Pension funds in sub-Saharan Africa

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1. Introduction

- Social pension provides social protection for the elderly, ensures some level of basic income, redistributes income among generations and provide insurance (Juergens and Galvani, 2020).
- Pensions for the elderly is the most common form of social protection in the world; 77.5% of people above retirement age receive some form of old-age pension (ILO, 2021).
- Old-age social pension provides an alternative source of income for elderly people not covered by contributory schemes (World Bank, 2018).
- Only 32.5% of the working-age population contribute to a pension scheme globally (SSA - 6.1%); labour force contribution is at 53.7%, compared to only 8.9% in SSA (ILO, 2021).

- Social pension schemes in SSA are characterised by low coverage, high costs, and are regressive focusing mainly on formal sector employees (Stewart and Yermo, 2009; Sy, 2017; Guven, 2019).
- Less than 10% of the older population in SSA has a contributory pension since most labour is in the informal sector (ILO, 2010; Dorfman, 2015).
  - Older informal workers without any social protection were affected more during the pandemic (Alfers et al., 2021).
- Demographic structures in SSA countries – youthful population with low dependency ratios, low but increasingly aging population, high fertility rates and most labour is in the informal sector.
- Social structure of most SSA countries is such that they have multi-generational households.

Why pension funds?

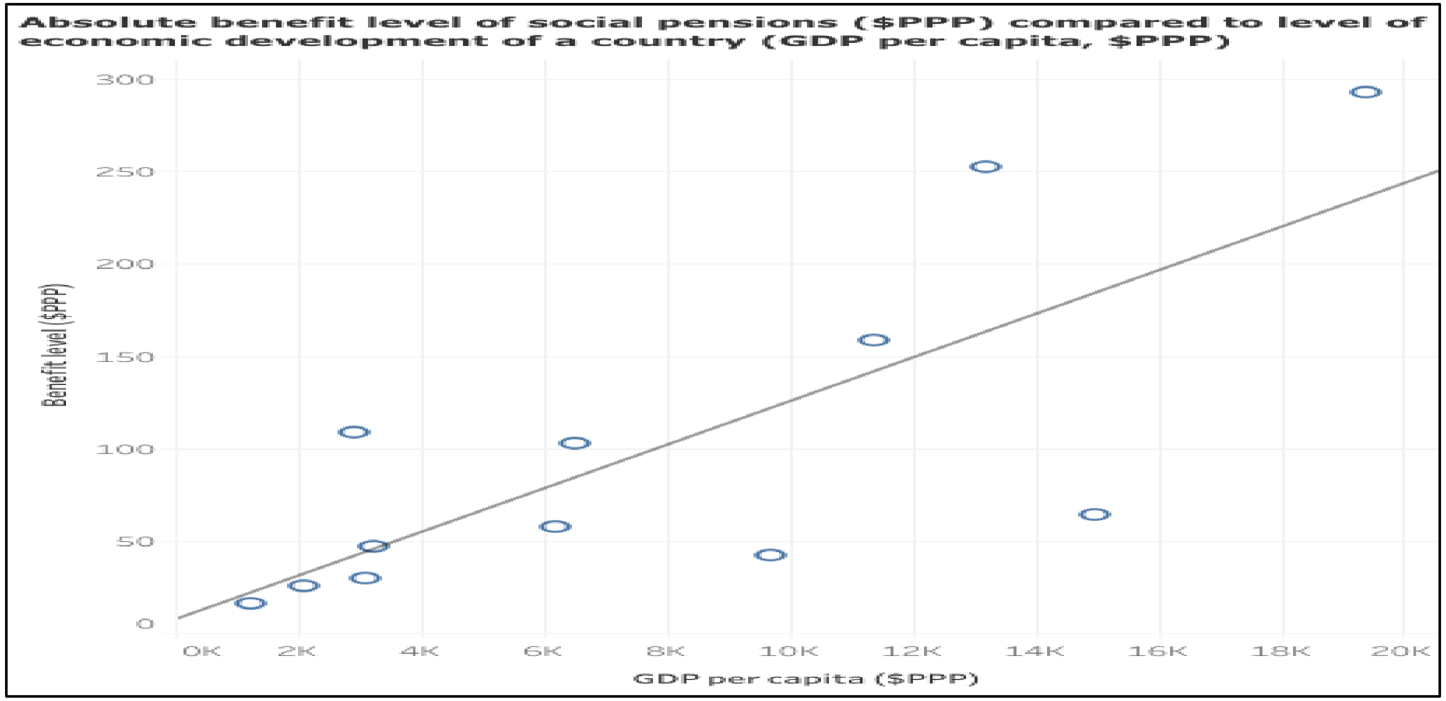
- Provide the main source of livelihood for the elderly - by providing income security in old age, that is; consumption smoothing, insurance (or risk sharing), poverty relief, and redistribution (Sojo, 2014).
- Address social inequality (Stewart and Yermo, 2009; ILO, 2017; Juergens and Galvani, 2020) and reduce poverty gap ratio among the elderly (Kakwani and Subbarao, 2005).
- Protect against socioeconomic risks and vulnerabilities associated with older age (Juergens and Galvani, 2020).
- Support mobilization of resources for long-term investment (AfDB, 2021).

- Extent of the need for social protection in SSA among the elderly:
  - SSA: Only 19.8% of the population above statutory pensionable age receive a pension (ILO, 2021).
  - Kenya: 17.4% of the households received regular income from pension as other source of income (KIHBS 2015/16). 10.6% of adult population use pension schemes (FinAccess, 2021).
  - Zambia: pension uptake was at 8.2% in 2020 (FINSCOPE Survey).
  - Uganda: pension coverage is 18% of the working population (URBRA, 2021).
- SSA has low saving rate, attributable to low financial literacy levels, inadequate financial inclusion in some countries, huge informal sector workers, low income levels and high dependency rates.

Cross-section analysis shows a positive correlation between benefit level of social pension and economic development.

A more developed pension system may spur economic development through provision of financing for infrastructure development.

Figure 1: Benefit level of social protection and economic development in SSA



Source: Pension Watch at http://www.pension-watch.net/pensions/social-pensions-database/visualisation-adequacy-of-social-pensions/

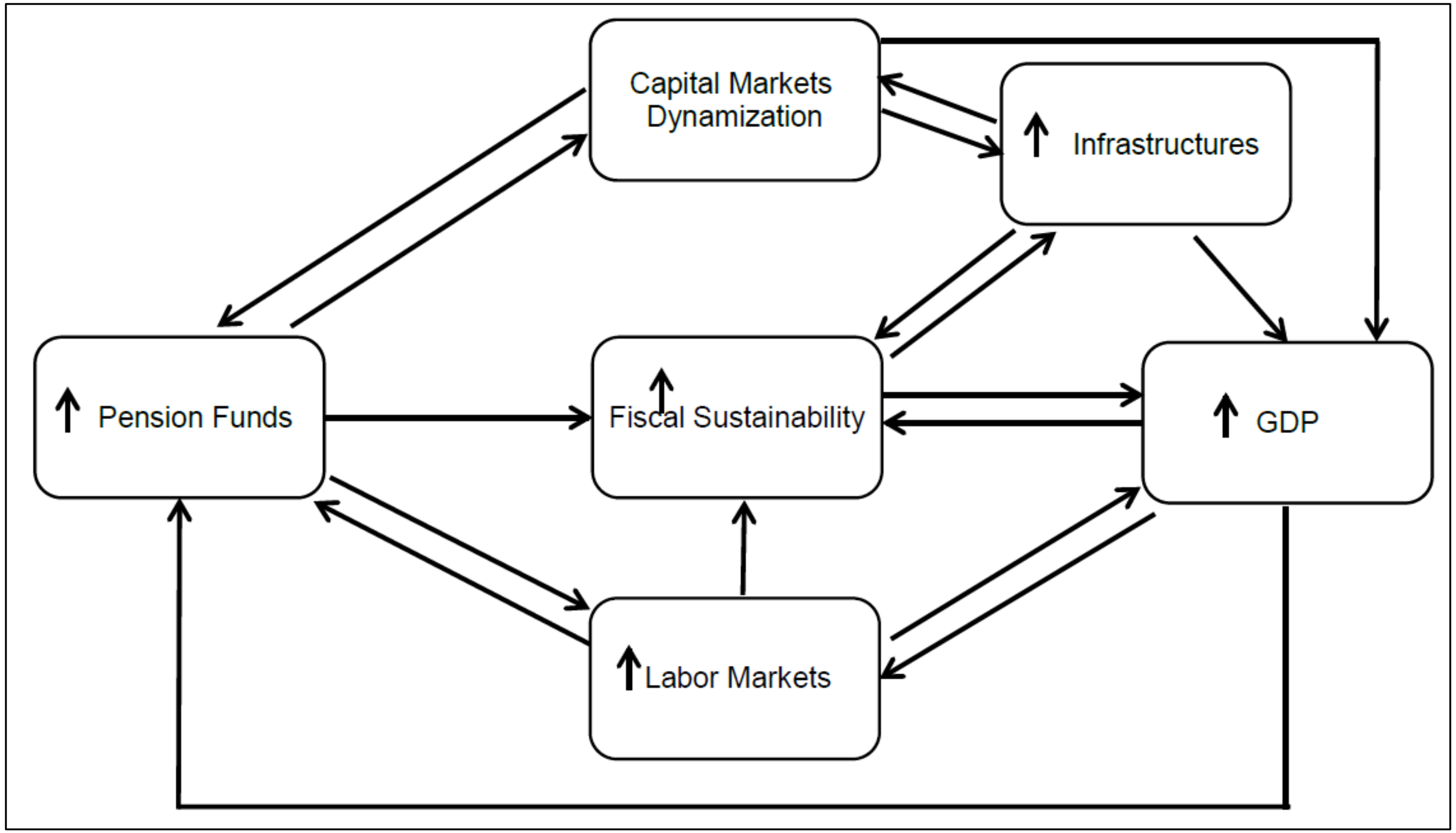
2. Pension funds and resource mobilization

- SSA countries are characterised by low levels of development and many socio-economic challenges. => face a challenge in mobilization of resources and capacity constraints on lending to infrastructure projects.
- The annual infrastructure funding gap in Africa is estimated at between $68 billion to $108 billion (AfDB, 2018), and is expected to widen over the medium term (Juvonen et al., 2019).
- The need for resource mobilization to meet the funding gap provides an opportunity for pension funds in SSA (Juvonen et al., 2019).
    - => Pension funds can be a source of long-term investment resources given their long-term investment horizons (AfDB, 2021).

- Infrastructure investment provides avenue for diversification and protects institutional investors against inflation and interest rate (Suzuki et al., 2016).
- Pension funds is also important for development of capital markets and improving liquidity (United Nations, 2019).

Pension funds can impact economic growth through 3 channels: financial, labour market and fiscal channel.

Figure: Pension funds and infrastructure



Source: Alonso et al. (2015)

- The three channels:
    - Financial channel: pension funds => developments of domestic capital markets => funds for infrastructure development.
    - Developed capital markets => more resources to pension funds => improve fiscal sustainability.
    - Fiscal channel: pension fund development => improve fiscal sustainability through reduced public borrowing => boosts growth.
    - Labour market channel: improved pension funds => create incentives for formalization of labour markets and improves labour market efficiencies => has an effect on growth.

3. Performance of pension funds

- Consider three measures; asset base, investment, and membership and contributions of the funds.

(i). Asset base and asset allocation

- A huge asset base is an indicator of size, and a reflection of better performance and stability of retirement savings plans.
- Asset allocation depends on market trends, investment strategy, regulation and governance structures, risk appetite, tax structure and availability of assets domestically (Juvonen et al., 2019).
- The basis of asset allocation reflects familiarity with alternative asset classes, development of local capital markets, and availability of investment opportunities (RisCura 2020).

- Pension assets in SSA countries tend to be small and asset allocation tend to favour equities (Arezki and Sy, 2016; RisCura 2020).
- Asset allocation in Southern Africa countries of Botswana, Namibia, South Africa, and Swaziland is mainly in equities.
- Asset allocation in Nigeria and East Africa is dominated by fixed-income assets (mainly government bonds) (AfDB, 2018; Juvonen et al., 2019; RisCura 2020).
- In some countries, pension funds have diversified into different asset classes thus widened the alternative investment opportunities. In countries such as South Africa, Botswana, Nigeria, and Namibia pension funds have invested in private equity (RisCura 2020).

Table 1: Total assets in retirement savings plans 2010-2020, USD millions

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Southern Africa											
Angola	..	..	..	..	1,749	1,761	897	903	765	877	865
Botswana	..	..	..	6,731	6,242	6,572	7,015	8,310	7,523	8,768	..
Lesotho	..	272	308	..	..	..	..	..	..	..	..
Malawi	..	..	..	409	525	456	523	727	944	1,154	1,320
Mauritius	..	..	227	265	..	482	528	633	..	1,517	..
Mozambique	..	..	..	..	..	..	..	..	91	171	..
Namibia	9,636	8,532	10,088	9,877	10,117	..	10,008	12,496	11,628	12,196	12,112
South Africa	331,501	298,395	323,385	306,107	317,525	259,622	302,975	346,106	312,355	..	..
Zambia	561	594	690	822	857	562	634	752	689	616	..
Zimbabwe	..	..	..	..	..	..	..	..	..	983	1,348
West Africa											
Ghana	..	..	..	..	807	1,231	1,617	2,496	2,700	3,138	3,823
Nigeria	13,418	15,435	20,041	25,801	27,178	26,913	20,213	24,560	28,136	33,284	32,299
East Africa											
Kenya	5,346	5,419	6,380	8,072	8,344	7,957	9,588	10,463	11,452	12,811	..
Tanzania	..	..	..	2,986	3,889	4,115	4,155	4,444	..	..	..
Uganda	..	..	..	..	..	..	2,228	..	..	..	..

Source: OECD Global Pension Statistics and annual reports

Table 2: Total assets in retirement savings plans 2010-2020, % of GDP

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Southern Africa											
Angola	..	..	..	..	1.3	1.7	0.9	0.7	0.9	1.3	1.6
Botswana	..	..	..	46.9	40.7	50.6	44.0	45.5	42.5	47.2	45.0
Lesotho	..	11.6	12.5	..	..	..	..	..	..	..	..
Malawi	..	..	..	8.8	9.6	9.6	9.7	11.7	13.7	14.9	16.4
Mauritius	..	..	2.0	2.1	..	4.2	4.4	4.6	4.8	11.1	..
Mozambique	..	..	..	..	..	..	..	..	0.6	1.1	..
Namibia	77.4	77.1	80.2	88.2	86.9	..	86.5	90.3	92.7	95.0	101.8
South Africa	80.0	80.4	84.5	90.7	96.6	99.7	95.1	91.6	92.1	..	..
Zambia	2.8	2.7	2.7	3.0	3.3	3.4	2.9	3.0	3.0	2.9	..
Zimbabwe										10.2	10.1
West Africa											
Ghana	..	..	..	..	1.7	2.6	3.2	4.3	4.3	5.0	5.7
Nigeria	3.6	3.8	4.3	5.0	5.1	5.6	6.0	6.5	6.7	7.0	8.0
East Africa											
Kenya	13.6	12.4	12.9	14.7	14.0	13.0	14.0	13.2	13.1	13.3	..
Tanzania	..	..	..	6.5	8.1	9.4	8.3	8.3	8.4	..	..
Uganda	..	..	..	..	..	..	7.7	..	..	..	..

Source: OECD Global Pension Statistics and annual reports

(ii). Investment

- Most pension fund investments in SSA are in short term assets such as term and saving deposits (AfDB, 2021).
  - Creates a mismatch between investments made and long-term savings held.
  - Affects the rates of return on investment of pension funds.
- Nominal investment returns are relatively low => real benefits upon retirement are very low or negative due to high inflation in most SSA countries.

Table 3: Annual nominal investment rates of return of retirement savings plans, 2010-2020 (percent)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Southern Africa											
Angola	..	..	..	..	..	..	..	..	5.1	5.5	6.0
Botswana	..	..	..	..	..	..	..	12.0	3.1	8.0	..
Malawi	..	..	..	36.0	24.2	15.2	14.2	26.1	20.7	13.0	13.1
Mauritius	..	..	..	..	..	6.4	0.9	..	..	..	..
Namibia	..	12.7	14.4	16.5	9.6	..	2.5	8.4	..	..	..
South Africa	12.4	9.0	11.1	15.6	14.7	9.0	6.0	5.8	4.4	5.2	..
Zambia	14.6	12.3	9.3	15.8	14.6	20.0	8.0	17.0	13.0	10.0	..
West Africa											
Ghana	..	..	..	..	21.0	24.0	20.0	..	..	..	..
Nigeria	10.8	3.4	11.9	12.8	8.0	9.1	11.8	15.4	9.3	11.4	18.3
East Africa											
Kenya	17.5	-9.9	..	17.6	13.1	..	7.3	10.0	..	..	..
Tanzania	..	..	..	..	..	13.5	5.1	..	..	..	..

Source: OECD Global Pension Statistics.

Regulations in the respective countries specify the level of pension fund investment into various assets; and in foreign assets.

Table 4: Pension sector assets distribution in Kenya (%)

Asset Class	2014	2015	2016	2017	2018	2019	2020	2021	Allowable Limit
Government Securities	31.0	29.8	38.3	36.5	39.4	42.0	44.7	45.7	90.0
Quoted Equities	26.0	23.0	17.4	19.5	17.3	17.6	15.6	16.5	70.0
Immovable Property	17.0	18.5	19.5	21.0	19.7	18.5	18.0	16.5	30.0
Guaranteed Funds	11.0	12.2	14.2	13.2	14.4	15.5	16.5	16.8	100.0
Listed Corporate Bonds	6.0	5.9	5.1	3.9	3.5	1.4	0.4	0.4	20.0
Fixed Deposits	5.0	6.8	2.7	3.0	3.1	3.0	2.8	1.8	30.0
Offshore	2.0	0.9	0.8	1.2	1.1	0.5	0.8	1.3	15.0
Cash	1.0	1.4	1.4	1.2	1.1	1.2	0.9	0.6	5.0
Unquoted Equities	1.0	0.4	0.4	0.4	0.3	0.3	0.2	0.2	5.0
Private Equity	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	10.0
REITs	0.0	0.0	0.1	0.1	0.1	0.0	0.0	0.0	30.0
Commercial Paper, non-listed bonds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	10.0
Others e.g. Unlisted Commercial Papers	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	10.0

Source: RBA Industry Reports

(iii). Membership and contributions

- Membership shows the extent to which the working-age population is participating in the pension process.
- Pension schemes are said to be performing better in a country where membership constitutes a higher proportion of the working-age population and contributions are growing or are substantial enough.
- In a universal social pension system, all the working-age population is covered due to its non-contributory nature. => ensures a basic minimum living standard at old age.

Pension contributions form a very small proportion to GDP in SSA.

Table 5. Contributions to retirement savings plans, 2010-2020 (% of GDP)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Southern Africa											
Angola	..	..	..	..	0.2	0.2	0.1	0.1	0.2	0.4	0.2
Botswana	..	..	..	2.0	2.1	2.4	2.2	2.2	2.3	2.3	..
Malawi	..	..	..	..	1.2	1.3	1.2	1.4	1.9	2.0	1.9
Mauritius	..	..	0.2	0.3	..	..	0.6	0.3	0.8	0.9	..
Namibia	3.6	3.5	3.6	3.8	4.2	..	4.3	..	..	..	..
South Africa	4.7	4.7	4.9	4.9	5.1	5.3	5.2	5.1	5.3	..	..
Zambia	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.3	0.3	0.3	..
West Africa											
Ghana	..	..	..	..	1.3	2.0	..	..	..	..	..
Nigeria	1.6	0.6	0.7	0.6	..	0.8	0.6	0.6	0.6	0.8	1.0
East Africa											
Kenya	1.2	1.2	..	1.3	1.2	..	1.1	..	..	..	..
Tanzania	..	..	..	2.2	2.4	1.7	2.2	1.8	..	..	..

Source: OECD Global Pension Statistics

- A number of countries have come up with policies to include the informal sector workers in the pension system to address low membership (i.e. micropensions) e.g. Kenya and Rwanda.
  - Kenya - Mbao Pension Plan, a mobile phone-based contributory pension plan for the informal workers.
  - Rwanda – Ejo Heza, a government sponsored voluntary DC scheme open to all citizens.

4. Demographic characteristics of SSA countries

Much younger population and relatively high population growth rate. Number of dependants is increasing at a faster rate, => number of old-age population needing social support to increase.

Table 6: Average annual rate of population changes (percentage)

SDG regions	1995 - 2000	2000 - 2005	2005 - 2010	2010 - 2015	2015 - 2020
Sub-Saharan Africa	2.63	2.64	2.73	2.73	2.65
Eastern Africa	2.78	2.74	2.79	2.77	2.67
Middle Africa	2.75	3.06	3.23	3.17	3.05
Southern Africa	1.66	1.21	1.32	1.52	1.39
Western Africa	2.64	2.64	2.73	2.72	2.67
Northern Africa and Western Asia	1.93	1.93	2.10	2.02	1.76
Central and Southern Asia	1.88	1.71	1.50	1.32	1.21
Eastern and South-Eastern Asia	0.95	0.77	0.71	0.69	0.58
Latin America and the Caribbean	1.55	1.32	1.18	1.07	0.94
Australia/New Zealand	1.06	1.24	1.74	1.47	1.21
Oceania (excl. Australia & N. Zealand)	2.10	1.79	1.97	1.78	1.77
Europe and Northern America	0.32	0.36	0.43	0.37	0.30

Source: World Population Prospects 2019, United Nations

- Aging population is small but increasing - number of older persons in SSA is projected to grow at rates above 3% p.a. between 2022 and 2050 (United Nations, 2022).
- With low levels of pension coverage and access, high population growth may not lead to benefit of increased pensions contributions.
  - Less than 20% of people of pensionable age in SSA receive old-age pension; global average of 77.5% (ILO, 2021).
  - High youth unemployment rate which limits their ability to save for retirement.
  - Bigger size of the informal sector.

The old-age dependency ratio in SSA is low compared to other regions. Expected to remain lower in the near future due to high population growth rate, but the number of the old population will be rising.

Table 7: Old-age dependency ratio

SDG regions	1990	1995	2000	2005	2010	2015	2020	2025
Sub-Saharan Africa	5.9	5.8	5.7	5.5	5.4	5.4	5.5	5.6
Eastern Africa	5.7	5.6	5.5	5.3	5.2	5.2	5.3	5.5
Middle Africa	6.0	5.9	5.8	5.6	5.5	5.4	5.3	5.3
Southern Africa	7.1	7.3	7.2	7.1	7.2	7.6	8.2	8.9
Western Africa	5.8	5.7	5.5	5.3	5.3	5.2	5.2	5.2
Northern Africa and Western Asia	7.4	7.7	8.0	8.0	7.9	8.2	9.1	10.3
Central and Southern Asia	6.6	6.9	7.2	7.5	7.8	8.3	9.3	10.5
Eastern and South-Eastern Asia	**8.8**	**9.5**	**10.4**	**11.0**	**11.7**	**13.4**	**16.8**	**19.8**
Latin America and the Caribbean	8.2	8.7	9.1	9.8	10.5	11.6	13.4	15.4
Australia/New Zealand	**16.6**	**17.8**	**18.4**	**19.0**	**19.8**	**22.4**	**25.2**	**28.3**
Oceania (excl. Australia & N. Zealand)	5.4	5.5	5.7	6.0	6.3	6.3	6.9	7.6
Europe and Northern America	**19.0**	**20.4**	**20.9**	**21.8**	**22.6**	**25.0**	**28.3**	**31.9**

Source: World Population Prospects 2019, United Nations

Note: Old-age dependency ratio is the ratio of population aged 65+ per 100 population age 15-64.

SSA has the lowest ratio of population above statutory pensionable age that are receiving pension, with pension coverage of about 20% in 2020.

High variance across regions in SSA; Southern Africa has highest rate of 92%.

Table 8: Population above statutory pensionable age receiving a pension (%)

Geographical Area	**2016**	**2020**
Asia	55.9	
Europe	**96.4**	**96.7**
Latin America and the Caribbean	70.8	75.4
Northern Africa	47.0	43.8
Northern America	**100**	**100**
Oceania	74.1	94.8
Sub-Saharan Africa	22.7	19.8
Eastern Africa	14.5	
Middle Africa	17.9	
Southern Africa	92.4	
Western Africa	12.8	

Source: International Labour Organisation (ILO) SDG 1.3.1, SDG Indicators website

- Coverage of old-age beneficiaries also varies widely across SSA countries;
  - 100%: Botswana, Mauritius and Seychelles; Over 80%: Cape Verde (86%), Lesotho (94%), Namibia (98%), S. Africa (93%) and Swaziland (86%);
  - Most SSA countries have very low coverage, e.g., Serra Leone (1%).
- Botswana, Lesotho, Mauritius, Namibia and Swaziland have non-contributory pension schemes, while Mozambique, Seychelles and Uganda have both contributory and non-contributory schemes.
- Statutory pensionable age varies; 60 years and above for most countries.
- Burundi, DRC and Mozambique have different statutory pensionable age for men and women.
- Most countries have contributory schemes which are earnings-related. Most are national social security schemes.

5. Case studies on pension funds

- Focus on pension systems in three countries; Chile, South Africa and Netherlands.
- Chile - among the first countries to introduce a social insurance scheme; reform their pension system.
- South Africa – has among the oldest and advanced pension system in SSA. Initiated a number of reforms to expand the pension system to cover most of the elderly population.
- Netherlands - among countries with the best performing pension system in the world. Has made several reforms in the pension sector.

Lessons from the case studies for reforming pension funds in SSA

- Countries need a mix of compulsory non-contributory social pension schemes to cater for low-income earners and unemployed, and a contributory scheme for the employed.
  - Non-contributory scheme should be mean-tested and financed by tax contributions for those who do not meet a given threshold of income as set by regulations.
- Contributory pension schemes bundled with products such as additional group insurance cover can lead to increased flow of long-term savings to pension funds.
- Pension benefits should be indexed to prices to protect against erosion of purchasing power.

- Pension benefits should mainly be based on annuity rather than lumpsum withdrawals to ensure sustainability of the funds and to guarantee a given minimum income to the beneficiaries.
- Incentives on pension fund contributions through favourable tax consideration can lead to increased contributions and help grow pension funds.

6. Challenges to pension funds development in SSA

- (i). Low pension participation rates – due to high levels of unemployment among the working-age and informality. Most pension participants are employed in the public sector.
  - Few SSA countries have universal coverage based on tax-funded non-contributory social schemes (e.g. in Botswana, Lesotho, Namibia, and Zanzibar), or having both contributory and non-contributory schemes.
- (ii). Low contribution rates – mainly due to low earnings. Limits overall savings and pension receipts upon retirement.
  - => Low contributions, together with low participation rates, imply that the pension system in SSA countries is not able to mobilize considerable savings that can be used to support economic activities.

- (iii). Low pension coverage – due to low pension participation rates and low returns from pension assets hence low benefit levels.
  - Coverage in SSA is lowest at 19.8%, against world average of 77.5%.
- (iv). Restrictive regulatory environment – that is not very supportive for pension innovation and growth in most countries.
  - Most pension policies do not guarantee universal pension systems;
  - Restrictions on type and investment to be held in various asset classes => limits investment diversification and returns generated.
  - In some SSA countries, the regulations do not allow pension funds to invest in infrastructure projects or in foreign countries (AfDB, 2018).

- (v). Financing of pensions system – Most public pensions are financed by revenues, which leads to fiscal constraints due to competing budgetary needs, limiting adoption of universal pension systems.
  - Contributory pension schemes has not encouraged pension uptake due to low income levels and informality in most SSA countries.

7. What can be done to boost pension savings in SSA

- (i). Increase pension participation and coverage - include the unemployed and those in informal sector in the pension system through a universal non-contributory pension scheme and addressing financial illiteracy.
- => Have a mix of universal non-contributory pension scheme to provide basic coverage and a contributory scheme for the employed to enhance pension benefits.
- (ii). Enhance pension benefits - by bundling pensions with other products, providing matched contributions, provide favourable tax considerations for employer contributions and benefits to enhance growth of contributions and assets under management.

- (iii). Leverage on advances in digital technology and prevalence of mobile money to increase pension coverage and drive pension savings. Will make enrolment to and contribution to pension easier.
- (iv). Reform the legal and regulatory framework of pension sector to open up pension to the unserved population, streamline pensions management, and allow for investment diversification to improve returns.

Thank you