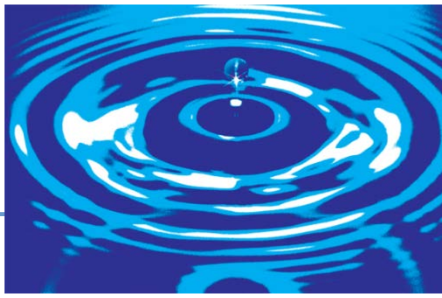
UNITED STATES INTERNATIONAL UNIVERSITY

"Education to take you places"



Critical Success Factors for a Sustainable Micro Pension Scheme in Kenya

AUGUST 2012

P.O BOX 14634 – 0800, Nairobi,
KENYA
Tel 3606000 ; Fax 3606100
www.usiu.ac.ke

Table of Contents

EXECUTIVE SUMMARY

Micro-pension arrangements are meant to insulate low-income earners against old-age poverty. The formulation of such a plan requires a delicate balance between economic viability and generation of adequate returns to the participants. This study sought to determine the critical success factors for the operation of a micro-pension plan and advice on the attributes of such a scheme, the pragmatic models for its implementation, regulatory issues surrounding its operations, challenges to implementation and the strategies that can address the challenges.

Using data from 1083 informal sector participants, 30 Micro-finance institutions and 20 Savings and Credit Cooperative Societies in Kenya; the study concludes that the ideal micro-pension scheme needs to address governance, administrative, design and efficiency issues to succeed. The study recommends a multi-model implementation of micro-pension plans in addition to a separate set of regulations to govern the micro-pension plans.

1.0 INTRODUCTION

1.1 Background of the Problem

The United Nations (2007) estimates that by 2050, there will be almost 2 billion people over 60, worldwide, close to 80% of them will be living in developing countries. According to Help Age International (2006), the over 60s and the over 80s represent the fastest growing population group on the African continent with the numbers of elderly people increasing by 50% between 2000 and 2015 and nearly fivefold by 2050. 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.

The main reason for the existence of pension systems is the provision of basic income security and poverty alleviation especially to the elderly (Holzman and Hinz, 2001). Pension schemes contribute significantly to the reduction in old-age poverty since a large proportion of the incomes of retirees is derived from their previous pension arrangements Kakwani, Sun and Hinz (2006). According to the Alliance Global Investors (2007), 75% of the elderly population in the world relies on pension income in South Africa while 82% of the retirees depend on pension income in the United States of America. Kakwani, *et al* (2006) report that retirement income accounts for 68% of the total income of retirees in Kenya. In the Sub-Saharan Africa, 85% of the aged population lives in abject poverty because less than 5% of the labor force is covered under the formal pensions system (Palacios and Pallares-Millare 2000).

Further support for the importance of pension schemes to the low income earners in the alleviation of poverty comes from Stewart and Yermo (2009) who report that:

- Pensions reduce the poverty gap ratio by 13% in South Africa and increase the income of the poorest 5% of the population by 50%;
- In South Africa, families receiving a pension are 11% less likely to be poor;
- In Tanzania where there is no pension, out of 146 000 children orphaned by HIV/AIDS only 1000 attended secondary school in 2007 because their grandparents could not afford the required school fees; and
- In Zambia, a pilot cash transfer to older people caring for orphans improved school attendance.

Moreover, pensions increase older people's access to services such as health care and reduce their dependency on the younger generation (Help Age International 2006). Pensions can therefore play an important role in breaking intergenerational poverty cycles and thus increase the life expectancy of the elderly generation (Help Age International 2006; Keizi, 2007).

Informal workers have specific characteristics that alienate them from formal pension arrangements. Uthira and Manohar (2009) document these factors as; their constant change of jobs, their frequent opts to self employment, the temporary nature of their employment contracts, they live in remote rural areas or urban slums, they are often illiterate and unfamiliar with the concept of pensions and they have little experience of dealing with formal financial institutions.

A micro-pension scheme refers to a pension arrangement that supports small, regular and sustainable savings by low income earners so as to provide them with a regular stream of pension annuities for the old-age (Uthira and Manohar, 2009). The Retirement Benefits Authority in Kenya has already operationalized a micro pension scheme where the contributions are a minimum of Ksh. 20 per day. This study seeks to enrich the policy makers with recommendations that will lead to sustainability of such a scheme.

1.2 Statement of the Problem

According to Keizi (2007) more than 90% of the population in Sub Saharan Africa and South Asia are not covered by any pension arrangement. Keizi further estimate that only about 15% of Kenya's working population are covered by any pension arrangement. The reasons for low coverage include general unemployment, low incomes, poor saving culture and above all pension arrangements that only favor workers in the formal sector (Kakwani *et al*, 2006). This study advocates a pension arrangement that is tailor made for the informal sector workers.

The informal sector employs an estimated 80% of the Kenya workers (Economic Survey, 2011). Despite this sector being a major employer, pension coverage remains a mirage since workers in this sector face income uncertainties and are the worst affected by turbulent political and economic movements. It is in this context that this study intends to unearth the ideal micro-pension system for the sector that would guarantee pension benefits despite income uncertainties and adverse political and economic variations.

While previous empirical reports (Keizi, 2006; Rajan, 2003; Barrientos, 2007) emphasize on the reasons for low coverage and suggestions to increase the coverage, they fail to suggest a system to cover the informal sector workers. This study fulfills the knowledge gap by establishing the features of a pension system to cover the informal workers and provide policy recommendations on the steps that can be taken to address the challenges to the implementation of such a system.

This study develops a sustainability framework for the Kenya micro-pension arrangement.

1.3 Purpose of the Study

The purpose of this study is to determine the critical success factors for a micro-pension scheme in Kenya.

1.4 Research Questions

The study was guided by the following research questions;

i What would an ideal micro-pension arrangement in Kenya encompass?

ii What models can be used in the implementation of a micro-pension scheme in Kenya?

iii How is the micro-pension arrangement accommodated within the RBA Act?

iv What are the challenges to implementation of a micro-pension arrangement in Kenya?

v How can the challenges to the development and implementation of a micro-pension arrangement in Kenya be addressed?

2.0 METHODOLOGY

2.1 Research Design

Mixed research design was used to answer the research questions. This was necessitated by the fact that the research questions were diverse and needed a multi-stakeholder perspective to be conclusively addressed. The respondents were drawn from the informal sector workers, micro finance institutions, Savings and Cooperative Societies (SACCO) that serve the informal sector workers and the service providers of the Mbao pension plan that is already in place.

2.2 Population and Sampling Frame

The main population for the study was all the Kenyan informal workers. The target population was the workers represented under the Kenya National Jua Kali Cooperative Society (KNJCS). This sampling frame had 197 chapters spread throughout Kenya. Each member association has registered members operating business activities in various sectors including textile, woodwork, metalwork, motor vehicle repair, food processing, electrical engineering, handicrafts and leatherwork, as well as merchandising and petty trading. The sampling frame used was last updated on 31 December 2010. Additionally, the Association of Micro Finance Institutions (AMFI) provided the sampling frame for microfinance institutions and SASRA provided the sampling frame for the SACCO.

2.3 Sampling Design

The first sampling frame classified the KNJCS chapters on the basis of 8 provinces in Kenya. Stratified sampling was used to calculate the number of participating chapters from each province. In total 56 chapters participated in the survey. The leaders of the sampled chapters were identified and were requested to provide a list of the businesses in their register. The participating businesses were then randomly drawn from the list. Questionnaires were then administered to employees and owners in the selected businesses. In the event that data was not collected due to inability to identify the sampled businesses, replacement was allowed where the leader of the chapter was requested to identify another business in the locality. This ensured that the response rate was adequate. The target was to identify 1090 informal sector workers drawn from all over Kenya.

The AMFI sampling frame had 56 MFIs from which random sampling was used to select 35 MFIs. On the other hand, the SASRA sampling frame had 145 SACCOS. Purposive sampling was used to identify 22 SACCOs that service the informal sector workers.

2.4 Data Collection Methods

Data was collected by use of two self-constructed questionnaires and one interview guide. The first questionnaire was administered to respondents in the informal sector while the second one was administered to micro-finance institutions and savings and Credit Cooperative Societies (SACCO) that serve the low end market. The interview questions were answered by the current service providers of the *Mbao* pension plan namely; Eagle Africa Insurance brokers (administrators) and Kenya Commercial bank (custodians and fund managers). The instruments were first piloted to improve validity and reliability. Additional data was collected through document reviews; that involved scrutinizing the Retirement Benefits Act and the policy document on which the *Mbao* pension plan operates.

2.5 Response Rate

The response rates for the study were; 99% for informal sector workers, 86% MFIs and 91% SACCO. Table 1 summarizes the response rates.

TABLE 1: RESPONSE RATES

Respondents	Sample Size	Response	% Response Rate
Informal Sector Workers	1090	1083	99
MFIs	35	30	86
SACCO	22	20	91

2.6 Data Analysis

Qualitative data was transcribed and arranged in themes to inform the findings while quantitative data was analyzed by use of descriptive statistics. The analysis was done by use of SPSS Version 19.0 (2009).

3.0 FINDINGS

3.1 Characteristics of the Samples

3.1.1 Informal Sector Workers

The informal sector workers who participated in the study were mainly male (72%), 24 – 29 years of age (28.5%), married (63.9%), with high school education (42.2%), in petty trading (14.7%), with less than 5 years experience (37.8%), monthly income less than 6000 (42.2%), from Nairobi province (27.1%) and predominantly employees as opposed to the owners of the informal sector businesses (63.9%). These statistics are included in table 2.

TABLE 2: CHARACTERISTICS OF THE INFORMAL SECTOR SAMPLE

Variable		N	%
Gender	Male	780	72
	Female	303	28
	TOTAL	**1083**	**100**
Age of the respondents	18 – 23 years	171	15.8
	24 – 29	309	28.5
	30 – 35	248	22.9
	36 – 41	150	13.9
	42 – 47	108	10.0
	48 – 53	59	5.4
	54 >	38	3.5
	TOTAL	**1083**	**100**
Marital status	Single	324	29.9
	Married	692	63.9
	Separated/divorced	37	3.4
	Widowed	30	2.8
	TOTAL	**1083**	**100**
Highest education attained	Never been to school	8	0.7
	Primary school	355	32.8
	High school	457	42.2
	College/technical school/polytechnic	223	20.6
	University	40	3.7
	TOTAL	**1083**	**100**
Industry	Textile	80	7.4
	Woodwork	99	9.1
	Metal work	45	4.2
	Motor vehicle repair	139	12.8
	Food processing	82	7.6

	Electrical	30	2.8
	Transport	103	9.5
	Handicrafts	44	4.1
	Leatherwork	29	2.7
	Merchandising	117	10.8
	Petty trading	159	14.7
	Welding	88	8.1
	Bicycle	31	2.9
	Saloon/barber shop	37	3.4
	TOTAL	**1083**	**100**
Job experience	< 5 years	409	37.8
	6 – 10	374	34.5
	11 – 15	139	12.8
	16 – 20	91	8.4
	20 >	70	6.5
	TOTAL	**1083**	**100**
Monthly Income	≤ 6000 Ksh.	457	42.2
	6001 – 12000	246	22.7
	12001 – 18000	46	4.2
	18001 – 24000	197	18.2
	24001 – 30000	59	5.4
	> 30000	78	7.2
	TOTAL	**1083**	**100**
Province	Nairobi	294	27.1
	Western	132	12.2
	Nyanza	162	15.0
	Rift Valley	115	10.6
	Coast	70	6.5
	Central	130	12.0
	Eastern	140	12.9
	North Eastern	40	3.7
	TOTAL	**1083**	**100**
Position in business	Employee	691	63.8
	Owner	392	36.2
	TOTAL	**1083**	**100**

3.1.2 Micro Finance Institutions

Majority of the MFIs surveyed had been in operation for less than 5 years (36.7%), had less than 50 employees (53.3%), had ten or less branches (56.7%), had 5001-10000 depositors (43.3%) and less than 5000 borrowers (60%). These details are included in table 3.

TABLE 3: CHARACTERISTICS OF THE MFI SAMPLE

Variable		N	%
Number of years in operation	5 or less	11	36.7
	6-10	6	20.0
	11-15	6	20.0
	16-20	3	10.0
	More than 20	4	13.3
	TOTAL	**30**	**100**
Number of Employees	50 or less	16	53.3
	51-100	6	20.0
	101-150	4	13.3
	151 – 200	1	3.4
	200 or more	3	10.0
	TOTAL	**30**	**100**
Number of Branches			
	1-10	17	56.7
	11-20	10	33.3
	21-30	1	3.3
	31 or more	2	6.7
	TOTAL	**30**	**100**
Number of Depositors	Less than 5000	8	26.7
	5001-10000	13	43.3
	10001-15000	3	10.0
	More than 15000	6	20.0
	TOTAL	**30**	**100**
Number of Borrowers	Less than 5000	18	60.0
	5001-10000	5	16.7
	10001-15000	3	10.0
	More than 15000	4	13.3
	TOTAL	**30**	**100**

3.1.3 Savings and Credit Cooperative Societies

TABLE 4: CHARACTERISTICS OF THE SACCO SAMPLE

Variable		N	%
Number of years in operation	5 or less	11	36.7
	6-10	6	20.0
	11-15	6	20.0
	16-20	3	10.0
	More than 20	4	13.3
	TOTAL	**30**	**100**
Number of Employees	50 or less	16	53.3
	51-100	6	20.0
	101-150	4	13.3

	151 – 200	1	3.4
	200 or more	3	10.0
	TOTAL	**30**	**100**
Number of Branches			
	1-10	17	56.7
	11-20	10	33.3
	21-30	1	3.3
	31 or more	2	6.7
	TOTAL	**30**	**100**
Number of Depositors	Less than 5000	8	26.7
	5001-10000	13	43.3
	10001-15000	3	10.0
	More than 15000	6	20.0
	TOTAL	**30**	**100**
Number of Borrowers	Less than 5000	18	60.0
	5001-10000	5	16.7
	10001-15000	3	10.0
	More than 15000	4	13.3
	TOTAL	**30**	**100**

3.2 Characteristics of the Ideal Micro-pensions Scheme

To determine the characteristics of the ideal micro pension scheme, data used was drawn from the informal sector workers. The respondents were asked to rate the importance of 14 factors that they would consider optimal for a micro pension scheme. The factors were anchored on a three point scale (1= not important; 3 = very important). The shown in table 5 show that the important factors were; honesty when dealing with members, contribution of small amounts, timely payment of benefits, providing more information on pension schemes, accessibility of the account, frequent statements, payments by mobile money transfer, government co-contribution, portability of the system, maintenance of a portable retirement account, contributions by bank transfers, allow withdrawals before retirement, involvement in management of the pension scheme and no contribution by the employers.

TABLE 5: CHARACTERISTICS OF THE IDEAL MICRO-PENSION SCHEME

	N	Mean	Std. Deviation	Mode	Frequency – Mode %
Pension schemes should be honest while dealing with members	1083	2.87	.418	3	89.7
The system should allow contribution of small amounts	1083	2.84	.443	3	86.5
Ensure that retirement benefits are paid on time	1083	2.83	.465	3	87.3

Give more information on pension schemes and retirement issues in general	1083	2.79	.506	3	83.2
I should be able to access my account details on phone for instance by SMS or calling the pension scheme administrators	1083	2.78	.515	3	82.8
Be provided with a frequent statement of contributions and interest	1083	2.78	.496	3	81.6
The system should allow contributions to be paid by Mobile money transfer	1083	2.77	.534	3	81.8
The government should support the system by making additional contributions	1083	2.73	.584	3	79.9
I should be able to “move” with my pension benefits if I change jobs	1083	2.64	.674	3	74.6
Have a personal retirement account similar to a bank account	1083	2.63	.657	3	73.2
The system should allow contributions to be paid by bank transfers and deposits	1083	2.53	.702	3	65.6
Allow withdrawal of some amounts before retirement	1082	2.52	.745	3	67.5
I am more involved in management of the pension scheme	1083	2.47	.780	3	64.5
Encourage employer to deduct pension contribution from my pay	1083	1.98	.921	1	41.3

3.3 Models For Implementing a Micro-Pension Scheme In Kenya

3.3.1 Centralized Nation-Wide Pension Scheme

A centralized nation-wide model involves having one micro-pension that serves all the informal sector workers in the economy and may or may not have regional branches. The micro pension scheme is operated by the government on behalf of the members. The key features of the model are;

(i) The scheme is established by the state on a defined contribution basis

(ii) There may be a custodian, administrator and a fund manager who runs the scheme alternatively these functions can be performed by a separate government formed body

(iii) The rules for admission, withdrawal and separation are enabled in regulation and are enforced by the state

The key advantages of this model are;

(i) All contributions from the informal sector workers are pooled together thus creating economies of scale in the investment of funds

(ii) There is one reference point for the worker's retirement planning needs

The key limitations of the model are that;

(i) The high volume of members may lead to diseconomies of scale

(ii) Governance systems of the scheme may be inadequate due to the difficulties associated with member's involvement in running the scheme

(iii) Government bureaucracy may impair the system's efficiency in investment of funds and payment of retirement benefits

(iv) Given publicity of corrupt practices in government cycles in developing countries, voluntary participation may be difficult

3.3.2 Central Retirement Scheme served by Partner or Agents

Under this model, a central pension scheme is maintained by the government but there are public or private agents who provide services to enhance the operations of the pension scheme. The key characteristics of the model are;

(i) The scheme is voluntary, defined contribution funded plan

(ii) A network of bank branches, microfinance institutions and post offices would be used to collect contributions and interact with participants

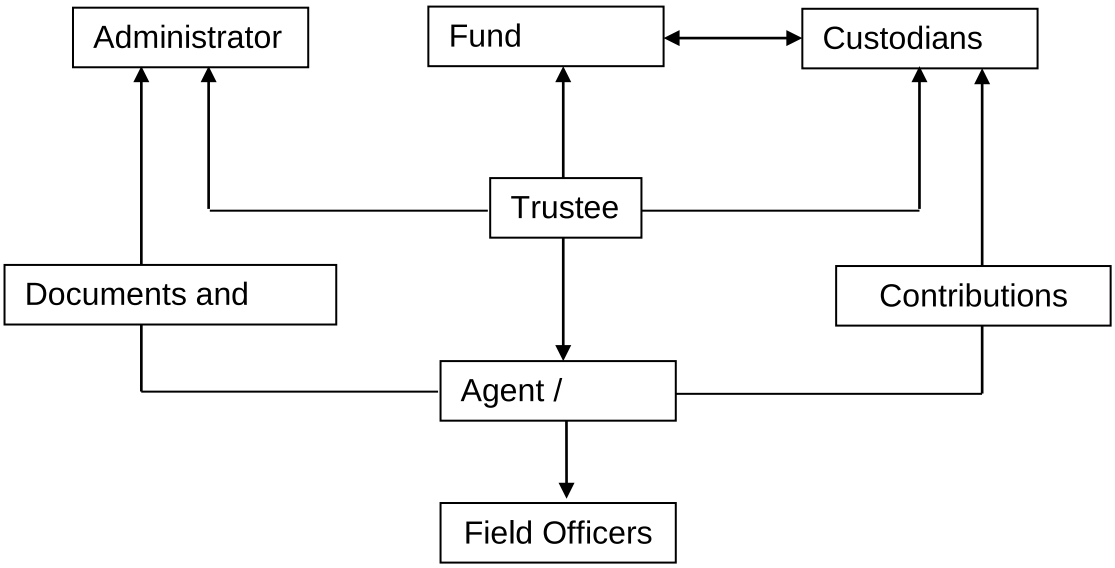
(iii) A independent centralized record keeping agency is maintained to ensure administrative efficiency and consolidate account statements

(iv) Each member has a unique number that records contribution savings regardless of the agent used

(v) Members of the scheme may be allowed to switch between competing agents

A conceptual model for the fund is depicted in figure 1.

FIGURE 1: CONCEPTUAL MODEL FOR THE PARTNER-AGENT MODEL OF MICROPENSION PLAN



In the model, the role of the trustees is central. They appoint fund managers, administrators, custodians and the agents (partners). The partners are free to appoint field officers to help market the product. The agents' role is to collect applications, send them to the administrators who open the retirement account for the member. The agents can then receive contributions that they send to the custodians. The responsibility of the fund managers is primarily the withdrawal of funds and must therefore be linked with the custodians.

3.3.2.1 Advantages of the partner-agent model

Asked whether they would partner in the implementation of a state led micro pension scheme, 94% of the MFIs and SACCOs answered in the affirmative. Asked to rate the benefits that would arise if the agent model is implemented to offer micro pensions on a 5 point scale (1 = no benefit and 5 = significant benefit), the MFIs and SACCOs identified the benefits as; the increase in pension coverage, ease of marketing the product, diversification of the products they offer, increase in outreach of the clients, flexibility in the change of agents, contribution to the corporate social responsibility mandate, cross-selling of MFI products, increased market performance and profitability. These results are shown in table 6.

TABLE 6: ADVANTAGES OF THE PARTNER-AGENT MODEL OF MICRO-PENSION PLAN

	N	Mean	Std. Deviation
Increases the coverage of the pension system	50	4.62	0.365
The pension plan becomes easy to market	50	4.12	0.652
They will diversify their products	50	4.03	.964
Will increase their outreach to the clients	50	3.97	.890
The model offers flexibility to change the agents	50	3.95	0.875
Contributes to the corporate social responsibility mandate	50	3.90	1.269
Will enhance cross selling of the MFI products	50	3.77	.971
Increased market performance	50	3.60	1.133
Increase in profitability	50	3.30	1.055

Note: There were no significant differences between the responses of the MFIs and the SACCOs.

3.3.2.2 Challenges with the partner-agent model

The MFIs and SACCOs were asked to indicate the challenges that would be inherent in a partner model on a scale of 1 to 5 (1 = not a major challenge; 5 = major challenge). Table 7 shows that the main challenges would be high administrative costs, low awareness levels by the clients, absence of a regulatory framework, absence of long-term saving habits amongst the clients, high transaction costs, relationship management, collection of contributions, payment of benefits and competition with existing products. The fact that competition with existing products was ranked last, implies that the micro-pension product would not be competing with existing products offered by the institutions.

TABLE 7: CHALLENGES OF THE PARTNER MODEL

	N	Mean	Std. Deviation
High administrative costs of implementing the scheme	50	3.87	1.008
Awareness of the operations of the scheme by the clients	50	3.83	1.117
Low financial literacy amongst the clients	50	3.77	1.194
Absence of a regulatory framework	50	3.70	1.208
The clients do not have a long-term savings habit	50	3.53	1.279

High transaction costs of implementing the scheme	50	3.50	1.167
Relationship management with stakeholders (RBA, fund administrators)	50	3.23	1.194
Collection of contributions	50	3.17	1.206
Payment of benefits	50	3.03	1.217
Competition with existing products	50	2.50	1.042

3.3.3 Multi-Employer Model

Under this model, employers in a certain industry, profession or cluster create a common pension scheme and assume the roles of the sponsors. Such a scheme would be formed as a voluntary, defined contribution pension plan with no limit on contributions. The scheme may have regional offices depending on the sector's geographical distribution. Once formed, the rules of the single employer pension schemes may operate in terms of registration of members, general management and compliance requirements.

3.3.3.1 Advantages of the multi-employer model

(i) Pooling together of contributions hence the economies of scale

(ii) Sector concerns are better addressed through this model

(iii) Can take up members who feel that the current *Mbao* system is for the extremely low income clients

(iv) Can allow employer contributions especially in the case of the large SMEs

(v) The schemes are not likely to grow "over size" thus limiting the diseconomies of scale in the centralized systems

(vi) The idea is easy to market to various business associations for instance, KAM, KEPSA, Transport , Different Agricultural Sectors

(vii) Can overcome the problem of adverse publicity as it will be a private sector scheme – not public

(viii) Easier to educate and influence members since they have common interests.

3.3.3.2 Disadvantages of the multi-employer model

(i) Some industries are not well organized hence it will only target organized industries

(ii) Member involvement depends on industry

(iii) May be affected by industry failure

(iv) Requires amendment of the existing regulations to define a sponsor as including multi-employers and to specify a formula of appointing trustees in the context of multi-employers as the trustees must be representative of the varying interests of the multi-employers or sponsors.

3.4 Micro-pensions and the RBA act

Although the RBA Act is comprehensive and addresses major issues relating to retirement schemes in Kenya, it does not fully accommodate micro-pensions in the following cases;

(i) Under the RBA Act, a retirement benefit scheme is defined as "Any scheme or arrangement (other than a contract for life assurance) whether established by a written law for the time being in force or by any other instrument, under which persons are entitled to benefits in the form of payments, determined by age, length of service, amount of earnings or otherwise and payment primarily upon retirement, or upon death, termination of service, or upon the occurrence of such other event as may be specified in such written law or other instrument." Although the definition captures micro pension schemes indirectly, the inclusion of the themes; benefits determined by length of service, amount of earnings, payment primarily upon retirement and termination of service implies a retirement scheme operated by a sponsor, which may not be the case in micro pensions. Guide to starting a scheme categorically addresses an employer-employee relationship even the individual retirement schemes.

(ii) Section 24: No scheme, other than a scheme established by a written law shall be registered under this act unless: (b) the proposed scheme rules adequately protect the rights and interests of the sponsors and members

In addition to the above issues; micro-pensions differ significantly with the retirement schemes in the formal environment and so may require a different set of regulation to address matters of;

(i) Governance – Under the current laws, micro-pensions can only be managed by corporate trustees. This implies that members do not have an opportunity to participate in governance.

(ii) Investment of funds –

(iii) Risk Management

(iv) Contribution of funds

(v) Membership

(vi) Taxation Benefits

(vii) Rules for withdrawal

3.5 Challenges To Implementation Of A Micro Pension Scheme In Kenya

3.5.1 Challenges from the Informal Sector Participant's perspective

The informal sector participants listed the factors tabulated in table 8 as the main challenges to the implementation of a micro-pension scheme. The factors are; limitation in income, inaccessibility of retirement benefits in the short-term, lack of knowledge on operations of pension schemes, complexity of pension schemes, difficulty claiming benefits at retirement, absence of a pension scheme, lack of involvement in management, income irregularity, lack of trust in the formal systems, low rates of return, perception that pension schemes are for the formal sector, failure of employers to submit contributions, ignorance on the need to join a pension scheme, age as younger members may perceive pension plans as meant for older people and membership in the current national social savings plan.

TABLE 8: CHALLENGES IN A MICRO-PENSION PLAN – PARTICIPANT'S PERSPECTIVE

	N	Mean	Std. Deviation
Limitation in income	1083	2.33	.832
The money will not be accessible to me until retirement	1083	2.23	.868
I do not know how pension schemes operate	1083	2.18	.853
Pension schemes are complex and involving	1083	2.17	.839
It will be difficult to claim my benefits when I retire	1083	2.16	.875
Lack of a pension scheme which I can join	1083	2.14	.866
I will not be involved in the direct management of my money	1083	2.12	.868
My income is not regular	1083	2.08	.859
I would not trust anyone with my retirement money	1083	2.07	.878
Rate of return is too low	1083	2.01	.866

Pension schemes are for those people in formal employment	1083	1.88	.905
My employer may not submit my contributions	1083	1.85	.915
I see no benefit of joining a pension scheme	1083	1.78	.876
I am still too young	1083	1.55	.820
I am already a member of NSSF	1083	1.40	.742

3.5.2 Challenges from the Service Provider's perspective

Although 94% of the service providers had no objection to partnering with government in providing such a scheme, they highlighted important challenges that would befall the system as expounded in table 6.

3.6 Measures To Enhance Sustainability Of Micro-Pension Product

The measures to enhance sustainability of a micro-pension product from the perspective of the micro-finance service providers would include; increasing enrollment to lower administrative costs, maintaining an effective accounting system that tracks contributions and payments by members, maintaining an effective risk management system, transparent management, continuous adaptation and innovation, commitment in serving the low end market, financial literacy amongst clients, waiving transaction costs for clients, customizing the micro-product for the customers, co-contribution by the government, developing unique regulation for the micro pensions, location of branches near the clients, geographic diversification, centralized payment system, specialized human resource to deal with the product and allowing withdrawals from the scheme. These results are included in table 9.

TABLE 9: MEASURES TO ENHANCE SUSTAINABILITY OF A MICRO-PENSION PLAN

	N	Mean	Std. Deviation
High enrolment to lower the administrative costs	50	4.50	.682
Maintaining an effective accounting system	50	4.50	.938
Maintaining an effective risk management system	50	4.33	1.061
Transparent management	50	4.27	1.112
Continuous adaptation and innovation of processes	50	4.27	.868
Commitment in serving the low end market	50	4.23	1.135
Enhance financial literacy amongst the clients	50	4.20	1.186
Waiving transaction costs for clients	50	4.20	1.186

Customizing micro pension product – easy payments by customers	50	4.17	1.117
Co-contribution by the government	50	4.17	.986
Have a governing law or regulation articulating the unique nature of a micro-pension	50	4.00	1.203
Location of branches near clients (sometimes rural and slum areas)	50	4.00	1.287
Geographic diversification (serving wider geographic areas)	50	4.00	1.145
Provide centralized payment system	50	3.73	1.337
Having specialized human resource to deal with the sector	50	3.47	1.306
Allowing withdrawals from the scheme	50	3.43	1.223

4.0 CONCLUSIONS

The study concludes that;

- The ideal micro-pension scheme should embrace; honesty between service providers and members, contribution of small-frequent amounts, timely payment of benefits, information dissemination, free accessibility of the retirement account, frequent statements, diverse mobile money transfer options, government co-contribution, portability of the system, benefit withdrawals before retirement, member involvement in management and no contribution by the employers.
- Pragmatic models that can be used in the implementation of a micro-pension scheme include the centralized option, centralized model served by partners or agents and the multi-employer schemes.
- The challenges to implementation of the micro-pension plan from the demand side are; limitation in income, inaccessibility of retirement benefits in the short-term, inadequate knowledge on operations of pension schemes, complexity of pension schemes issues, difficulty claiming benefits at retirement, absence of a pension scheme, lack of involvement in management, income irregularity, lack of trust in the formal systems, low rates of return, perception that pension schemes are for the formal sector, failure of employers to submit contributions, ignorance on the need to join a pension scheme, age as younger members may perceive pension plans as meant for older people and membership in the current national social savings plan.
- The challenges to implementation of the micro-pension plan from the supply side are; high administrative costs, low awareness levels by the clients, absence of a regulatory framework, absence of long-term saving habits amongst the clients, high transaction costs, relationship management, collection of contributions, payment of benefits and competition with existing products.
- The critical success factors to a sustainable micro-pension plan are; increasing enrollment to lower administrative costs, maintaining an effective accounting system that tracks contributions and payments by members, maintaining an effective risk management system, transparent management, continuous adaptation and innovation, commitment in serving the low end market, financial literacy amongst clients, waiving transaction costs for clients, customizing the micro-product for the customers, co-contribution by the government, developing unique regulation for the micro pensions, location of branches near the clients, geographic diversification, centralized payment system, specialized human resource to deal with the product and allowing withdrawals from the scheme.

5.0 RECOMMENDATIONS FOR IMPROVEMENT

5.1 Measures for Immediate Implementation

(i) Target increased participation in the current centralized system. This should be done by following up on inactive subscribers and publicizing success stories.

(ii) Educate the informal sector participants on the need to save for retirement through the use of television and brochures

(iii) Provide more information on the current centralized system in terms of the roles of the various service providers with an emphasis on the simplicity of processes and ability to claim benefits.

(iv) Develop innovative solutions to respond to administrative and transaction costs challenge for example; enhance mass membership and partner with outlets that deal extensively with the low income earners. This reduces costs associated with identification of participants, record keeping, collection of contributions and disbursement of benefits.

(v) Implement soft compulsion where participants are automatically enrolled and given the chance to opt out. This strategy will work well if implemented together with the multi-employer pension schemes.

5.2 Measures for implementation in the short-term

(i) Augment the current centralized system with the partner-agent model; additional benefits will be realized without necessarily going through the disadvantages. This can be done by amending the current regulations.

(ii) Develop a multi-employer pension system to cover organized industries. This can be done by amending the current regulations.

5.3 Long-term measures

(i) Develop a unique regulatory framework to address pension schemes in the informal sector. The framework should create incentives for informal sector savings and address the unique needs of the informal sector.

(ii) Rethink the payout structure to incorporate minimal state supported guarantees because the current design does not protect participants from market down turns.

6.0 SUGGESTIONS FOR FURTHER RESEARCH

The study opens the following areas for further research;

(i) An investigation of the economies of the establishment of a multi-employer micro-pension arrangement in the Kenyan scenario.

(ii) An investigation of the ideal regulatory framework for micro-pensions to encapsulate registration requirements, risk management, the role of the government, taxation incentives, governance and the payment of benefits.

REFERENCES

Barrientos, A. 2007. New Strategies for Old-Age Income Security in Low Income Countries. World Social Security Forum. Moscow, 10-15 September.

Help Age International. 2006. Why social pensions are needed now. Available: http:\\www.globalaging.org\pension\world\2007\needed\pdf. [Accessed 28 December 2009].

Holzmann, R. & Hinz, S. 2001. New Ideas about Old Age Security. World Bank. Washington DC.

Keizi, L.K. 2006. Barriers to Pension Scheme Participation by Workers in the Informal Economy. Retirement Benefits Authority.

Keizi, L.K. 2007. Can Universal Pension help in Reducing Poverty in Old-Age in Kenya? Retirement Benefits Authority.

Kakwani, N., Sun, H. & Hinz, R. 2006. Old-Age Poverty and Social Pensions in Kenya, International Poverty Center, Working Paper No. 24.

Wahome, M. "Informal sector pension scheme launched", The Nation, 16 December 2009,http://www.nation.co.ke/business/news/-/1006/823654/-/hf72e3z/-/index.html;The Nation, "Pension plan targets jua kali sector", 23 October 2009, http://www.nation.co.ke/business/news/-/1006/676294/-/if7tgrz/-/index.html Rating.

Palacios, R. & Pallares-Millares, M. 2000. International Patterns of Pension Provision. Pension Primer Paper. World Bank.

Stewart, F. & Yermo J. 2009. Pensions in Africa. OECD Publishing.

United Nations. 2007. Pensions in Developing Countries: A Quest for Modern Format for Intergenerational solidarity. United Nations.

Uthira, D. & Manohar, H.L. 2009. Economic Implications and Sustainability of Micropensions in the Era of Pension Reforms in India. International Research Journal of Finance and Economics. 24 (2009), 36 – 48.

Rajan, S.I. 2003. Old-Age Allowances in Nepal. Paper Presented at Institute for Development Policy and Management International Conference, :Staying Poor: Chronic Poverty and Development Policy, Manchester, 7 – 9 April) Manchester, IDPM.