of the 2019 initial goal of covering over 40 million workers in informal employment by 2024 and even the revised modest target of 2.2 million by 2027.
3. **Few enrollees are making regular contributions:** Out of the 152,749 enrollees as of October 2024, only 8,510 had any amounts in the accounts, suggesting that almost 95% of registered accounts are inactive. This evidence was confirmed in focus group discussions with non-enrollees, where about half had previously been enrolled but are no longer making contributions.
4. **The majority have very small savings amounts:** About 90% of contributors with any savings have less than ₦50,000 in their accounts.
5. **Women are less likely to be enrolled and have lower savings:** Men outnumber women in both active and inactive accounts. The male dominance in funded accounts is higher, with women making up only 38% of funded accounts, while men represent the majority of contributors in seven out of the eight studied sectors. Amounts saved within the MPP mirror enrolment figures, with women holding 38% and men 62% of savings.
6. **Administrative barriers:** Most (58%) of the respondents experienced at least some difficulties in registration and payment of contributions, including identification requirements and a lack of contribution collection agents. Complex and cumbersome registration processes hinder MPP uptake. Respondents noted the lack of accessible and supportive service agents and user-friendly digital platforms.
7. **Affordability challenges for some, contributory capacities for others:** Lack of affordability was frequently cited by both enrollees and non-enrollees concerning the MPP. Among interviewed enrollees, 18% report having monthly incomes of around ₦50,000, which is less than the monthly minimum wage of ₦70,000. However, about half of the interviewed enrollees report earnings considerably more: about a quarter report earnings about ₦200,000, while 31% declare earnings around ₦250,000. This highlights that contributory capacity does exist among a good portion of enrollees; another significant percentage of low-income workers have earnings that are too low to contribute or, if they can contribute at all, to contribute sufficient amounts.

"The money we are earning – some of us who are self-employed are not really doing that well – we only get enough to satisfy our needs like school fees, rent and so on. So, to remove and save in a pension, even if we have extra cash in our hand... we save for the coming week, not that far future."
– Lagos-based artisan

8. **Widely shared scepticism of savings adequacy:** There is significant scepticism among MPP enrollees, non-enrollees, as well as implementers that the current setup will ensure adequate savings in older age, particularly in the context of rising living costs.
9. **Simulations highlight the disastrous impact of inflation and currency depreciation on projected savings:** Adjusting the projected savings for inflation and currency depreciation drastically erodes the purchasing power of projected savings, thus undermining the effectiveness of the MPP in providing adequate retirement income. For all options, regardless of timeline and contribution amounts, inflation and depreciation nearly completely eliminate savings amounts. These adjustments highlight that the retirement income adequacy of the MPP not only depends on the contributions of workers but is also contingent on Nigeria's macroeconomic performance. With the expectation that Nigeria's economy will continue to experience inflationary pressures and currency devaluation, serious thinking is needed to safeguard the long-term value of the MPP.

"Many of the enrollees have the desire to save and retire with a certain amount, but a challenge at hand is the foreign exchange rate of naira to dollar; as people judge the amount they save today will be of lost value in the future – this is a discouraging force."
– Key informant at a Pension Fund Administrator

"Inflation is making the returns not tangible. That is why it is difficult for me to mobilize our members to onboard, but if the government can co-contribute, this will lessen the effect of inflation on whatever members have contributed." – Secretary General of FIWON

10. **Even consistent savings will not ensure an adequate standard of living in older age for most:** Simulations show that only consistent, longer-term savings at higher amounts can clear the poverty line of US$2.15 a day (approximately ₦3,329) for the average life expectancy at 65. Even a consistent 30-year contribution record of ₦3,000 a month could only provide for 80% of the annual poverty line over the 11 projected life expectancy years at 65. Lower contributions and shorter timeframes garner savings that only yield a fraction of the poverty line. In this analysis, neither the savings nor the poverty line has been adjusted for inflation. Finally, contributors may start accessing 40% of their savings before reaching the age of 50. If contributors withdrew significant portions of their savings, this would substantially reduce savings available as workers enter older age.

11. **A co-contribution from the Government would be an important signal that the Nigerian Government is committed to safeguarding the savings in the MPP and ensuring its adequacy:** Recognizing the need to improve the adequacy of MPP savings and to encourage higher levels of trust, FIWON has for years emphasized the importance of a shared government contribution. The sentiment that a government subsidy would be a powerful signal of the government's commitment to ensuring the long-term sustainability, effectiveness and trustworthiness of the MPP was shared by MPP implementers. Most importantly, both current enrollees and non-enrollees noted that the lack of government support to ensure that their savings yield at least a basic benefit negatively affects their expectations towards the MPP and their willingness to contribute.

"In 2015, PENCOM met with us to seek our input into what was later rolled out as the MPP. Right from its inception, we made it clear that the scheme would work if the government could co-contribute as they do for public sector workers. We said this would encourage the uptake and the onboarding of members. There is a need for public participation and a co-contribution from the government, so that workers who are sceptical about the product will believe that the government will safeguard the pension and would not want to be responsible for losses. With this government contribution, the people would be confident in the scheme".
– Secretary General of FIWON

"We have suggested a partnership with the State and Federal governments where part of the tax generated from these sectors is paid back to them as social security. When implemented, all these tax incentives will make their return on investment adequate enough."
– Key informant at a Pension Fund Administrator

12. **Government co-contributions can be flexibly defined to balance cost and effectiveness.**
13. **Even a generous co-contribution would cost less than half of 1% of Federal government spending and less than 3% of all social protection spending.**

Annual cost to the government of a co-contribution as a percentage of the 2025 Federal Budget

Year	Signed up for MPP	₦4,640	% of 2025 Federal Budget	₦7,734	% of 2025 Federal Budget
25% government co-contribution					
2025	513,353	7,146,817,837	0.01	11,911,363,061	0.02
2030	3,464,523	48,232,494,050	0.09	80,387,489,567	0.15
2035	7,144,315	99,461,940,443	0.18	165,769,901,254	0.3
50% government co-contribution					
2025	513,353	14,293,635,673	0.03	23,822,724,575	0.04
2030	3,464,523	96,464,988,099	0.18	160,774,979,134	0.29
2035	7,144,315	198,923,882,433	0.36	331,539,804,055	0.6

Source: Study author's calculation

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