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PENSION REFORM IN GHANA: A STUDY OF THE PENSION SCHEME OF THREE TIERS

REFORMA DA PREVIDÊNCIA EM GANA: UM ESTUDO DO REGIME DE PENSÕES DE TRÊS CAMADAS”

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Orientador(a): Prof. Dr. Amilton José Moretto – orientador

"REFORMA DA PREVIDÊNCIA EM GANA: UM ESTUDO DO REGIME DE PENSÕES DE TRÊS CAMADAS"

Dissertação de Mestrado apresentada ao Programa de Pós-Graduação em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho do Instituto de Economia da Universidade Estadual de Campinas para obtenção do título de Mestre em Desenvolvimento Econômico, área de concentração: Economia Social e do Trabalho.

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Amilton Moretto

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Resumo

Atualmente, a parcela de idosos no total da população tem aumentado em todo o mundo.

Proporcionalmente, cresceram as reivindicações por sistemas públicos de pensão, gastos com saúde e orçamentos governamentais. Como resultado, países que implementam apenas pensões"pay-as-you-go) se deparam com déficits fiscais. Minha tese se foca particularmente no esquema financiado denominado multi-pilar ou multi-camada ou projeto de pensão de três camadas avaliando maneiras de melhorá-lo. A tese fornece um panorama geral da economia e atividade econômica de Gana, e a discussão teórica sobre combinação entre prestação de previdência privada e pública na forma de pensão de Gana, preparando um sistema de pensão de três camadas completado em 2008. O novo sistema de três camadas apresenta uma primeira camada de pensão pública do tipo "pay-as-you-go" que consiste em diferentes partes, incluindo uma parte relativa a contribuições, uma pensão obrigatória de gestão pública e privada de segunda camada e uma terceira camada de poupança de pensões voluntária. A análise desta tese se foca na escolha de seguro de renda, retornos de investimentos e a viabilidade de futuras reformas. Também traz à tona alguns problemas irresolutos e aponta possíveis problemas que podem surgir em decorrência do novo sistema de pensões e analisa se o sistema será capaz de atingir os objetivos estabelecidos a principio. Ainda que a implementação em 2010 do novo regime de pensões tenha sido bem sucedida, é possível que alguns grupos tenham sido deixados de fora.

Palavras-Chave: Reforma da Previdência, Sistema de três camadas, Previdência Social, Esquema Financiado, Ghana.

Abstract

In recent time the share of old in the total population has been increasing around the world. Proportionally growing are claims on public pension systems, health care expenditures, and government budgets. As a result, countries which implement only pay-as-you-go pensions face fiscal deficits. My thesis focuses in particular on the funded scheme referred to as the multi-pillar or multi-tier or three tier pension schemes and appraises ways to improve it. The thesis gives an overview of Ghana's economy and economic activity, then the theoretical discussion on combining public and private pension provision in the form of three-tier pension scheme, followed by a description and analysis of the Ghanaian pension reform, setting up a three tier pension system completed in 2008. The new three tier system features a first tier of public P.A.Y.G pension consisting of different parts including a contribution related part, a mandatory second tier privately and publicly managed funded pension and a third tier of voluntary pension savings. This thesis analysis focuses on the choice of income security, investment returns, and the feasibility of further reforms. It also brings up a number of unsettled issues then points to potential problems that may arise from the new pension system and looks at whether the system will be able to achieve the goals stated at the outset. Even though the new pension scheme has been successfully implemented in 2010, it is possible that some groups could be left out.

Keywords: Pension Reform, Three-Tier System, Social Security, Funded Scheme, Ghana.

LIST OF ACRONYMS

AfDB	African Development Bank
BECE	Basic Education Certificate of Education
CAP 30	Chapter 30
CEE	Central and Eastern Europe
CPI	Consumer Price Index
ECOSOC	United Nations Economic and Social Council
Ed	Edited/Edition
E.G.	For Example
ERP	Economic Recovery Program
ESB	End of Service Benefit
GDP	Gross Domestic Product
GH₵	Ghana Cedi (currency)
GIPC	Ghana Investment Promotion Center
GLSS	Ghana Living Standards Survey
GNA	Ghana News Agency
GNP	Gross National Product
GP -	Ghana Pesewa
GPRS	Ghana/Growth Poverty Reduction Strategy
GUSS	Ghana Universal Salary Structure
HIPC	Heavily Indebted Poor Country
ILO	International Labor Organization
IMF	International Monetary Fund
IOPS	International Organization of Pension Supervisors
ISSA	International Social Security Association
ISSER	Institute of Social Statistical and Economic Research
MCC	Millennium Challenge Corporation
MDG	Millennium Development Goals
MSLC	Middle School Leaving Certificate
MOU	Memorandum of Understanding
NPRA	National Pension Regulatory Authority
NRCD	National Redemption Council Decree

ODI	Organization Development Institute
OECD	Organization for Economic Co-operation and Development
PAYG	Pay-As-You-Go
PHC	Population Housing Census
PNDC	Provisional National Defense Council
RSA	Retirement Saving Account
SSNIT	Social Security and National Insurance Trust
SOE	State Owned Enterprise
TUC	Trades Union Congress

Content

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1 INTRODUCTION

Pension schemes are noted to be a challenging thing of analysis all over the world. Pension schemes are often complex and stretch of issues in all scopes. As Müller (1993:3) states “Retirement pension schemes are among the most complex and multi-dimensional arrangements in modern societies”.

The period of the 90s saw fresh interest in pension reforms in academia as well as policy circles. In her path-breaking publication on pension, “Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth”, the World Bank (1994) a non-traditional expert in pension matters strongly pushed for pension reforms in traditional Pay-As-You-Go (PAYG) schemes, public old-age pension schemes in which the cost of pension outlays is borne by today’s workers through contributions or taxes. And these schemes were to be supplemented by funded schemes.

The main prominence was on developing countries but later turned to emerging economies in the second half of the 90s (Lindeman et al. 2000; World Bank 2000).The necessity for the reform and consequences of the World Bank’s recommendations are, however, debatable. Many of the much spoken about benefits from privately run funded pension schemes do not measure up to serious enquiry.

Ghana, a country in West Africa bordering the gulf of Guinea, between Cote I’voire and Togo. The social, economic and demographic structure of the country has not changed much since independence. The social structure remains predominantly traditional, rural, and with a huge informality and close family links. Whiles the population remains young with relatively high but declining fertility and low mortality levels. The West African countries is a former English colony and attain her independence on 6th March, 1957 and has a current population by the 2010 population and housing census of approximately-24,223,431 million. The economy has successfully rested at 5.5% average economic growth rate (2001-2007). The intercensal population growth rate declined from 2.7% in 2000 to 2.4% 2010%. Minimum Wage for the country is GH₵ 3.73 = USD $ 2.33. Dependency ratio from the 2010 census is 67.7% (2010 – PHC). Life expectancy has seen some improvement from 57years to 61 years. Proportion of Males11, 801,661 (48.7%) to Females 12,421,770 (51.3%) from the 2010 population census was noted as stated. Sex ratio 2010 is as follows 95 males to 100 females. Ghana has a Labor force - by occupation in its major productivity sector as Agriculture: 56% / Industry: 15% / Services: 29% (2005 est.) and the major export products are Gold, Cocoa, Bauxite, Timber, crude oil etc. Ghana established largely a market based economy after undergoing structural adjustment programs from the 80s and embarked on institutional reform and currently deepening them e.g. education, health care, public service, public revenue and pensions. The public pension system was totally overhauled by the introduction of the three-tier scheme implemented from 2010. The first tier is a state pension and financed on PAYG system. The payouts from the first tier are partly based on earning history of the pensioner. The second tier is a fully funded defined contribution pension. Contributions are based on individuals' earning that are assigned to one's pension accounts and administered by private funds. The third tier comprises additional voluntary retirement savings encouraged by privileged tax treatment. Ghana's pension reform to a large extent may affect society in numerous ways, among others, the well-being of retirees, the fiscal position of the scheme and the long-term growth prospects of the general pension scheme as well.

The main question of this thesis is therefore, how does the new multi-tier pension scheme address the problems of income insecurity, better coverage and economic growth? In other words, does the new multi-tier pension scheme in Ghana address the goals set out in the beginning? The thesis argues that the dominant theories of pension make the suggestion of the multi-tier pension scheme debatable. Dependency on economic growth to create the necessary impact is not sustainable.

The main hypothesis of this thesis would, therefore, be that if the new multi-tier pension scheme in Ghana is to achieve its intended goals then prudent macroeconomic measures, intervention and regulatory capacity are needed for making funded pension schemes to work.

As noted Ghana, like most African countries lacks the financial market to hold or invest pension funds, but also because assigning old-age income security to private fund managers in a country with fragile private sector may be dangerous for the protection of pensioners. Therefore, the thesis discusses the shifts to defined contribution pension programs in Ghana, and points to a number of appropriate and unforeseen factors that challenge the use of defined contribution schemes as a means to address problems of benefit adequacy and wide pension coverage in the Ghanaian context. The establishment of the reform associated with Ghana's 2008 National Pensions Act 766, defined contribution retirement savings programs sought to serve two main purposes. First, it is to provide social protection for individuals not covered; being all formal private-sector employees and those public servants who had not been covered previously (SSNIT, 1992; Turner, 2001). Second, they were to generate and accumulate financial resources for socio-economic development in Ghana (Dixon, 1993; Ofori, 1976). This thesis sought to explore the institutional structures established in the new pension scheme in Ghana, and show that although defined contribution schemes are framed as a policy instrument to deliver adequate levels of retirement benefits, there are significant unforeseen factors that undermine intent set at the beginning.

The study is mainly descriptive and exploratory in character. This is partly because of the very short time since the inception of the reform and consequently the lack of data. However, it is likely that the presentation and examination of the reform adds up to the current debate on pension reforms in Ghana. The pension scheme's basic functioning and experience is of interest to others. It is characterized by voluntary participation and tax incentives to privately managed funds. It is worth highlighting that in the context of developing countries and transition economies the role of the solidarity principle in an individual value system has been gradually decreased in these countries and Ghana not excluded. The publicly managed system has been reorganized in order to lessen the redistributive function of the pension schemes and the second and third tiers are more focused on promoting economic growth so as to guarantee sustainable income level for elderly people. As a result the social development is opposed to economic growth. The choice in reform options really is whether to guarantee proper provision for the elderly which is disadvantageous to the country's economic competitiveness or to direct the resources to strengthen the economy which would force a part of the population with no savings to live in poverty. Implementing the World Bank's three-tier approach, Ghana, set onto a path of more neo-liberal policies yet to come.

A number of Latin American countries have experience with the funded pension scheme and Central Eastern Europe and currently some African countries. Obviously the background in these countries is different from that of Ghana. It started off with relatively good provident fund schemes, End of service benefit, Chapter 30 and PAYG pension scheme. In light of the different backgrounds and experiences in Latin America and Central and Eastern European countries; be it demography or political, the situation of Ghana might be more challenging.

Only little has been published on Ghana's pension reform since it conceptualization in 2004. The World Bank has made public the institutions views on the policy choices of Ghana's pension reform (World Bank 2011). Kpessa (2009, 2010, and 2011) has discussed the politics of pension reform, income protection typologies of welfare programs and finally compares reforms in Ghana and Nigeria. In so doing he introduces the idea for further reform in the new pension scheme. Kumado and Gockel (2003) conducted a study on the old social security system in Ghana which looked at the detailed overview of social security provision in Ghana and the need for reform. Dei Henry (2001) also traces the background of public pension provision and the fund's investment strategies and outcomes. Dorkenoo, D.K (2006) highlighted the role of Trade Unions in reforming social security for a secured old-age. This actually led to agitation and cries for reforms in the social security system. Finally, Mensah, D. A (2008 and 2010) who was a member of the pension reform and implementation committee has led a campaign in various media and programs on the benefits of the reform.

The thesis is organized as follows. Chapter one is about the background of developments in the Ghanaian economy under various regimes since independence, describing the changes that have taken place in Ghana's economy since the mid-1960s to

2000s. It also provides information about principal sectors' performance and current experiences.

Chapter two discusses the population structure of Ghana and its labor market as per the Ghana Living Standards Survey document of 2005/2006 prepared by the statistical service of Ghana. It indicates which economic sectors are occupied by workers of Ghana, economic activity and a little about her employment relations.

Chapter three discusses the rationale for public involvement in pension provision and the expected benefits of introducing a three-tier pension scheme.

Then chapter four describes the design of pension provision in Ghana. It also considers the early outcomes and touches on some unsettled issues regarding the design choice of the pension reform and tries to address the question, to what extent the new pension reform is able to achieve the objective set out in the beginning of the reform and also offer some conclusions.

Socio-Economic and Political History of Ghana

The first chapter discusses an historical view of developments in the Ghanaian economy under various regimes since independence. First is a review of the socio-economic and political environment that describes the changes that have taken place in the Ghanaian economy since Ghana gained her independence. While we discuss general economic and political issues to include a review of what the situation may have been at the time, it also provides principal sector performance in the economy of Ghana- service, industry and agriculture that all for an historical perspective in Ghana's current dispensation. Among these sectors, agriculture which involves mainly productive activities like growing crops, raising animals, fish and forestry is one dominant sector that contributes the highest inputs to gross domestic product (GDP) of the economy (Wayo 2002). The introduction wraps up with diagrams on economic sector performance contribution to growth and gross domestic product.

Political and Economic Evolution

Historical discussions of Ghana's growth experience seem to have a common message. Indeed a feature of the Ghanaian economy that most analysts have agreed over the years has been the absence of structural change. The oldest discussion is found in 1965. Ghana has swung sharply between prosperity and decline since independence in 1957. Ghana has often been characterized as a beacon on the African continent. At independence in 1957, Ghana was one of the most prosperous countries in sub-Saharan Africa with the highest per capita income in the region and very low inflation. Agriculture in 1955 was the major source of income and wealth; contributing about half of GDP and supporting a much larger proportion of the population than it does today. Early political and economic progress in Ghana in the late 1950s and early 1960s under Dr. Kwame Nkrumah and the Convention People’s Party (CPP) proved short-lived. The country was experiencing severe difficulties on both the political and economic fronts. When Ghana gained its independence from Britain in 1957, the economy appeared stable and prosperous. Ghana was the world's leading producer of cocoa, boasted of a well-developed infrastructure to service trade, and enjoyed a relatively advanced education system. President Kwame Nkrumah sought to use the apparent stability of the Ghanaian economy as a springboard for economic diversification and expansion. He began a process of moving Ghana from a primarily agricultural economy to a mixed agricultural-industrial one. Using cocoa revenues as security, Nkrumah took loans to establish industries that would produce import substitutes as well as process many of Ghana's exports.

There was no reason to doubt that this prosperity would continue. Certain warning signs however, emerged in the 1960s. It is reported that even though industrial output rose at 6.7 percent per annum, during the decade, cocoa output declined at an average annual rate of 0.2 percent per annum, leading to a decline in gross domestic investment of 3.2 percent per annum. Imports also fell by 1.6 percent per annum. Ghana's post-independence economic strategy emphasized rapid industrialization by state-owned enterprises (SOEs) as an attempt to diversify its export base in order to reduce the over dependence on few primary export commodities and thereby contain the perils of monoculture. In a post-1960 era that was characterized by falling cocoa prices, it was prudent, or so as it seemed, to pursue an industrial alternative. As mentioned earlier, there were difficulties. On the economic front, growing shortage of foreign exchange, mismanagement and corruption had frustrated Ghana’s dreams of a socialist industrialization. A severe balance of payment problem, galloping inflation as well as shortage of consumer goods and job scarcity and insecurity had begun to emerge. Apart from the ill-chosen industrial investments, the Nkrumah Government also spent more lavishly than the colonial regime on health and education.

On the political front, Ghanaian politics had begun to turn authoritarian. The Westminster system of governance that was inherited from the British colonial masters was abandoned in favor of dictatorial governance. The president had acquired so much power within a few years of nation building. The President had gained wide constitutional authority to determine anything for himself.

The deteriorating economic situation and the fall living standards were cited as reasons for which a group of army and police officers overthrew the Nkrumah government in February 1966. However, the aforementioned reasons combined to create the basis for the coup d'état. The military regime subsequently handed over power in 1969 to the civilian government of Dr. K. A. Busia. The ideological stance of these two governments was pro-private capital and opposed to Nkrumah's "socialist" policies. They introduced IMF-sponsored monetary reforms, devalued the currency and begun to liberalized the economy (Frimpong-Ansah 1991). Under the military, disinflationary policies aimed at stabilizing the macro economy were implemented. There was a reduction in domestic investment, tighter control over import licenses, and a devaluation of the cedi (Killick 1978). These two governments only did scratch on the surface of the economic problems at the time. By the end of 1971, the economy was in the same position as it had been in 1965, with increasing fiscal and current account deficits. The government responded with a devaluation of the cedi at the end of that year. The devaluation, together with preceding economic difficulties, provided the reason for another coup d'état in January 1972, led by Col. Ignatius Kutu Acheampong which ended Ghana's second democratic experiment. At this time Government was locked in negotiations with the IMF and World Bank about a medium-term plan for the country.

Indeed, by the end of the late 1970s and early 1980s, Ghana had become a symbol of a failing or collapsing African state. The country had gone through the hands of wasteful governments in governance and the society was tired and decaying. A point in time was when many people described the economy as stagnant with bankrupt fiscal situation. Ghana faced acute shortage of foreign exchange, broken down infrastructure, roads were in acute state of disrepair, and shops were literally empty of essential commodities and spare parts. Trained manpower especially in crucial areas as education and health were nowhere to be found as most of them had fled the country for greener pastures in neighboring countries like Nigeria. This exodus was partly a result of the deteriorating economic conditions and also of the 1973-4 oil boom in Nigeria, which induced more than 2 million Ghanaians to leave in search of better conditions in Nigeria. The political arena was characterized by violent reprisals as well as repression, bloody coups and counter coups and demonstrations.

This period was one of sustained deterioration in the economy under five "different" governments and has been described by Aryeetey and Tarp (2000) as one of "muddling through." under the different governments, mostly military, the policies of the period emphasized import substitution, underpinned by a restrictive foreign exchange regime, quantitative restrictions on imports and price controls with the state playing a major role as producer. The dramatic contraction between 1970 and 1983 entailed a decline in GDP. At the same time, import volumes and retailing activities increased substantially, leading to widespread "Kalabuleism" or underground production and marketing activities.

External factors also contributed in worsening the economic situation in the 70s and early 80s. The collapse of primary commodity prices for cocoa, coffee and timber also showed. There were sharp rises in world interest rates and the oil price shocks in 1973 and 1979 played a part in the nation's economic decline too.

As production and official exports collapsed, revenue necessary for the survival of the economy was obtained through the procurement of further loans, thereby intensifying a self-destructive cycle driven by debt and reliance on vulnerable world commodity markets (Aryeetey et.al 2000). .

By the early 1980s, Ghana's economy was in an advanced state of collapse. Per capita gross domestic product (GDP) showed negative growth throughout the 1960s and fell by 3.2 percent per year from 1970 to 1981. Most important was the decline in cocoa production, which fell by half between the mid-1960s and the late 1970s, drastically reducing Ghana's share of the world market from about one-third in the early 1970s to only one-eighth in 1982-83. At the same time, mineral production fell by 32 percent; gold production declined by 47 percent, diamonds by 67 percent, manganese by 43 percent, and bauxite by 46 percent. Inflation averaged more than 50 percent a year between 1976 and 1981, hitting 116.5 percent in 1981. Real minimum wages dropped from an index of 75 in 1975 to one of 15.4 in 1981. Tax revenue fell from 17 percent of GDP in 1973 to only 5 percent in 1983, and actual imports by volume in 1982 were only 43 percent of average 1975-76 levels. Productivity, the standard of living, and the government's resources had nose-dived dramatically.

In 1981 a military government, the Provisional National Defense Council under the leadership of Flight Lieutenant Jerry John Rawlings came to power. Following a severe drought in 1983, the government accepted stringent International Monetary Fund (IMF) and World Bank loan conditions and instituted the Economic Recovery Program (ERP).

The program emphasized the promotion of the export sector and an enforced fiscal strictness, which together aimed to eradicate budget deficits. The PNDC followed the ERP faithfully and gained the support of the international financial community. The effects of the ERP on the domestic economy, however, led to a lowered standard of living for most Ghanaians (Osei 1999; Hutchful 2002).

Recent Evolution of Ghana´s Economy

Aryeetey and Tarp (2000) argued that in the early 1990s, Ghana's economic recovery still appeared uneven and was geared primarily to the export rather than domestic market. Nevertheless, salaries were low, and because the cost of public services continued to rise, Ghana's poor bore the brunt of the negative effects of the seriousness of the program.

The World Bank noted that the country's debt continued to rise in 1992, and was equivalent to almost 63 percent of Gross National Product (GNP). In 1992 the debt service ratio (debt service as a proportion of exports) was 27 percent, an improvement on late 1980s levels, which averaged as high as 62.5 percent. Unfortunately, foreign investment, compared with aid, was weak except in the mining sector, and domestic savings were insufficient to finance the country's ambitious development projects.

In the 1990s, the government continued to play a decisive role in the direction and pace of economic development in Ghana. Under the Economic Recovery Program initiated in 1983, the Rawlings government tried to shift the burden of economic growth from government to the private sector through a dual strategy of cutting government spending and promoting private production. In particular, the government tried to boost export production through currency devaluations, tax incentives, and government-funded development projects. At the same time, budget deficits were almost entirely wiped out. These measures caused drastic cutbacks in recurrent government spending coupled with widespread privatization, while the government incurred further loans to balance the country's budget (Hutchful 2002).

As earlier mentioned Ghana is well endowed with natural resources. Not long, significant oil reserves were discovered off-shore in 2007 and currently being drilled in commercial quantities for sale. Gold and cocoa production and individual remittances are major sources of foreign exchange for the economy of Ghana.

Growth has been steadier and slowly rising in current time. But this is still considered too unassertive for the realization of the Millennium Development Goals (ISSER 2004). While growth averaged 4.3% per annum during the period 1998-2002, it has indeed exceeded 5% since 2001. As noted, among the factors contributing to the upsurge in economic growth since 2001 are the recovery in agricultural production and general improvement in economic management, especially in the areas of fiscal and monetary policies (AfDB/OECD, 2003).

Ghana opted for debt relief under the Heavily Indebted Poor Country (HIPC) program in 2002, and is also benefiting from the Multilateral Debt Relief Initiative that took effect in 2006. In 2009 Ghana signed a three-year Poverty Reduction and Growth Facility with the IMF to improve macroeconomic stability, private sector competitiveness, human resource development, and good governance and civic responsibility. Sound macro-economic management along with high prices for gold and cocoa helped sustain GDP growth especially from 2001 (Government of Ghana budgets statements 2009).

Since independence, Ghana has made major progress in the attainment and consolidation of growth. However, a number of questions arise as to how to accelerate equitable growth and sustainable human development towards the accomplishment of a middle income country status by 2015. As Aryeetey and others suggest underlying the economic reforms since 1983 has been economic liberalism, the removal of prices and quantitative restrictions that prevent the free interplay of market forces, and the privatization of all aspects of economic activity. This "free marketism" has determined the environment within which sectoral policies have been designed. Though sectors were expected to derive some benefits from the freeing of the market, extensive investment has been made by government in all major sectors in order to improve their production directly even though with varying results (Aryeetey et al 2000)

Sector Profile: Ghana

All sectors of Ghana's economy especially rural areas participate in growth. This shared growth has been important in the rapid pace towards poverty decline. Surveys and reports suggest that rural incomes have raised because of greater use of land as well as some productivity gains and higher agricultural export commodity prices over the period, even though there were times of severe world market impacts. Private, small-holder cocoa famers have been major beneficiaries of rising rural incomes. Actually agriculture still has potential to further grow, but it must be supported by improved policies, technological change, institutions and investments. Ghana's large service sector has also grown on the heels of a better climate for private business and investments and rising incomes. The small industrial sector also has shown dynamism, though from a low base. Finally responding to the favorable economic climate, Ghana's exports have grown, including non-traditional exports.

Characteristics of the Agricultural Sector in Ghana

In general, the sector is divided into various sub-sectors which include crop production, livestock farming, Fishing and forestry and form the backbone of the economy.

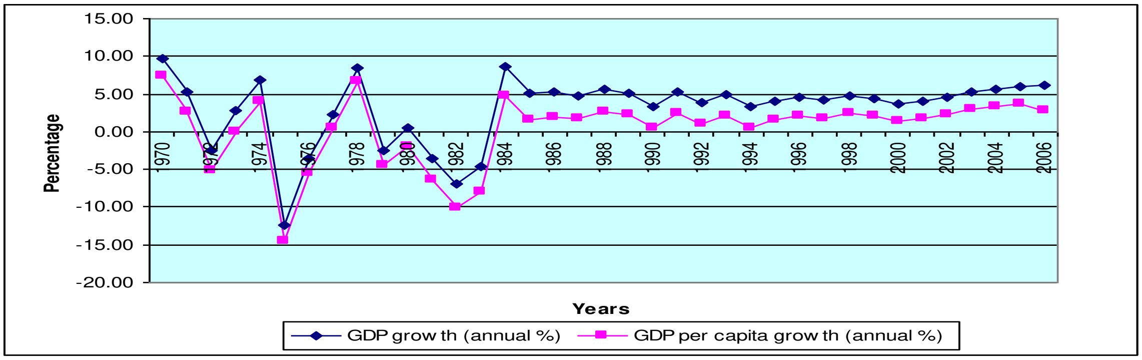
Nnadi and Falodun (2003) are of the view that agriculture in Ghana unlike some other sub-Saharan African countries, take a significant number of the working population. Estimates indicate that sixty percent of the labor forces are farmers. In some regions of Ghana (mostly rural coastal and rural forest), 40% of agriculture activities are operated by women, with women dominating agricultural processing activities (World Bank, 1995). Agriculture provides 65% to 70% of the country's exports. Of the export crops, cocoa takes the lead. It accounts for about 50% of government revenue.

Agricultural Growth and GDP of the Ghanaian Economy

Wayo (2002) agriculture contributes immensely to the Gross Domestic Product of the Country with 55% in the 80s.

Wiki (2008) has seen that agriculture is Ghana's most important economic sector, employing more than half the population on a formal and informal basis and accounting for almost half of GDP and export earnings. According to Ogen (2003), agriculture serves as the engine of growth of the overall economy. In the 1980s, it contributed about 55% to the GDP and this declined to 41% in 1995 and fell again to 36.5% in 1999. In 2006, it stood at 39.3% compared with 32.9% and 27.8% for service and industry respectively. The World sector's contribution to GDP remained the highest among the major sectors of the economy (World Bank, 2009). However, the agriculture sector in 2010, recorded the lowest growth, 1.2 percentage points below targeted growth of 6.0% according to the Ghana statistical service. The sector gave up its position as the largest contributor to the economy from a share of 36.5% to 35.6% of total GDP. Figure 1 below shows performance of the economy from1970 to 2006.

Figure1:EconomicPerformance



Source: Government of Ghana, Ghana statistical service (credit: Aryeetey. E)

Industrial Sector Contribution to Growth and GDP of the Economy

The industrial sector in Ghana to start with, broadly comprises mining and quarrying, electricity and water, manufacturing, and construction. It also includes food processing, chemical industries and pharmaceuticals, processing of raw materials and vehicle or motor assemblies. Osei (2009) notes the key industrial sub-sector in Ghana is import intensive. In terms of contribution however, the total industrial output as a percentage of GDP came to 27% in 2002 compared to 39% for the agriculture and 33% for services sector. Moreover, the industrial sectors' contribution has remained almost the same since 1996, in contrast to the decline of agriculture and the rise in the service sector during the same period. An ISSER survey revealed for instance, between 1975 and 1982, total formal industrial employment was between 15,000 and 68,000. It was 104,100 in 1984. In 2002, a total of 77,036 jobs were created by the 1,393 firms registered by the various agencies for industrial development from September 1984 to December 2002. Export earnings from the industrial sector come mainly from minerals which was $246.98 million in 1990 and $494.37 million in 1993. The sector has more than doubled from 16.82% to 36.3% in 1997-2001 (ISSER, 2006). In terms of its challenges, the low utilization of installed capacity as a result of obsolete plant machineries and inadequate raw materials from agriculture to feed local industries are some of the problems faced by the sector. The statistical service of Ghana indicated that the overall growth of the sector is 7.0% and contributed 28.3% to GDP in 2010. Mining and quarrying subsector grew more than projected to 10.5%, with all the minerals recording positive growth.

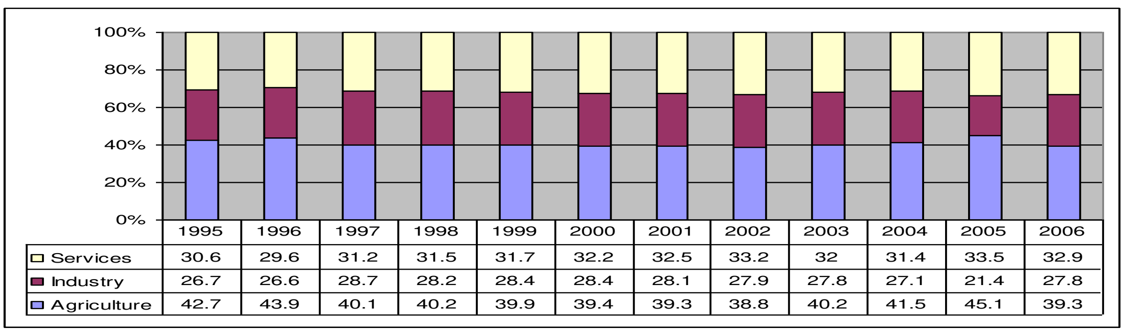
1.3.4 Service Sector Contribution to Growth and GDP of the Economy

Ghana's service sector toppled agricultural sector in the economy's 5.9% GDP growth for 2010. The services sector has gone-by agriculture as the biggest contributor to national income, that's according to a first ever half-year national income estimates released by the Ghana Statistical Service. It indicated from provisional estimates that the sector had the largest share in GDP (36.1%), displacing agriculture as the largest contributor to GDP. Growth of the sector was 6.1%.

This sector has sub-sectors of the following categories. Transport, storage and communication, Wholesale and retail trade, Restaurant and hotels, Finance, insurance, real estates and business services, Government services, Community, social and personal services, Producers of private non-profit services. The sector's importance is reflected in its contribution to GDP and to employment. Its contribution to GDP in 1996 was estimated at about 47% as against 16% for industry and 37% for agriculture. The sector continues to grow mainly because it absorbs the labor from the sectors which are not performing so well, therefore, its contribution to employment, data on the services sector indicate that education, health, housing recreational and welfare services together account for about 47% of the total employment in Ghana (ISSER, 2006). In terms of its hindrances, it was observed that employment in the sector is characterized by the low level of skills, low level of qualification relevant to the services sector.

In summary, it was observed that in spite of these various contributions of the sectors, agriculture contributes the highest until recently. Similarly, the major problem of agriculture in Ghana can be summarized as low productivity. The performance of agriculture has been declining as a result of the major challenges leveled against it. However, the performance of other sectors like service and industry has improved over time, leaving the agriculture sector behind due to its risks and uncertainties.

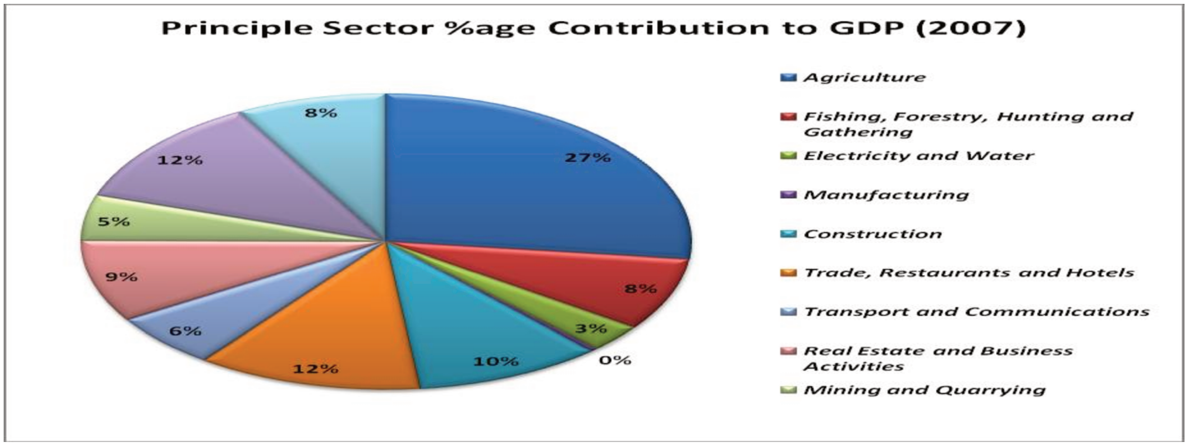
Figure 3, Sector Performance: This show the contribution of major economic sectors to GDP (1995 -2006) and the pie chart below is the contribution of the principal sectors in 2007



	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Services	30.6	29.6	31.2	31.5	31.7	32.2	32.5	33.2	32	31.4	33.5	32.9
Industry	26.7	26.6	28.7	28.2	28.4	28.4	28.1	27.9	27.8	27.1	21.4	27.8
Agriculture	42.7	43.9	40.1	40.2	39.9	39.4	39.3	38.8	40.2	41.5	45.1	39.3

Source: Government of Ghana, Ghana Statistical Service

Figure 3, Principal sector contribution to GDP



Source: http://www.focusafrica.gov.i/Sector_Profile_Ghana.html

While the growth performance of the Ghanaian economy may not be exceptional this has been significantly above average by African standards. In their study of the "Drivers of Change" in Ghana, Booth et al (2004) too identify economic liberalization and political liberalization as key factors behind the fairly decent growth performance. It is important to observe that since 2001, the macroeconomic policy situation has improved considerably, and the environment is less subject to policy reversals and deviations from agreed policies of external bodies like the World Bank, IMF and other multi-lateral donors and partners.

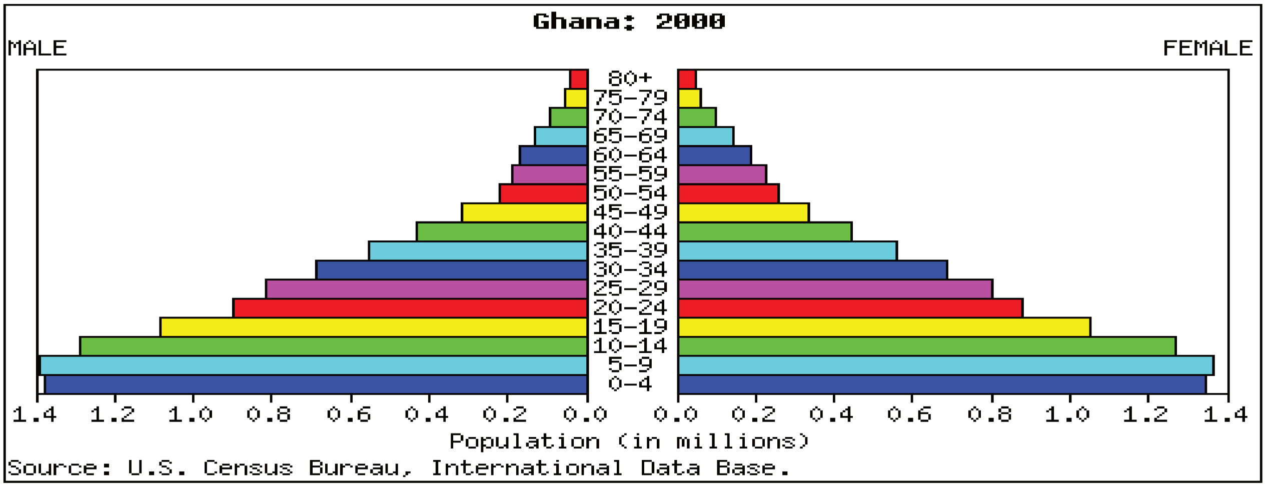
Regrettably, the relationship between economic growth and the most important social concern, poverty, has been a façade. The perception is that the number of people still living in poverty has not changed comparatively to economic fortunes. Thus, despite the sustained per capita growth accompanied by some measured reduction in income poverty, levels of poverty remain high for most of Ghanaians. Additionally, there are indications also that there have been significant movements in and out of poverty and the perception that poverty is worsening prevails strongly (Oduro et al 2004). Most importantly, the ability of the economy to generate employment has definitely not been strengthened after economic reforms where the private sector was to be the engine of growth.

THE POPULATION OF GHANA AND LABOR MARKET

Ghana's population of just over 2 million in 1921 increased to about 6.7 million in 1960 and 8.6million in 1970; it thus more than tripled in a short period of nearly fifty years (i.e. 1921-1970). This is indicative of a rapid increase in the country's population. The reported average annual growth rate was 1.6 between1931-1948 and 4.1 per cent from 1948-1960. Between 1921 and 1960 average annual growth rate was 2.8 per cent (Ghana Statistical Service 2005: Population Data Analysis Report Vol.1). Currently Ghana's population is approximately 24.3 million people as per the provisional population and housing census of 2010.

In view of the declining mortality and constant fertility levels until the 1980s, an average annual growth rate of 2.4 per cent was recorded for the decade of 1960-1970. A look at other data shows that within a period of 30 years (1970-2000) the population of Ghana more than doubled (from 8.6million to 18.9million). The projected value of 24.8million (2010), shows that the population doubled between 1984 (12.3million) and 2010. There is every indication that population growth rate has hovered between 2.4 and 3.0 from the 1960s to 2000 and described as rapid. (National Population Council, Ghana: factsheet 2005). In the case of Ghana, the structure of a broad base shows the youthful nature of the population with about 41% being under 15 years for both sexes. Those in the working age range from 15-64years who carry the burden caring for themselves and the non-working group gives a dependency ratio of about 87% in the 2000 population and housing census. It is however, satisfying that the population 65 years and above takes about 6% according to the 2000 population and housing census (PHC). The Age-Sex distribution structure of Ghana depicts that of a developing country compared to Europe and North America.

Figure 4:Age and Sex Population Distribution for Ghana, 2000



The country's estimated population from 2000 Population and Housing Census was 19,751,621, projected estimate at 2006 was 21.9 million. Provisional population figures by the Ghana Statistical Service for 2010 Population and Housing Census stands at 24,339,838. The estimated number of households by 2006 in Ghana was 5.5 million with a higher proportion in the rural areas (3.1 million) than in the urban areas (2.4 million).

This section presents the activity rate of the economically active population, by type of work, main occupation and industrial classifications, as well as by sex. The section presents summaries only on the main job of individuals. The discussion also includes sub-sections on working children and time use for both economic and non-economic activities, including housekeeping.

Economic Activity

With a population of 24.3 million (2010 PHC), the labor force participation rate or economically active persons constitute about 70% (8.58 million out 12.26 million who are either working or looking for work). About 80% of the national labor force is engaged by the informal sector. The Ghana Living Standards Survey 5, 2005 (GLSS 5), in this round of survey reported that close to (46.4%) households depend on household enterprises to varying extents. Household enterprises are mainly in manufacturing, construction, and services; trading is the predominant household enterprise activity. And about (52%) of all household enterprises are located in urban areas of the country. Most household enterprises require relatively low capital which is usually borrowed from relatives or friends to commence businesses.

The Ghana statistical service between September 2005 and September 2006 through its study the Ghana living Standards Survey estimated population figures for 2006 at 21.9 people, seven out of every 10 of the adult population aged 15-64 are economically active. Males recorded a slightly higher economic activity rate (54.9%) than females (53.4%). Nearly 13percent of children aged 7 to 14 years are economically active. The activity rates for males exceed those for females in all age groups except in the 15 to 24 age group. On the whole economic activity rate in rural areas is higher (58.6%) than that of urban areas (47.3%). Further on the report noted for each age group, the activity rates for both males and females are higher in rural areas than in urban areas. The employment statistics of the household survey indicate that 55 percent of the adults are own account workers, 20 percent are contributing family workers while 18 percent are employees. For urban areas, (34.8%) employees constitute the second largest category after own account workers (47.2%), whereas in rural areas, contributing family workers (27.5%) are the second most populous group after own account workers (59.4%). The majority of the working population are in agricultural activities (55.8%), followed by trading (15.2%) and then manufacturing (10.9%). Whereas 21.6 percent of the working females are engaged in trading, only 8.4 percent of their male counterparts are traders. Only (9.4%) of the currently employed have attained senior high school education or higher. Over (35.2 %) had never been to school. The highest hourly wage rates are obtained in financial services. On average, men receive higher earnings than females across industry sectors except for manufacturing, transport and communication, and public administration.

Information from statistical service quarterly reviews on working conditions of employees in public or private organizations show that nearly 6 out of every 10 employees (57.3%) do not have any formal contract of employment with their employers before starting work. The unemployment rate for households as at 2005-006 was 3.6 percent. It is about the same for both males and females. It is more pronounced in urban areas (6.3 %,) Accra the capital city (8.9%) than in rural areas (1.6%).

Some 54.1 percent of an estimated 18 million persons are reported aged 7 years and older, (comprising 8.7 million males and 9.3 million females), and currently economically active as shown in the table below. For those aged between 15 and 64 years, seven out of every 10 are economically active. As expected, the economic activity rates, also called labor force participation rates, increase with age for the labor force aged between 15 and 64 years. Increasing economic activity rates with age is observed for both males and females. The activity rates for males exceed that of females in all age groups except in the 15 to 24 group.

Table 1
Total Population, Current Economically Active Population and Activity Rates by Age Groups and Sex

Age Group	Total Population (Millions)			Currently Economic Active Population(millions)			Current Activity Rates Percentage		
	Male	Female	All	Male	Female	All	Male	Female	All
7-14	2.39	2.31	4.7	0.33	0.27	0.61	13.9	11.8	12.9
15-24	2.12	2.14	4.26	0.83	0.84	1.66	38.9	39.2	39
25-44	2.37	2.87	5.24	2.11	2.39	4.5	89.2	83.1	85.9
45-64	1.31	1.44	2.76	1.19	1.22	2.42	90.9	84.7	87.6
65+	0.47	0.57	1.04	0.29	0.26	0.56	62.6	46	53.5
All	8.67	9.34	18.01	4.76	4.99	97.5	54.9	53.4	54.1

Source: Government of Ghana: Ghana statistical service

The Ghana Living Standards Survey fifth report again indicates that overall, the economic activity rate in rural areas is higher (58.6%) than that of urban areas (47.3%). For each age group, the activity rates for both males and females are higher in rural areas than in urban areas, and the differences are more pronounced amongst the younger age groups and the elderly.

Marked differences exist in the employment status of adults in urban and rural areas. In urban areas the proportion of female own account workers is much higher (60.3%) than male (33.8%). But in rural areas, it is the reverse (64.3% for males and 55.0% for females).

Table 2

Employment Status of Currently Employed Population Aged 15years and Older, by Sex and Locality (percent %)

Type of Work	Urban			Rural			Ghana		
	Male	Female	All	Male	Female	All	Male	Female	All
Employee	49.7	20.1	34.8	13.8	2.8	8.0	27.0	8.9	17.6
Employer	7.4	5.5	6.4	4.2	2.7	3.5	5.4	3.7	4.5
Own Account Worker	33.8	60.3	47.2	64.3	55.0	59.4	53.1	56.9	55.0
Contributing Family Worker	4.1	11.0	7.6	16.2	37.9	27.5	11.7	28.5	20.4
Apprentice	4.7	3.0	3.8	1.5	1.5	1.5	2.7	2.0	2.3
Others	0.3	0.1	0.2	0.1	0.0	0.0	0.2	0.1	0.1
All	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Government of Ghana: Ghana statistical service

The employment and Working Conditions shows that, in terms of type of work engaged in by the currently employed, 55.9 percent of those who worked during the reference period are self-employed, with 32.1 percent into agricultural activities and 23.8 percent into non-agricultural activities. Some 16.4 percent are wage earners, whilst about (25.2%) of the employed are engaged in family enterprises and receive no pay. Majority of the latter group are into agricultural activities.

For the currently employed population aged between 15-64 years, by locality and sex**,** there are sharp major differences between urban and rural dwellers, and also between males and females regarding the type of work in which they are engaged. More urban workers are engaged in non-agricultural activities (43%), whereas (75%) of their rural counterparts work mainly in agriculture. Moreover, a greater proportion of urban workers (33.8%) are engaged in wage employment, while the proportion in rural areas is (7.3%). The proportion of males in wage employment is much higher (25.0%), compared to females (8.2%).

The private sector is the largest employer, accounting for (66.7%) of employed adults, whilst public service accounts for 28.5 percent. Proportion of urban public service workers is higher compared to the rural areas. On the other hand, those employed by the private sector account for a slightly higher number of employed in rural areas (69.3%) compared to urban areas (65.5%). The data further show gender differences, a larger proportion of female rural workers are employed in private informal sector compared to males. Similarly, a larger percentage of women urban workers (32.8%) are engaged by the Public Service compared to men (30.1%).

Table 3
Type of employer for the currently employed population aged 15-64 years, by locality and sex(%)

Type of employer	Urban			Rural			Ghana		
	Male	Female	All	Male	Female	All	Male	Fe mal e	All
PUBLIC SERVICE									
Civil Service	12.4	17.4	13.9	14.2	10.4	13.3	13	15.6	13.7
Other Public Service	16	14.3	15.5	9	7.7	8.7	13.8	12.6	13.4
Para-statal	1.7	1.1	1.5	1.2	0.5	1.1	1.5	1	1.4
PRIVATE SECTOR									
Formal	20.1	18.5	19.6	17.5	15.8	17.1	19.3	17.8	18.9
Informal	46.1	45.4	45.9	49.8	60.2	52.2	47.3	49.2	47.8
NGOs	0.3	0.6	0.4	0.4	0	0.3	0.3	0.4	0.3
Cooperatives	0.4	0.2	0.4	0.3	0	0.2	0.4	0.2	0.3
Int'nal. Organs/DipMissions	1.5	0.3	1.1	0.5	0.6	0.5	1.2	0.3	0.9
Diplomatic Missions									
PRIVATE INFORMAL									
Agric Business	0.8	1.2	0.9	6.3	4.9	6	2.6	2.1	2.4
Others	0.8	1	0.9	0.8	0	0.6	0.8	0.8	0.8
All	100	100	100	100	100	100	100	100	100

Source: Government of Ghana: Ghana statistical service

More than 80 percent of the currently employed population aged15 to 64 years is in three main occupational categories: agriculture/fishery workers (55.1%), craft and related trades workers (13.4%) and service/sales workers (13%). The survey showed, more employed persons (74.2%) in rural areas are engaged in agricultural occupations, than in the urban areas (18.6%). In contrast more urban workers (25.9%) than rural workers (6.3%) are in service/sales occupations. For both urban and rural areas, males are more likely to be involved in agricultural occupations, while females are more liable to service/sales work.

In urban areas, the currently employed are engaged in three major industry groups; trade (30.4%), agriculture (18.6%) and manufacturing (16.6%). But in the rural areas agriculture dominates the economy. About 75 percent of the employed are engaged in agriculture.

The GSS (2008), GLSS 5 presented (9.4%) of the currently employed in Ghana attained a senior high school education or higher, more than half (55.3%) attained some education but not higher than Middle School Leaving Certificate (MSLC) of the previous education system or Basic School Certificate of Education (BECE) currently running education system, while 35.2 percent had never been to school. The educational profile of male workers is better than that of female workers. Higher proportions of male workers (34.0%) attained MSLC/BECE, and 13.7 percent obtained high school or higher education. The corresponding proportions for female workers are 23.5percent and 5.3 percent respectively. The data also shows that more female (43.0%) than male (27.1%) workers never attended school.

The educational attainment of the currently employed population varies widely according to the type of main occupation and sex.

Income Trends in Ghana

The Ghanaian economy is characterized by low wages. The 2010 National Daily Minimum Wage is GH¢ 3.11/$1.75 (GH¢84.00 per month/$47.00) currently in 2011 it stands at GH¢ 3.73/$2.10. The average monthly earning in 2005/2006 was GH¢118.80 (GH¢ 4.40 per day). This compared the National Minimum Wage at the same period of GH¢39.80 (GH¢1.48 per day). The financial services sector recorded the highest earnings of GH¢332.64 compared to GH¢88.56 in the agricultural sector. Earnings in the agricultural sector was next to the lowest earnings in Ghana (GH¢82.08) which was recorded among domestic workers (GLSS5, 2008).Hours worked on main job also vary depending on the industrial sector in which people worked. As observed employees in four sectors, namely; financial services, transport and communication, public administration and electricity, are more likely to work for longer hours a week while people who are engaged in agriculture and fishing industries are likely to work for fewer hours. GLSS 2005/2006 reported that the average hourly earnings of cash recipients among the employed aged 15 years and older is 55 Ghana Pesewa (Gp) (currency)($0.31), with females receiving less (50 Gp/$0.31) than their male counterparts (61 Gp/$0.34), which at the time was and still is less than half a dollar (50 cents). Those who work in the agricultural sector receive the lowest average hourly rate of 41 Ghana Pesewas/ $0.23 whilst those who are engaged in financial services earn the highest average rate of GH¢1.54 per hour/$0.86 current rate but at the time a little above $1.00. Employees in three other sectors, namely, extra territorial organizations, real estates and fishing earn an average hourly rate of at least GH¢1.00les than a dollar. Men, on the average, receive more hourly pay than females across industry sectors with the exception of manufacturing, transport and communication, and public administration.

Employment Trends in Ghana

Employment in Ghana is predominantly informal. More than 80 percent of the employed are engaged in the informal sector. Over half of the employed (55 %) are own-account workers (self-employed); 20.4 percent are employed in family enterprises and 17.6% are wage employees. Employers constitute 4.5 percent of the employed. The GLSS5 (2006) estimated unemployment rate of 3.6 percent for the working age population and underemployment rate of 7.3 percent. Unemployment rate is about the same for males and females but it is much higher in urban areas (6.3%); particularly Accra (8.9%) compared to rural areas (1.6%). An estimate from the Ghana Statistical Services (May, 2010) indicates a rise in unemployment to 11.2 percent by May 2010. Table 4, below indicates that the unemployment rate declines with age from 4.1 percent for the younger age group (15-24 years) to 1.9 percent for the older age group (45-64 years).The employed are those who worked for economic gain in the seven days preceding the survey irrespective of how long they had been engaged. The Ghana Statistical Services defined the unemployed to include all persons who did not work but were actively seeking work or were at least available to take up work if they were offered during the reference period of the survey. For instance, people who do not have work but did not take practical steps (e.g. searching for work, writing applications or attending interviews) to find work were not considered unemployed accounting for the low rate declared.

However, this definition is inappropriate for a country like Ghana which does not have adequate employment centers, where people can register and seek available jobs. Also, there is the tendency that people in the reference period may have given up on searching for work due to fruitless efforts in the preceding weeks or so. Even as the unemployment rate then was low, the labor situation in the country was characterized by underemployment wherein some of the employed are working for 40 hours a week or less and desire more hours of work. The results of the survey also indicate that females are more likely to be underemployed compared to males in both rural and urban areas. However, going by the International Labor Organization (ILO)'s definition of underemployment, which considers all those who work for 35 hours a week or less and are willing to work for more hours as underemployed, then out of the 27.1percent of the working population who worked for at most 35 hours a week only 5.1percent are underemployed. The data shows that the proportion of the female underemployed population (5.6%) is slightly higher than that of males (4.6%)

Table 4: Unemployment rates by sex, age and locality (%) RBAN

Sex	Age	Accra	Others	All	Rural	Ghana
Male	15-24	11.8	5.0	7.1	2.0	4.1
	25-44	9.9	5.6	7.3	1.4	4.0
	45-64	6.4	2.4	3.8	0.6	1.8
	All	9.8	4.7	6.5	1.4	3.5
Female	15-24	9.1	4.4	5.9	2.5	4.1
	25-44	7.9	7.0	7.3	1.7	4.0
	45-64	6.6	3.3	4.3	0.6	2.0
	All	8.1	5.3	6.2	1.7	3.6
Both Sexes	15-24	10.4	4.7	6.5	2.2	4.1
	25-44	8.9	6.4	7.3	1.6	4.0
	45-64	6.5	2.9	4.0	0.6	1.9
	All	8.9	5.0	6.3	1.6	3.6

Source: Government of Ghana: Ghana statistical service

Key Trends to Note in Ghana Employment Relations

The current per capita income of Ghanaians is put between \$400 and \$500. Labor force (15yrs-64yrs) constituted about 8.4 million representing 44.7% of the population (Male 49.4% and Female 50.1%) according to the 2000 Population and Housing Census. In 2002, the labor force constituted 56.6% of the population of about 20.5million, (Human Dev't Report 2004) at a growth rate of 2.7%.

Employment growth clearly lags behind economic growth. Economic growth averaged 4.8% annually as against 3.1% annual employment growth. Labor force grew at 5.8% annually and employment growth also lags behind labor force growth. Agriculture sector remains the major employer even though its share of employment has been declining.

Table 5: Distribution of Economic Active Population and GDP by Industry (%)

Year	Agriculture	Industry	Service
1984	61.1 (47.9)	12.8 (19.6)	26.1 (22.1)
1992	62.2 (37.8)	10.0 (25.0)	27.8 (27.0)
1998	55.0 (36.7)	14.0 (25.1)	31.0 (29.1)
2000	50.7 (36.0)	16.3 (25.2)	33.0 (29.7)

Source: Employment figures from GLSS 3&4 and 1984 and 2000Population Census; GDP figures from Quarterly Digest of Statistics: Note: Real GDP figures at 1993 constant prices are reported in parenthesis 1984-2000.

Sector	Annual GDP Growth	Annual Employ. Growth
Agric	**3%**	**1.6%**
Services	**6.5%**	**5.5%**
Industry	**6.2%**	**5.6%**

Source: Government of Ghana: Ghana statistical service

The agricultural sector and related activities employed a little over 50% of the Ghanaian workforce in 2000, down from 64% (1960), and 61% (1984).

The informal sector where majority of the workforce are self-employed is very pervasive partly due to the sluggish growth of the formal sector employment. There exist strong influences of institutions in the market particularly a high rate of unionization within the formal sector of the labor market. Some degree of imperfection exist within the labor market as the market exhibits wage rigidities due to high rate of unionization and the existence of collective bargaining agreements. It is estimated that over two-third (2/3) of formal sector jobs are subject to collective bargaining agreement where perhaps labor proves difficult during wage negotiations and sometimes embark on industrial strikes. The market (especially at formal end) also exhibits low occupational mobility due to wage rigidities as a result of unionization and collective bargaining agreements especially within the formal sector, inefficient labor market information systems and limited availability of educational and training facilities also plague that sector.

At the Informal end of the market there is relatively a higher level of labor market flexibility and employment insecurity; waged employment in agriculture sector is temporary and highly flexible. There has been substantial decline in public sector employment and increase in informal sector employment since 1980s and 1990s due to; globalization and stabilization and adjustment programs launched from 1984 in Ghana**.**

Between 1992 and 2000 public sector employment increased by 39% (GTUC) due partly to re-entry of retrenchers. Share of private sector in formal employment increased by 85% (1992-2000), was due to, improved performance of some divested SOEs, free zones project (13,760 from 1996-2003), and investment program by GIPC (87,369 between Sept. 1994-Dec 2003). Private sector earnings are higher in Ghana as compared to public sector earnings. Public sector employment however offers greater job security.

2.2.1 Unemployment

The first figure below show the situation of unemployment and informal employment for the period between 1984 and 2000 and the second figure shows Ghana unemployment rate, which is the participation of the labor force from 1998 to 2008. As will be observed the unemployment situation has increased since the last GSS survey to over 12.5%

Figure 5

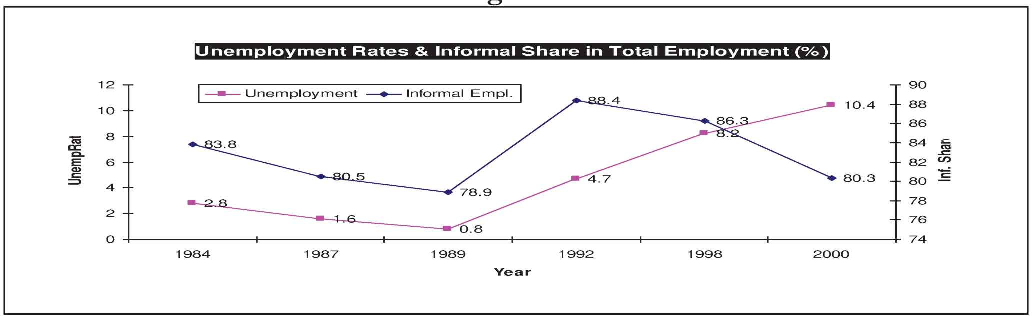
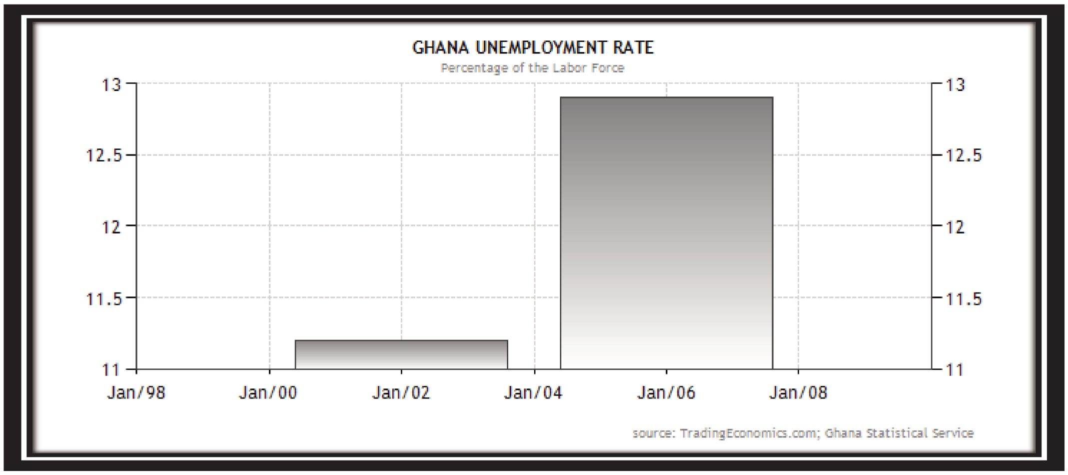


Figure 6



Source: Ghana Trade Union Congress, andTradingeconomics.com. Ghana statistical service respectively

Table 6
Adult unemployment Rate stands at 8.2% classified into

Age Group	Male	Female	Both Sexes
15 –24	12.7%	18.7%	15.9%
25–44	7.3%	7.5%	7.4%
45 –64	4.8%	4.5%	4.7%

Accra 16.6% - All Urban 13.4% - Rural 5.5%.
Source: GLSS 3

From the report there is increasing incidence of unemployment especially in urban areas and ascendancy of open unemployment among university and polytechnic graduates (between 15-24 years). In the years 2000 and 2003 it was estimated that there was presence of about 230,000 new job seekers annually but has increased again to about 400,000 people. However, the formal sector is only capable of absorbing 2% of the new job seekers annually. Increase in duration of unemployment has driven many job seekers (University graduates) to pursue higher and professional courses.

Wages

Government, Labor unions and Employers form the tripartite committee in determining minimum wages as a way of shaping the structure of wages at the formal end of the labor market. Rising general price level and currency depreciation has led to decline in the real incomes of workers especially those with fixed incomes since the 90s to date. The higher one earns the higher his or her pension gratuity. Real minimum wages have constantly declined as consumer price index CPI mostly lays above minimum wage index. Since 1987, government has tried to link wages to productivity and ability to pay indicators to ensure a stable macroeconomic environment. An attempt was made to rationalize the public sector salary structure under the Ghana Universal Salary Structure (GUSS) in 1999 but was not implemented and then later in 2007, Ghana Single Spine Salary (GSSS) structure was developed and now in operation for the public sector.

Employment Policies

Ghana has never had any comprehensive employment policy apart from National Service Scheme for young graduates from school, initiated to improve labor absorption. Public sector investment in the 1960s led to significant increases in urban formal employment in the public sector and protected an industry which was aimed at greater employment.

The government has emphasized that the private sector will be the main center for future employment but which is slow in precipitating a robust economy. The government in 1999 embarked upon a pilot program to train graduates to acquire entrepreneurial skills so as to improve employment especially in the industrial sector but still is inadequate for the theming unemployed youth.

In line with the fast changing nature of the labor market trends a New Labor Law Act 651, 2003 was passed to regulate labor. Under the Ghana Poverty Reduction Strategy (GPRS), employment is considered as core objective of the policy framework for poverty reduction.

Employment generation is to emanate basically from economic growth through; the adoption of labor intensive technology, agricultural modernization, agro-processing, and manufacturing, services, and non-traditional export development among others. Meanwhile services to accompany this advancements and wonderful ideas are still lacking and lagging behind economic trends. Special emphasis is being placed on small-medium Enterprises and employment opportunities for women. Strategies adopted to meet the objectives include improvement in macroeconomic stability, modernizing agriculture, enhanced skill and entrepreneurial development for the youth.

2 LITERATURE DISCUSSIONS

This chapter focuses on the abstract issues involved in reforms establishing three-tier pension schemes. It gives a brief overview of the beginning and spread of the new three-tier model and also discusses the touted benefits of the three-tier system and concludes on the abstract issues.

Pension Provision

Traditionally, retirement income provision has grown from support by other family members particularly children as the main source of old-age income to the responsibility of government. Initial government programs focused on tested assistance programs, then later development gave rise to government sponsored social insurance (Gillion et al 2000). Now pension insurance also has become one of the most important functions of the state.

In discussing old-age pensions in the framework of insurance, the principle points to critical issues when discussing the choice between private and public provision of retirement income. There are several arguments to explain why public involvement in pension provision may in fact be more efficient in addition to being more equitable than on the private sector companies in securing retirement income.

Satisfying several conditions may not be easy in the case of retirement pensions, the private market under the three-tier scheme may fail to provide adequate pension insurance. Unlike the public insurance, private insurers are generally unable to offer contracts, which index pensions against future inflation, because it is not possible to estimate the probability distribution of different inflation levels (Barr 1998). where private insurance can cope with inflationary tendencies during the contributors' working years and with anticipated inflation after retirement, unexpected inflation during retirement constitutes a serious problem (Barr 1992). Barr concludes that, since inflation over an extended period is not a risk against which insurance in an actuarial sense is possible, protection against inflation must come from government one or the other in the form of indexing private pensions or maybe even organizing the entire pension system itself.

Thus in the face of adverse issues raised by many experts in the three-tier approach, have stressed government regulation, and regards the account balance that should be subject to withdrawal rules and that which can be drawn as a lump sum. If regulation stipulates that only an account balance must be converted into an annuity, it will split insurance market in two parts: One for regulated withdrawals and the other for voluntary purchases leading to selection problems. Although converting the entire account into annuities may take care of problems of selection in the insurance market. It is likely to restrict flexibility of retirees on how their accumulated funds should be used. If individual accounts accumulate a large portion of workers retirement wealth, some more flexibility might be necessary on the use of such funds (Walliser 1999)

Alternatively, the question is whether only life annuity or also other forms of withdrawal over time should be permissible? Life annuities protect the retirees against long life risk, while phased withdrawals do not offer such protection. Barring phased withdrawals or tolerating them only when combined with annuities would ensure participation in the insurance market and prevent those who expect to have short lives from opting out of the annuities market (Walliser 1999).

In addition to the problems arising from adverse selection on the insurance market, there is also the problem of myopia on the part of the individual also called the "moral hazard" a problem as Gillion et al. 2000 and Hemming 1998 have put it, which has given rise to protective reasons for government intervention in providing for old-age income. The presumption here is that some people will realize late in the day that they have not saved enough money to maintain their consumption during their retirement (Hemming 1998). A related problem is that some individuals will underestimate their life expectancy or will be shortsighted in their financial planning at retirement and will spend the accumulated assets rapidly (Gillion et al. 2000). In 1985, Feldstein stated that myopic behavior is associated with "incorrect" weights attached to the instantaneous old-age utility in the consumer's ex-ante life-time utility function. It has been suggested that the development of public pension systems indeed reflects the attempts of a paternalistic state to correct the shortsighted behavior of its citizens (Fabel 1994). The paternalistic reason for state intervention has also been labeled as the "merit good" argument in the framework developed by Musgrave (1959).

Another problem with private insurance and private fund management relates to administrative cost. Administrative costs include the cost incurred by pension's funds on assets in the accumulation phase and insurance companies that provide annuities after retirement. Despite the fact that competition prohibits excess rents, it does not ensure low cost (Orszag & Stiglitz 2001). One thing to consider in determining the level of administrative cost is the degree of centralization in operating the accounts. Thus, where pension insurance is state-run or where the government mandates centralized administration, the administrative cost could be way less than if the provision were left only to the market.

A related problem to administrative cost is the excessive advertising and marketing expenditure by the pension and insurance funds that will further increase the confusion of workers in their choices. These may often amount to socially wasteful expenditures (Gillion et al. 2000). Diamond (1996) argued that while the cost of competing e.g. advertising are present in many products for which the benefits of competition outweighs these costs, the derived benefits may be small for old-age insurance. Together, high transaction cost can make private pension provision less efficient in comparison with state run schemes.

Equity issues related to the provision of retirement income is also another matter in private pension provision. If pension savings is left to the market, income inequalities from peoples' working lives will be carried into their old age. This may result in social deprivation and poverty for cohorts of elderly people. To what extent the state should address the pension provision with regard to equity is, however, (Barr 1992) notes is an ideological question related to the weight attached to redistributive and social solidarity objectives

There are good reasons or arguments for state involvement in pension scheme insurance and not mandating the private sector with too much room for operation. Government intervention enables the establishment of pooling equilibrium, by making participation in the scheme compulsory, and countering the adverse selection problem in the insurance market. Public involvement also fits in because of the failure of private insurance market to provide adequate pension insurance cover for retirement funds.

Government involvement in pension can mitigate the effects of myopia and also has been seen as a way of reducing administrative cost, and preventing wasteful advertising cost, thereby increasing the overall efficiency of pension insurance. Lastly public pension may serve important equity goals by providing a mechanism of redistribution and preventing poverty at old age.

Although there are persuasive arguments for government involvement in pension provision, government still faces the question about the specific form of involvement. The traditional choice has been Pay-As-You-Go (PAYG) system, often with all or a large part of the pension payments being in the form of defined benefits. The defined benefits PAYG system has been seen as providing adequate pensions in an expected and fair way, thus addressing many of the arguments for government intervention.

It should be noted, however, that in the past of pension insurance development, there has been serious debates about whether pensions should be funded or PAYG. The shift through the 1950s from the original social security idea of full funding to PAYG received little criticism owing to rapid economic growth and relatively small pensioners allowing benefits to rise faster than contributions. This economic concern about the long-run costs of public pensions has followed two distinct but related paths since mid-1970s, one looking at macroeconomic effects and the other at microeconomic transfer functions at social security pensions (Johnsons & Falkingham 1992). In recent years the debate has been received again with a growing volume of discussion devoted to complementing the PAYG schemes with funding elements and increasing the role of private provision in the area of pension in the form of multi-tier pension system.

As Castles (2001) expresses it there is a new threat haunting Europe, countries of the OECD and if the World Bank is to be believed, the world as a whole; the threat of an ageing population. Indeed, for both state-level policy makers and several international organizations, population ageing has acquired the character of a crisis or even panic: e.g. the World Bank (1994) talks of the "old age crisis" the OECD secretariat (1996) of a "critical policy change".

A major problem in light of changing demographics is related to the long-term economic sustainability of PAYG schemes; Feldstein (1998) has claimed that reforming the current PAYG pension systems is the most important financial issue facing governments around the world. Longer expected lifespan and reduced fertility will increase the pension costs as a percentage of GDP in the future.

The financial sustainability problem can to some extent be addressed by incremental changes in the pension schemes e.g. by increasing the set pension age, by gradually lowering PAYG pension payouts or by making the payouts depend more closely on previous labor market participation. While these steps can reduce the sustainability problem, they can only be applied to a certain degree without undermining the basic foundation of the PAYG pension, namely to provide adequate pension coverage for elderly people. In response to the expectancy of the old-age crisis, the 1990s witnessed new interest in pension and pension reforms by the International Labor Organization (ILO), World Bank, International Monetary Fund (IMF), International Social Security Association (ISSA) and the European Commission. Interestingly, the World Bank, for whom the pension issue has not been a traditional focus of activity, emerged as a major force in the pension reform agenda. It is also interesting that ILO and ISSA that had previously been very important international organizations advocating in the field of social security and social insurance were left out or with a marginalized role in the pension reform debate at the beginning of the 90s (Charlton & McKinnon 2001).

However, later statements of these international institutions could be pointed out as objections for the Word Bank's approach e.g. some general objectives for the benefit structure of pension schemes (the importance of the solidarity principle in pension schemes through the extension of coverage to all members of the population as well as protection against poverty in old age) defined by the International Labour Organisation (Gillion 2000) are in contrast with the three-tier approach. Likewise, the International Social Security Association has stressed the importance to review and analyse the current position under voluntary and compulsory privately managed schemes (Scherman 2000). Therefore, countries implementing the three-tier pension schemes should consider very carefully all the risks related to the undervaluation of the solidarity principle.

Based on the experience from Latin American countries the World Bank (1994) strongly advocated pension reforms in which traditional PAYG schemes were to be supplemented by private funded schemes.The World Bank in 1994 introduced the three-tier approach as a unique opportunity for developed countries to mitigate the budgetary implications of ageing on the population as well as for developing countries and transition countries to generate new resources for promoting the social sphere (Averting… 1994; Holzmann 1999). What was initially perhaps more flexible approach to pension systems reform has by now evolved into a more rigid framework, what some critics call World Bank pension accepted view (cf. Muller 1999). That accepted view consists essentially of three different tiers. The first tier provides a minimum pension to all pensioners and can be

PAYG financed. The second tier is a privately managed mandatory funded scheme with individualized savings accounts. A third tier with a voluntary private pension can be added to allow individuals to choose how to share their income over their lifetime to provide for additional savings and insurance and generate economic growth.

At the same time, as stipulated by many authors (e.g. Augusztinovics 2002), since the multi-tier approach is more focused on promoting economic growth, the better provision of old-age security should be considered as a "secondary argument" in this case. Also the fact that pension funds have become institutional players with leading roles on international financial markets e.g. in 1998 British funds have represented one third of market capitalization in London, and American funds between a quarter and a third of market capitalization in New York (Reynaud 1998) reflecting a direct link of pensions to the world of finance.

Even more fundamental problems have been highlighted criticizing the three-tier approach (Barr 2002) although "the rational policy design starts by agreeing objectives and then discusses instruments for achieving them, the categorisation in the World Bank's approach starts from instruments rather than objectives". Beneath the thought is to balance the concerns about fiscal sustainability and labor market incentives with the desire to ensure adequate pension coverage for most people. The three-tier approach is seen as one that can provide the basic coverage for all pensioners, while at the same time detaching the pension provision at least partially from the effects of demographic changes.

In practice it is ironic that the pension reform proposals supported by the World Bank have been to a large extent ignored by the high income countries to whose problems the

Bank's pension reform proposals were primarily targeted. In keeping with the views of the IMF and European Commission, many high income countries have preferred to implement cost cutting reforms as their mechanism for controlling the cost of public pension provision (Charlton & McKinnon 2001).

In Africa, Latin America, Central and Eastern European countries, on the other hand, the World Bank's proposals are receiving enough support and have been adopted by increasing number of countries. The significance of these reforms cannot be underestimated. Not only do the reforms have an important bearing on the transitional countries themselves, but since in some ways these countries could be seen as having turned into a "testing ground for the future of social policy elsewhere in the industrialized world" (Deacon & Hulse 1997). According to Gillion et al(2000) although it is generally difficult to restructure social security institutions once they have been established, the exceptional cases are the countries with a climate of radical reform, such as has existed in recent years in some Central and Eastern European (CEE) countries. Indeed as noted, countries in CEE have been in a unique position, making it easier to undertake a radical reform of the pension system by riding on the general wave of reform. On January 15, 2007 the Ghana News Agency (GNA) reported, "Meeting challenges of Ghana's economic growth". "The World Bank says, Ghana appears to be a prime candidate for scaling up her policies as its institutional capacity continues to improve". Experts of Ghana's Economic Memorandum prepared by the World Bank in 2007 and made available to the GNA however, said there were clear bottlenecks in the provision of public goods such as infrastructure that threatened the ongoing economic expansion. It said additional donor resources combined with better policies and capacity could mitigate these problems and accelerate the achievement of development goals.

In addition to the general readiness to go along with reform, the pension reform along the lines of the World Bank scheme has enjoyed popular support in CEE, Latin America and some African countries owing to the experiences some of these countries have had with public pension provision in the 80s and 90s, due to tight government budget, hyperinflation etc.These and other political problems undermined confidence in public pension provision. Thus, some mistrust in the state, particularly in the area of retirement is likely to have encouraged support for private sector involvement, given that the private sector has of yet not been discredited to the same extent as the public sector (Overbye 2001).

Benefits of a Three-Tier Pension scheme

The increased funding of pensions by introducing the privately run a second and third tier has been envisaged as generating a number of potential benefits, including:

1. Higher pension payments if the returns on privately managed pension accounts are higher than the implicit interest in PAYG system.
2. Modification of risks related to different pillars.
3. Low tax evasion as a result of improved compliance incentives.
4. Potential for higher domestic savings if household savings increases and the government budget balance does not deteriorate. Higher domestic savings could lead to a lower interest rate if capital mobility is complete.
5. Development of domestic financial markets and the creation of domestic financial institutions. Pension funds with a long investment prospect might contribute to greater financial stability.

6. Enhanced economic growth resulting from the impacts on labor supply, savings and development of financial markets.
7. While the list of potential benefits PAYG system to a three-tier scheme appears impressive the benefits are by no means certain. Recent debates have questioned the theoretical and empirical foundations of three-tier pensions approach and have raised numerous problems related to funded pension schemes. While more and more countries introduce three-tier systems, the debate intensifies. Some of the discussions are as follows:

Varying Risks

The fundamental goal of any pension system is to ensure adequate pension coverage for retirees. It has been argued by the World Bank pension policy advocates that having different tiers may help to provide greater security by diversifying the sources of pension payouts, since the first and second tiers are subject to risk. According to Holzmann (2000) “the principal advantage of a three-tier scheme lies in risk modification. Not all the population’s retirement portfolio will be held hostage to political and demographic risk”. Merton et al (1987) concluded already before the World Bank pension agenda that the integration of social security and private pensions could be viewed as means to realize an optimal portfolio. PAYG pension systems usually face demographic and political risk. Demographic risk in terms of shifts in population structure, ageing i.e. a higher life expectancy leading to significant increases in system dependency ratio indicating the relative number of pensioners to contributors. Political risks can be in the structure offering short-term political gains that can lead to system’s financial insolvency (Fox & Palmer 2001). PAYG possibly face institutional risk due to improper record keeping or other incompetence and economic risk related to unexpected changes in wage of retirees (Gillion et al 2000).

Funded tiers in private pension provision is affected by unexpected changes in both capital and annuities market. Even if the pension fund regulations ensure that portfolios were well separated, contributors would still be at risk to normal fluctuations in assets prices, episodes of bubbles and crushes or more severe effects of general financial crises leading to significant declines in the values of the portfolios (Rocha et al. 2001). Pension funds can be affected by systemic risks giving rise to spill-over effects e.g. in form of banking crises resulting in sharp collapse in asset prices negatively affecting some groups and leading to insolvency of several banks. To the extent that fund managers are subsidiaries of banks, there could be an overall erosion of capital protection in the pension industry (Rocha et al. 2001).

Barr (2000, 2002), Hemming (1998), Johnson & Falkingham (1992) writing on risk, have argued that the switch to funded schemes does not necessarily resolve problem of adverse demographic or economic risks because funded pension face similar problems to PAYG schemes and exactly for the same reasons. Both funding and PAYG essentially are only different forms for organizing claims on future output (Barr 2000, 2002) as any savings public or private, funded or unfunded, involves accumulation of a claim on the goods and services produced by future generation of workers (Johnson &Falkingham 1992). Further risks are posed in the form of investment risk, annuities market risk and management risk.

The impact of pension reforms on labor market participation

Pension reforms can have a substantial impact on labor market performance, depending on the specific design of the reform. A particularly interesting feature is to analyze the extent to which pension reforms alters the average retirement age.

Analysis in the 2009 Ageing Report takes into account the potential effect of recent pension reforms on the participation rates of older workers. The expected postponement of retirement is summarized by the difference in the average exit age from the labor force. Regarding funded individual accounts as a source of retirement income is where they provide better labor market incentives than traditional (defined benefit) social systems. That argument has been substantiated on several different grounds.

Labor market measures intended to complement pension policies have included attempts to increase the effective exit age by way of increased pensionable age as well as efforts to curb early retirement and inactivity. Other measures have included legislation on labor contracts and employment protection for working people in all age cohorts.

The incentives to participate in the labor market and to search actively for a job are determined partly by benefit systems and changes to tax/benefit structures that played a large role in efforts to increase employment. Hence, human capital does not last as long and people retire early. Bovenberg (1998) brings the example of Netherlands where substantial tax incentives for pension savings induced older workers to retire early, thereby reducing labor supply and exacerbating existing distortions in the labor market. Given these trends, the main drivers of future changes in the overall participation rate, in addition to changes in the age composition of the population, are changes in the labor force attachment of prime-aged women, older workers (especially men) and, to a lesser extent, young people.

Projections show an increase in the public pension expenditures of GDP over a period. The lion's share of the projected increase in public pension expenditure is due to the increase in old age and early pensions showed in individual country designs.

When looking at the question of tax evasion, a strong relation between contributions and benefits can have particular benefits in countries with a large grey economy by providing incentives that can assist compliance (Barr 2000)

Impact on Financial Markets and Economic Growth

One of the most debated topics in retirement income policy is the question of how the different pension schemes affect national savings (Gillion et al. 2000). Given the World Bank's growing interest in financial systems and sectors as key elements in the "post Washington consensus" focus on economic development, and is perhaps not surprising that pension schemes came to be viewed as potentially the key savings and investment in financial intermediation (Charlton & McKinnon 2001). It is by now a rather common assertion within the framework of advocacy by the World Bank pension model that moving towards a system of pre-funded individual accounts would increase national savings (James 1995; Feldstein 1997, cited in Orszag & Stiglitz 2001). Research on the potential economic effects of social security is unable to produce either conclusive support for or refute the argument that public pension reduces savings (Johnson & Falkingham 1992). To what extent funded and privately run pension schemes can increase national savings is also far from controversial. According to other views, people will respond to mandatory saving simply by reducing other types of savings.

Even if the reform does lead to an increase in household savings, it will translate into higher national savings only if not accompanied by a reduction in either business or government savings. Mackenzie et al (1997) provide a survey on effect of savings on the United States and some other countries and shows that the introduction of private pension schemes increases private savings, i.e. the increased pension savings is not fully offset by a reduction of other forms of private savings.

Related, but separate effect of the pension reform involving switch to funding is assumed to be in the form of encouraging financial market development. Privatized pension system is often seen as a way to support and stabilize capital market development via long investment prospect (Charlton & McKinnon 2001). Benefits stemming from a mandatory private pension include enhancement of financial innovation and modernization of the infrastructure of securities market (Gillion et al 2000). The pension reform could also be seen as giving drive to the development of modern banking and insurance supervision, new securities and cooperate laws, equity markets and credit rating agencies (Gillion et al.2001).

Charlton & McKinnon (2001) however, argue that initial setup cost combined with administrative expenses and commercial costs suggest that it may take several decades for even the best run private funds to build assets to a significant level to make an identifiable impact on financial sector and systems.

Also advocates of the current pension reform accepted view claim that (even partial) privatization of pension provision facilitates national economic development and economic growth (Charlton & McKinnon 2001). The correct choice of pension scheme is increasingly perceived as paramount to the functioning and healthy development of national economies by the virtue of being a major determinant of the structure of the financial system (Vittas & Michelitsch 1996). In particular, the World Bank's view has been that for many countries pension reforms, economic restructuring and the growth options are closely related.

Evidence that funding can lead to a greater increase in output than PAYG through increased saving is, however, inconclusive (Barr 1992). Even if savings increases, it cannot be taken for granted that the pension fund managers make better choices than do other agents about resource allocation. It has been noted that in transition economies the link between savings and growth faces a lot more complications. Funding contributes to growth only if it increases domestic investment, but domestic investment in these economies/countries may be low yielding and of high risk, encouraging pension fund managers to invest abroad (Barr 2000). This investment types are of high risk and prone to bubbles. The impact of different financing methods will in reality depend to a great extent on country specific conditions (Schmahl 2002). Also it has been argued that other government policies, such as tax policies, educational and health policies and infrastructure development are more appropriate tools for influencing national savings and economic growth because they do not involve sacrifice of social insurance goals and address the issues involved (Gillion et al 2000).

Concluding the Theoretical Discussion

Social security schemes may affect hours employees work, the choice of work in the formal or informal sector and the age of retirement. Possible impacts on individual savings, national aggregate saving, development of capital market and even economic growth. It has been suggested that systems such as this mostly yields ambiguous predictions concerning these effects and empirical studies have also failed to resolve the issues (Gillion et al 2000).

Furthermore, the goals of pension policy often come in conflict e.g. even if private funds help to deepen domestic capital market, they may also expose the elderly to greater risk and require more resources in administrative cost (Orszag & Stiglitz 2001).

It should not be forgotten that the primary purpose of every pension scheme is to provide a stable, predictable and adequate source of retirement income for each participant, and then microeconomic goals should, therefore, be viewed as having only secondary importance. Some points of consensus are however in economic development and fiscal sustainability.

Secondly, government intervention is important for a guaranteed adequate pension provision. Thirdly, rules and regulation are needed to govern the scheme to curtail any abuses by private fund operators. Having decided on a three-tier pension scheme, the policy makers still face a large number of decisions concerning each of the tiers and the overall functioning of the scheme (Fox& Palmer 2001: Muller 1999). Currently, in Ghana, the designs of the tiers and operators have still not been sorted out. The decision about reform elements depend on the existing pension scheme, country characteristics, the scope of the perceived demographic shock etc. The choice might also be influenced by the policy making process and more generally by the political economy considerations (Muller 1999; James & Brooks 2001).

Importantly, it will also reflect political preferences with respect to distribution and broader societal values (Muller 1999).

At the same time, the impact of other factors should not be underestimated. For example, as stipulated by (Augusztinovic 2002), the migration across the countries as external condition for pension reform design should be considered. Madrid (Madrid 2000) stresses here the role of the administrative efficiency. According to (Reynaud 1998) the globalisation of the economy can be considered as one of the reasons inducing pension reforms as well. This statement is strongly related to the dynamics of innovation and technological changes. Also, as stipulated by (Schmähl 1999), additionally to the universal incentives there exist also local factors playing important role in pension reforms which may vary in significance in different countries.

The Ghanaian reforms are no exception to this picture; economics, demographic, value judgments and politics shaped the Ghanaian pension reform described in the next chapter.

3 THE DESIGN OF GHANA PENSION REFORM – THREE-TIER PENSION SCHEME ACT 766, 2008

Ideally the choice of a pension system should be derived from the growth of society's social welfare function (Stiglitz 2000). In practice, however, pension systems have been noted to be very complex and affect society in a host of ways, which cannot be adequately incorporated in a formal procedure. The policy makers' choice of various design elements must be guided by specific objectives to attain its original intent.

The Ghanaian pension reforms were aimed at achieving a number of objectives.The objectives are in some ways closely related, but also exhibit potential conflicts. In this chapter a description of the pension transition is provided to understand the country's present stage. A number of areas are brought out where it is arguable to what extent the goals can be met and also in light of the literature discussion developed in chapter three. The discussion focuses on pointing out areas where more analysis is needed. It would also focus on the public policy and administrative objective of creating a simple and transparent pension system.

Some aspect also considers the basic objective of adequate pension provision, which also entails a discussion of distributional aspects.

And finally the chapter will deal broadly with the effects on the overall performance of the Ghanaian economy, including the effects on savings, financial markets, and economic growth.

4.1 The Pensions Industry in Retrospect

Historically in Ghana there existed a traditional system of social security amongst the rural folk that ensured that the extended family had the responsibility of taking care of the aged, the infirm and in the final analysis the dead in the community. During the colonial period, as the settler populations swelled and sizes of communities grew, the problem of deprivation became common and the elderly who had no one to care for them came under the purview of poor laws. This was mainly in British colonies. Walter Trattner (1999) reports that the earliest of these laws was promulgated in 1642 in Plymouth colony and this was followed by similar laws in Virginia and Connecticut in 1646 and 1673 respectively.

The advent of modern society and the introduction of social security have disrupted this traditional extended family system of care. The missing link however is that some sections of the population have been missed out in the provision of social security in the transition from the rural extended family care to the modern social security and these are the people working in the informal sector and to some extent the rural folks. These people unfortunately form the majority of the population and the challenge is to design schemes to cater for the needs of this broader sector of the population. The introduction of pension in Ghana as (Dei Henry, 2001) puts it dates back to the colonial times when Government introduced pension for a select group of civil servants who were known as pensionable officers.

The Pensions landscape in Ghana has, therefore, undergone several developments since the colonial era. In 1946, the Government introduced a non-contributory pension scheme, which was the first pension program of its kind in the country, to cater for the retirement benefits of those who worked in the offices of the Colonial Administration

(Government of Ghana, 2006). Later, in the early 60's the "CAP 30" which derives its name from Chapter 30 of the Pension Ordinance of 1946 and Superannuation Schemes were introduced for certified teachers, university lecturers, and all government workers (Kumado and Gockel, 2003). CAP 30 is a small scheme, currently phasing-out, and only covers military, police, and a few civil servants. However, despite its limited coverage, CAP 30 expenditures account for 1.3 percent of GDP (2004), with its annual cost rising exponentially since 2000. CAP 30 is an unfunded defined benefit scheme (Government of Ghana 2006). Although its contribution rates are the same as those of the Social Security and National Insurance Trust (SSNIT), it provides much more generous pensions payments. Employees are eligible for monthly pension with only 10 years of service, with benefits based on the final year salary.

Although the compulsory retirement age is 60, employees may retire as early as at the age of 45. Police and other security agency workers as well as members of the judicial and legal services are exempt from contributing. In 2004 CAP 30 system covered more than 31,000 public workers and paid benefits to 97,000 pensioners.

According to early works on pensions in Ghana and the white paper on pension reform, the main weaknesses of the current system can be summarized as follows:

1. Benefits in CAP 30 lack any actuarial basis
2. There is inequity between workers that contribute and those who do not contribute
3. There are arrears in collecting contributions and paying benefits; and there is lack of transparency.

The vast majority of ordinary Ghanaian workers could not benefit from these schemes. Therefore, the Social Security Act (No. 279) was passed in 1965 to cover all private and public sector workers who were not covered by the "CAP 30" schemes, making two policies ran side by side. The scheme was originally started as a Provident Fund to provide lump sum benefits for old age, invalidity and survivor's benefits (Pension Reform Committee 2006; Kumado & Gockel, 2003).

Seven years later, the Social Security Act (279) was repealed, giving way to the establishment of the Social Security and National Insurance Trust (SSNIT) in 1972 under the NRCD 127 to administer the National Social Security Scheme. The Scheme ran for twenty-five years until it was later converted to a Social Security Pension Scheme. SSNIT is the main system and covers employees in the private sector, and some civil and public servants. It also covers on voluntary basis the self-employed. SSNIT was established by the Social Security Law in 1991, which converted a Provident Fund from 1972 into a pension scheme (partially-funded) Pay As You Go (PAYG).

The institution provides old-age pensions, invalidity, and death benefits. It was financed by a contribution rate of 17.5 percent of the employee's salary (5 percent from the employee and 12.5 percent from the employer). Workers become eligible for full benefits after contributing for 20 years, and the pension benefit is based on the average of the workers' three (3) highest earning years. The normal retirement age is 60, but workers in hazardous jobs may retire with a full benefit at age 55. Early retirement is available with reduced benefits from the age of 55. In 2005 SSNIT had nearly 900,000 active members (contributors), and around 65,000 pensioners (Pension Reform Committee 2006).

During this period the funds generated from the contributions were invested in special government bonds at very low interest rates and very long maturity periods. As a result of the low interest rates and the rising inflation at the time, the lump sum benefits due to retiring beneficiaries were insignificant. To resolve this situation, the Social Security Act, 1991 (PNDC Law 2427) was enacted to transform the 1972 Scheme from Provident Fund to a defined benefit scheme, which brought some element of adequacy into workers' pension package. The conversion of the Provident Fund was accompanied by the shift from investments in special government bonds only to investments in a broad portfolio.

From the Pension Reform Committee documents, it noted that transition to a very broad investment portfolio required considerations that satisfied the needs of government on the one hand, the need to satisfy some social needs of the contributors and the need to generate commercial rates of return to balance the lower rates from the other portfolios. In SSNIT the main issues are: (I) inadequate investment returns; (ii) low coverage with marginalization of informal sector (public service employees are basically all covered; more than 20 percent of private sector employees are covered; while only less than 2 percent of non-agricultural self-employed, and farmers are covered); (iii) high administrative costs and low efficiency; and (iv) substantial slippage in real value of the pensions.

Therefore, the disparity between the two major public pension schemes the "CAP 30" and SSNIT Schemes became more pronounced as the years went by. Consequently, there were agitations and protests by some public sector workers on the SSNIT Scheme demanding to be placed on the "CAP 30" scheme which was considered more favorable, particularly in terms of the lump sum benefit. These, among other factors, prompted the

Government to give consideration to the need to restructure the existing schemes to provide improved retirement benefits for all workers. On the aggregate, both systems cover less than 10 percent of the labor force in Ghana and cost around 2.2 percent of GDP (2005). At the same time, the impact of other factors should not be underestimated. For example, as stipulated by Augusztinovic (Augusztinovic 2002), the migration across the countries as external condition for pension reform design should be considered. Madrid (Madrid 2000) stresses here the role of the administrative efficiency. According to Reynaud (Reynaud 1998:35) the globalisation of the economy can be considered as one of the reasons inducing pension reforms as well. This statement is strongly related to the dynamics of innovation and technological changes. Also, as stipulated by Schmähl (Schmähl 1999), additionally to the universal incentives there exist also local factors playing important role in pension reforms which may vary in significance in different countries.

As at now, there are three main retirement schemes namely the recently resurrected End of Service Benefits (ESB), CAP 30 and the SSNIT Fund. As will be revealed shortly, besides the SSNIT Fund, the other two are virtually unfunded schemes with implications for sustainability. The Government of Ghana does not have the means to take on pension obligations that are not funded for its citizens. Neither have long-term savings pools developed because of persistent macroeconomic instability. Within the framework of the new economic order, these weaknesses and increasing privatization contributed to the freezing of ESB in 1990 (Kumado & Gockel 2003). The macroeconomic conditions that caused this payment crisis continued, and in some cases have worsened. Other key economic indicators, like total debt compared to GDP, the fiscal deficit, and the current account deficit, make it clear that the government lacks the means to commit funds for pension purposes. A fiscal deficit in 2001 of 2.8 trillion Cedis increased total national debt to approximately 62 trillion Cedis which is about 160% of 2001's GDP of 38 trillion Cedis, clearly a ratio that cannot be prudently sustained, let alone increased. Moreover, around 40% of the current revenue budget relies on funds from donors.

Accordingly, efforts had to be made to provide effective social security to a larger number of people than existed. Therefore, in 2003, the Trades Union Congress (TUC) of Ghana with assistance provided by Friedrich Ebert Stiftung, sought to provide insight into social security and pension's delivery in Ghana. In particular, TUC expressed concern at the apparent mis-management of contributions to the Social Security and National Insurance Trust and noted that it did not only make the benefits under the Scheme inadequate but more importantly, puts the sustainability of the SSNIT Scheme into question. Consequently, a study was conducted to assist TUC make an informed contribution to the national dialogue on pension reforms towards the review of the Social Security Law to establishing an effective framework for the development of social insurance long-term savings plans in Ghana (Kumado and Gockel, 2003). In addition, pension schemes that had been in operation in the country so far, beside their limitations, also failed to consider the plight of workers in the informal sector, who constitute about 85% of the working population in Ghana.

Indeed, the absence of a formalized arrangement that provides retirement security for the informal sector is inconsistent with the provisions of Article 37 (6) (a) of the 1992 Constitution which enjoins the State to "*ensure that contributory schemes are instituted and maintained that will guarantee economic security for self-employed and other citizens"*

4.2 Expanding Old Age Earning in Ghana

Against the background of a number of challenges, including general frustration with levels of income replacement for retirement and problems associated with institutional divisions, Ghana's first steps towards current reform were initiated in 2004. In 2008, after extensive deliberation, policy-makers added two tiers of defined contribution pension plans to the existing first-tier PAYG program, creating a three-tier national pension scheme. The earnings-related first tier, the "national basic social security scheme", is managed by the SSNIT (Nelson-Cofie, 2009) and is mandatory for all formal sector public and private employees, but optional for the self-employed and informal-sector workers. This tier pays monthly pensions. Financed through total employer-employee contributions of 13.5 per cent, the program will not receive subsidies from government revenues (Government of Ghana, 2006).The second tier is a privately managed defined contribution occupational pension program. This mandatory program is financed by a total contribution of 5 per cent, shared equally between the employer and employee. Management of this tier is based on market principles, with fund managers competing for the investment-related oversight responsibility of the contributions made by, or on behalf of, employees. As a defined contribution scheme, this tier pays lump-sum benefits calculated on the basis of accumulated contributions plus added interest minus administration fees upon retirement. The third tier is a voluntary private pension scheme, for which membership is encouraged through attractive tax incentives. This fact aside, the third tier is similar to the second tier. Both the second and third tiers are regarded as supplementary program. Table 7 provides an illustration of the major components of the three-tier pension system in Ghana.

Table7: The three-tier pension system in Ghana

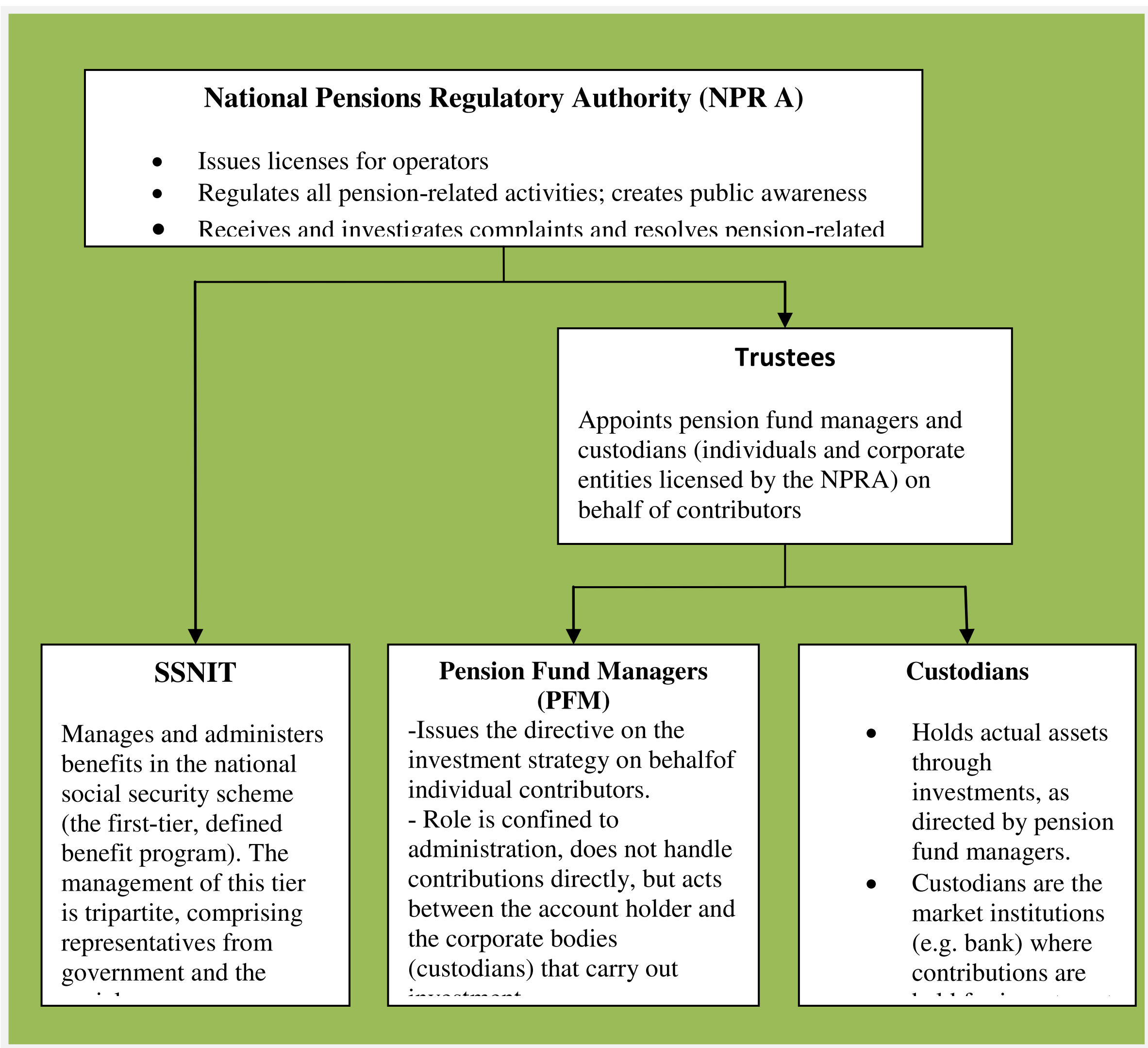
	First tier National basic scheme	Second tier Occupational scheme	Third tier Private personal plan
Principle	Employment and earnings-relate	Employment and earnings-related	Individual
Coverage	Compulsory for all workers in in the formal labor market	Compulsory for all workers the formal labor market	Voluntary for all citizens
Contributions	Employer-employee	Employer-employee	Individual and tax-incentivized
Financing	PAYG with partial funding	Fully-funded	Fully-funded
Benefits	Defined benefit (regular monthly payments)	Defined contribution (lump-sum benefits)	Defined contribution (lump-sum benefits)
Objective	Income replacement Risk-pooling and intergenerational transfer	Supplementary benefits Diversifying sources of retirement income	Supplementary benefits Fosters saving among informal-sector workers
Administration	SSNIT	Trustees, Pension fund managers& custodians	Trustees, Pension fund managers& custodians
Regulatory body	NPRA	NPRA	NPRA

Sources: Government of Ghana (2006, 2008). *** National Pension Regulatory Authority (NPRA) (credit: Kpessa M.W.,2011)

Under the new pension system, a Regulatory Authority has been established National Pensions Regulatory Authority (NPRA) to regulate the operations of all the levels in the news system. Especially as regards the first and second tiers, the NPRA is vested with the authority to license, regulate and monitor Trustees, Pension Fund Managers, Custodians and other institutions that play a role in the pension system. The NPRA consist of representatives from the social partners, including trade unions, employers, pensioners associations and government. The responsibilities of the NPRA include heightening public awareness on matters related to the various pension schemes; receiving and investigating complaints of impropriety in respect of the management of pension schemes; receiving and investigating grievances and resolving conflicts between pensioners, contributors and fund managers and custodians; and advising government on the general welfare of pensioners and on overall policy on pension matters in Ghana (Government of Ghana, 2008; Mensah, 2008).

Although it is a statutory body, the NPRA is designed to operate as an independent and legal corporate entity. Trustees appoint NPRA licensed pension fund managers and custodians who are responsible for the investment strategy and managing the investments of retirement assets. Trustees may be an individual or a corporate body licensed by the NPRA (Government of Ghana, 2008).The figure below offers an overview of the governance structure of the Ghanaian pension system.

Figure 7: Structure of Pension System Governance In Ghana



Source: Government of Ghana 2008

Pension fund managers invest retirement contributions in the second and third tiers within the specific investment parameters set by the Trustees. They are required to keep accurate records of their activities for inspection and are expected to ensure that employees' retirement savings are invested in different portfolios so as to minimize old age income danger risks. Neither do they hold, nor have direct access to, retirement contributions. The role of fund managers among others is to choose the custodians to hold funds on behalf of Trustees; hence, their role is similar to that of an insurance broker. Custodians are institutions and corporate bodies by Securities and Exchange Commission and approved by the NPRA to hold and invest retirement contributions (Government of Ghana, 2008). The structure of the Ghanaian pension system, therefore, involves several institutional players. On the other hand, the presence of multiple actors in the management of workers' retirement accounts could upset the levels of benefit received by pensioners, because actors such as Trustees, Custodians and fund managers will charge fees on contributions and returns accrued from the investment on retirement accounts.

4.3 Benefits of the Reformed Pension System

The new scheme has a number of benefits for workers in both the formal and informal sectors including improved benefits. One major benefit is a provision in the new pension law that allows workers to use their future lump-sum pension benefits as collateral to secure mortgages for their primary residence before attaining the retirement age.

It has been touted that the main beneficiaries of the new pension scheme will be members of the workforce, as intended; the introduction of the scheme will also have a positive impact on the Ghanaian economy.

A major contribution of the new scheme as noted is the availability of a pool of long-term funds for investment which will contribute immensely to economic development in Ghana’s economy.

The new scheme will also ensure improved living standards of the elderly, financial autonomy and independence of retirees; and the promotion of growth and development of the capital, mortgage and insurance markets. However, the economy is unable to broadly support these intents as these services are immature and lightly developed in Ghana.

It is envisaged that the new three tier pension scheme will enhance pension benefits and increase the retirement income security of workers both in the formal and informal sectors, even though incomes are still very low and meagre which translates into low retirement income. It is thus perhaps erroneous to think that the pension reforms would automatically trigger income security.

The New Pensions Act 766 provides tax benefit incentives to workers as well as their employers. Contributions up to 35% of payroll into all the pension schemes under the three-tier pension structure are tax exempt. The first and second tier mandatory schemes have a full tax exemption of 18.5% and the third tier voluntary scheme has a maximum tax exemption of 16.5%. The tax exemption is on the total contributions by both employers and workers. It should be noted for emphasis that the contribution made by workers is treated as deductible income and granted upfront by the Internal Revenue Service in ascertaining a worker’s chargeable income for the month.

Investment income and retirement benefits are also tax exempt.The new scheme also grants an income replacement ratio above 67% recommended for the Ghanaian circumstance.

The pension reform is expected to reduce anxiety, self-exclusion, dependency, and other hardships associated with unplanned retirement (Mensah, 2010). This may happen only if the economic dynamics turn out well in the country.

4.4 Safeguards

In setting up the new three tier pension scheme, adequate safeguards have been built in to ensure that members' interests are protected. One such safeguard is a requirement for trustees of pension scheme to take up adequate insurance to cover scheme members against any losses of scheme assets caused by malfeasance or misconduct of the trustees or their service providers.

Pension fund custodians are also required to have a performance guarantee to cover the pension fund assets under their custody.

The fees of the various service providers; trustees, fund managers and custodians are also to be controlled to ensure adequate funds are available for investments and benefits payments. In this regard the pension's law prescribes maximum limits on fees and other administrative expenses (Pension Reform Committee 2006).

It is common knowledge that all of these safeguards are only on paper and may not necessarily be pragmatic in Ghana's circumstances.

4.5 Areas of Argument

Following the putting into practice of these reforms in Ghana, the domestic discourse about the investment returns of defined contribution pension schemes has been very positive, with a suggestion that these programs should guarantee the retirement security of pensioners (Mensah, 2008). In Ghana, the labor unions and other social partners who typically have not been convinced of private-sector solutions have not only welcomed the defined contribution schemes but argue that such arrangements offer individuals greater freedom over retirement income decisions (Dorkenoo, 2006). Unquestionably, political abuse and weak management plagued the previous PAYG schemes, and reason why the trade unions would embraced a pension scheme that ignores the core labor principles of solidarity, risk-pooling and collectivism through inter-generational transfers. It is doubtful if the adoption of private-sector involvement in pension reform, and acceptance by social partners, was based on policy realities in Ghana. Ghanaian employees and pensioners should be cautious given that the main tier in the three-tier arrangement is a defined benefit social insurance scheme. Nonetheless, there are several unforeseen factors that challenge the sustainability of defined contribution schemes in Ghana. As is well known, social security fund management is connected with issues relating to governance, market operations, accountability and transparency, but all these can only be understood if citizens have significant knowledge of the operations of private sector participation, and can use their knowledge to influence the management of their individual retirement savings..

4.5.1 Free and Transparent Pension System

The conceptual framework of the pension reform (Government of Ghana 2004) includes the issue of a stress free and transparent system. Transparency is certainly an important factor in ensuring the legitimacy and hence political sustainability of the pension reform (Barr 2000). It, therefore, makes it easy for individual citizens to understand and make decisions on alternative choices of investment vehicles. They can then make a decision without having to go through hectic and complex information search and reasoning process. The difficulty however, stems from individual tiers, the interplay between the three tiers, and the interplay between the pension system, tax benefits and myths in the benefits calculation.

The first tier of the new pension scheme is complicated as most PAYG systems have been, as the complex calculations of working time and contributions related parts are relatively involving and confusing. Although better income replacement ratio/percentage has been incorporated, it still leaves a measure of doubt in the minds of even literate workers and undermines the goal of adequate benefits to contributions. As Lindeman et al (2000) has puts it, the goal of strengthening individual responsibility and enhancing transparency can be seriously compromised unless regular and predictable indexing standards are introduced into the first tier. Indeed, individuals cannot be blamed and expected to assume more responsibility for their own retirement planning if the key components of the first tier are adjusted every year through an opaque and unpredictable process (World Bank 1999)

The second tier is easier to understand, but the investment risks are not easily measured. Indeed, an accurate comparison of the possible returns on the first and second tiers contributions would require rather extensive knowledge. To a large extent the second tier returns depend on the performance of investment portfolios, which is very difficult to predict. The benefits in the form of annuities depend on the situation in the annuities market which is not mature or developed in Ghana, the average life expectancy of the population (Ghana: 58 years), when one retires and interest rates. This can be very difficult to predict many years in advance.

Some opinions expressed during the round table discussions of the pension reform committee, on the first tier; returns there depend largely on economic growth, the growth of the population, employment and productivity; all of which can be very difficult to predict. These certainly pose a lot of risk to the system in the first tier.

A counter argument however, is that risk profiles of the first two tiers are different; while the first tier carries a large amount of political and demographic risks, the second tier carries mainly financial market risks, though partly true, because the claim that different tiers can vary the risk has been contested on various grounds.

The third tier is not so complex, but the interaction between the first, second and third tiers is not entirely clear. For example why it should be voluntary for the informal sector is particularly risky for old age income security and equity issues.

Arguably all pension systems are multi-faceted and their functioning to some extent opaque. While it is unfortunate in all systems, it is especially ill-timed in the three tier system touted to be an improvement for Ghana (about 85% informal sector workers) and other places where most individuals must make decisions concerning whether to join the third tier.

4.5.2 Adequate Retirement Pension Provision

A primary goal of all pension systems is to ensure adequate pension coverage for retirees as also emphasized in the Ghanaian government's conceptual framework (Government of Ghana 2004)

Having different tiers possibly helps to provide greater security by varying the sources of pension payouts, provided that the second and third tiers are subject to risk that are not connected. As mentioned earlier, all future pension payouts are subject to substantial political risk since policy makers can change e.g. the accumulation rules and the taxation of pension packages in the future. Furthermore, all the tiers will be subject to demographic and economic risk, because of the effect on output, which will put pressure on the first tier benefit and reduce the purchasing power of the annuities (Barr 2000, 2002: Hemming 1998). As the World Bank, in 2004, also pointed out in its aide memoire to the pension reform workshop in Accra, Ghana (2004) , the potential gain from diversification can only be realized if the shift to a funded tier can generate economic growth through increased national saving to GDP or significant increase in the depth and liquidity of capital markets. The absence of corporate bond markets to hold retirement savings means that banks in particular, would exercise monopoly over their investment. Although, it is often argued that defined contribution pension plans are essential instruments for accumulating domestic capital for development (Holzmann, 2000; Holzmann and Hinz, 2005; Holzmann and Stiglitz, 2001; World Bank, 1994), the earlier experiences some Latin American countries had with defined contribution social security systems show that their economic environments were not ready for such models (Kpessa, 2009, 2010).

Then also since a significant part of the first tier depend on previous earnings and the payouts from the second and third tiers are also earnings related, a significant number of people especially from the informal sector (est. 85%) might not manage to accumulate enough contributions during their working life.

It has argued that for those in the second and third tiers, they may be taking on substantial amount of risk regards adequate pension provision if they opt for more aggressive funds. As pointed out in chapter 3, even if regulations on investment practices of the pension funds are stringent, aimed at spreading the risks, they do not protect the Ghanaian pensioner from downturns on the financial market during normal fluctuations in asset prices, episodes of bubbles and crashes or more severe effects of general financial crises in Ghana. However, different cohorts of pensioners will receive varied payouts depending on how well the equity or bond markets are doing at the time of retirement (Allier and Vittas 2001). It might alternatively be argued that sufficient competition between the funds, transparent reporting and accessibility of information to fund contributions and the ability of contributors to switch between funds should be sufficient to guarantee good levels of returns on funds.

A more serious problem is the question of how annuities from the second and third tiers are going to be protected against unexpected inflation an issue that has not been spelt out in the conceptual papers. As Walliser (1999) emphasized, inflation protection should be mandatory for at least that portion of accounts whose withdrawal over time is controlled, otherwise, the real value of pensions could decline substantially. In Ghana's case, the question of inflation protection will become all the more important since an increasing part of the replaced income at retirement will be coming from the second and third tiers to ensure income security.

In chapter three, it was noted that other annuities market risk may add to the risk arising from the equity market (Barr 2000, 2002; Gillion et al 2000).

Since compulsory annuities already protect the participants against longevity risk, allowing phased withdrawals that offer a market related return, could be seen as mitigating the effect of low assets prices and interest rates that might prevail at the time of retirement.

On the other hand, allowing the withdrawal of accumulated assets as a lump sum when annuities are very small has been said to serve the efficiency goal of avoiding the accumulated assets from being eaten up by excessively large administrative cost relative to the yielded payouts.

In Ghana, since close to 85 per cent of workforce are in the informal economy, this large majority have no access to any formal contributory social security programs. Moreover, and even if legal coverage were to be offered to informal economy workers, low levels of administrative capacity would challenge efforts to enforce the payment and collection of contributions (Government of Ghana, 2006).

High administrative costs of running private pension funds would possibly lead to lower returns (Orszag & Stiglitz 2001), and this may be the case of Ghana, if the right policies are not put in place to check this from happening. For instance, in Ghana, where prior to reform, the pension system was in a relatively good shape, the SSNIT managed scheme which now constitutes the first tier spent about 57.41 per cent of total membership contributions in 2001 on administrative duties and staff salaries (Osei, 2005). Consequently, the Trust spent more on its administration and on other functions than on retirement benefits. Competition coupled with extensive advertising campaigns can also influence the fees charged to contributors to reduce benefits at the time of one's retirement (Kpessa 2011).

Taken together the operations of defined contribution pension plans requires strong and effective government with the capacity to enforce the payment of contributions and regulate the management of privately managed social security funds. As Barr noted "a country that cannot implement even a simple payroll tax cannot run a pension scheme" . . . because . . . "preserving public confidence in private pension plans requires effective government regulation of financial markets to protect consumers in areas too complex for them to protect themselves" (2002). Ghost names abound on most payrolls in developing countries and the lack of efficient payroll software is a matter of grave concern in Ghana.

4.5.3 Economic Performance

The Ghanaian pension reforms had wider goals than just providing adequate pension coverage without risking short to long term solvency problems in the pension system. This section discusses some of these broader objectives of the reforms, their underlying rationale and whether they are likely to be achieved.

As brought out in chapter three, the introduction of funded tiers is often a way to encourage growth of household saving by the pension reform advocates. The question, I guess is also important in the case of Ghana's pension reform for some reasons. Firstly, one of the goals of the pension reform is to entice the households to take greater responsibility for future labor income termination and higher private savings would indicate that this policy objective may be achieved. Secondly, Ghana's pension reform entail private pension saving plans that are marked with substantial tax exemptions presumably giving greater incentive for private savings. Thirdly, household savings contributes in almost all countries an important part of overall savings (Kpessa 2011).

However, from earlier discussions, the question of what impact a switch to funded scheme could have on household savings is still debatable and it is still unclear that the PAYG system necessarily decreases savings (Johnson & Falkingham 1992). Also under debate is that partial privatization and introduction of funded elements would increase savings to a significant degree (Overbye & Stiglitz 2001).

On the other hand, the second tier contributions might offset other forms of household savings and the overall pension system reform might also influence the households' saving decisions. The incentives to save in the third tier are also likely to replace other savings subjected to tax deductions. The very short period since the inception of the Ghanaian reform has, therefore, made it difficult for empirical testing of the issues expressed in the above.

4.5.4 Total National Saving

The effect of the new three tier pension system on overall savings is of interest, and not only from the macroeconomic viewpoint. It is known that the overall national saving stems from the government, households and corporate sector including the financial sector. Therefore, even if households are likely to increase their savings, it will translate into higher national saving only if it is accompanied by an offsetting reduction in either business or government saving. When individuals replace other voluntary savings that are taxed and join the third tier savings encouraged by tax incentives, the tax base is eroded leading to lower public saving (Johnson and Falkingham 1992).

It appears likely that even though the pension system may be with huge advantages as touted, the switch to a funded system is indeterminate and also rather insignificant (Stiglitz & 2001).

4.5.5 *Effective Financial Markets*

Efficient financial markets are often touted as a goal of introducing funded pension systems that are run by private financial entities and Ghana is no exception (Kpessa 2011). The uptake of the second and third tiers has been strong and private fund managers appear to be happy about the benefits to be derived. As in the case of other countries, pension funds are almost entirely investing their assets abroad but limitations have been placed on the investing parameters of funds in Ghana for good reasons such as undeveloped market structures. It has been noted that investment strategies of privately managed funds reflect a prudent spread in risks. In Ghana it is too soon to tell of the pension reform's influence on the financial markets though it is expected to be direct and positive (Kpessa 2011). In Ghana, where literacy remains a challenge, complex policies as the pension plan and financial market instrument are likely to present a formidable challenge to even the most literate person. Besides, as indicated earlier, the financial markets from which empirical and theoretical lessons could be drawn are either weak or poorly developed (Kpessa, 2011). The importance of individual financial literacy cannot be overstated. The Organization for Economic Co-operation and Development (OECD) has expressed its concern about a lack of adequate financial literacy in its member states in a context where there is an increasing shift to individuals of "responsibility and risk for financial decisions that will have a major impact on an individual's future life, notably pensions" (OECD, 2006). For that reason, and even among OECD countries with well-established markets, strong and stable governments and comparatively higher levels of general and financial literacy, the extent of citizenry knowledge about market operations remains a challenge for the development of private social security care. It stands to reason, therefore, that consumer ignorance and information overload is likely to limit the effectiveness of defined contribution schemes in less developed societies such as Ghana, where financial literacy is low and financial markets are now springing up and some growing.

4.5.6 Economic Growth

A stated objective of the pension reform was to increase economic growth, an area of great importance to Ghana even as crude oil exportation has also commenced. It is expected that higher national savings rate will lead to low domestic interest rates then for increased capital accumulation and higher growth for a period of time. However, in an open economy like that of Ghana, a developing country and recently classified lower middle income country, interest rate levels are essentially determined by international sources or dynamics.

Based on recent literature and some discussions among experts, a broad based view is that deeper and more efficient financial markets have a positive impact on economic growth (Levine 1997). Whether there would be any effects in Ghana might depend on the actual development in the financial sector, specifically whether the financial intermediation within Ghana improves.

In sum, it appears very uncertain whether the pension reform will have dramatic effects on the economy in the short to medium term.

4 CONCLUSION

The first part of the thesis gave an overview of the historical background and economic transitions in Ghana. Then it also touched on the labor market of Ghana with emphasis from Ghana living standards survey round of five (5), 2005/2006. The third part of the thesis gave an overview of the discussion on pension insurance and pension reform, with a particular focus on three-tier pension scheme on combining public and private pension provision.

This aspect of the discussion brought out several speculative arguments that should be taken into account when designing a pension system. Social protection concept mentions some problems that might occur in private pension provision. Private pension cover is not able to protect the annuitants against unexpected inflation, adverse selection problems, myopia, excessive administrative cost and thus leading to inequitable income outcomes. Resulting from those problems, there are compelling arguments supporting governments' involvement in pension provision.

A rebirth of the debate on pension reform since the 1990s has led to an emergence of a three-tier pension system that has been strongly advocated by the World Bank and has received warm welcome in several countries in Europe, Latin America and now Africa. On addressing the question of fiscal sustainability related to ageing populations and mitigating the risks of having only a public pension scheme, the three-tier model is often hyped as giving rise to wide range of benefits, including improved increased saving, improved financial markets and enhanced economic growth (Holzmann, 2000).

The extent to which the arguments show the linkages between the pension reform and these benefits is very controversial, with both theoretical and practical findings leading to conflicting effects. Indeed, both public and private tiers are subject to demographic, economic and political risk related to financial markets and management. The essentials of defined contribution and funding in pension provision may or may not increase or encourage saving, enhance the maturity of financial markets and encourage economic growth. Unless there are more exact ways of achieving most of these objectives, pension schemes may not be the best tools for attaining them, especially if the goal of providing adequate living standards to all retirees are weakened. The thesis then considered the recent reform in light of the speculative debate in chapter three of Ghana's pension scheme. As discussed, the features of the reform represented political compromises leaving the new system with a number of characteristics (. For instance,

- A high degree of voluntary participation, especially at this early stage of the reform.
- Good payouts with enticing incentives from the second and third tiers connected to past earnings.
- Substantial incentives for participation especially in tax exemptions.
- Individual freedom to choose between the different private pension funds and their risk profile.

The design choice to a large extent exhibit a certain internal consistency in conformity with stakeholder's decisions. The design choice also show that the pension reform continues to be market oriented and individualistic in approach characterizing Ghana's economic policies since the beginning of the 1990s. The discussion focused on a number of debatable points where it is possible to question the usefulness of the reform.

The political process and many interests that were to be embraced have led to a very complex pension scheme. Informed decisions with respect to the participation in the third-tier require a thorough understanding of the system and meaningful estimates of future economic developments and policies before one decides to engage in it. For many Ghanaians especially in the informal sector where their choices could be very challenging and feared that aggressive advertising, past fund performance and market processes could have undue impact on people's pension decisions because they may not be that knowledgeable in the issues. Added to the other problems is the fact that there are not enough social security actuaries to do concrete projections that allows people to understand the scheme better.

The new scheme could lead to inadequate pension coverage and income insecurity for persons with non-traditional careers and other persons with very low lifetime income and who cannot manage to accumulate enough contributions from the pension scheme. In addition, the second and third tiers may face significant risks in terms of fluctuations in assets prices or more severe financial crises affecting the value of pension benefits.

As the second and third tiers in the current arrangement shift risks of private pension plans to individual contributors, it is imperative that the state, which directs its citizens to invest their retirement contributions in such plans, establish a statutory pension benefit protection agency to protect plan contributors against adverse market conditions and challenges associated with default by fund managers, custodians and trustees. Such an agency can be financed primarily through premiums set by either parliament or the NPRA, and paid for by fund managers, custodians and trustees. Trustees are advised to regularly update their understanding of the responsibilities that the Pensions Act imposes on them.

They have an obligation to understand the significant role they play in ensuring that pension funds under their control are managed according to applicable laws and regulations, and in the best interests of the members. It is necessary that they seek professional guidance and support in the management of employees' retirements benefits. Other sources of financing the operations of such a pension benefit protection agency should include returns on invested premiums, takeover of assets from defaulting retirement contributions investors like the fund managers and other intermediaries. The maximum pensions benefit to be paid for by this statutory agency, should the need arise, it must be set by law and reviewed annually to accommodate changes in the market (Kpessa 2011).

Another issue that certainly needs to be addressed is how to protect annuities from unexpected inflation. The issues of inflation protection will become essential provided that an increasing part of the replaced income at retirement will come from the second tier. Other risks arising from the annuities market also require further consideration e.g. how to mitigate the effects of changing interest rates on annuities, what would be the best combination of mandated annuities, and allowed lump-sum or phased withdrawals. The tax incentive of the reform may lead to government revenue loss especially in the short term. It has been suggested that even though one of the arguments for introducing the second and third tiers was to address the solvency problems of the first tier.

Derived effects in the form of improved economic performance are difficult to assess. Ghana, having been integrated into the global economy, is not being spared the impact of the financial crisis. Just like other developing countries, the country is becoming increasingly vulnerable, as its current account, fiscal deficit, exchange rate, inflation and debt indicators worsen. Economic integration and globalization is expected to exacerbate an already vulnerable situation and possibly erode the gains of the past decade of strong economic performance. Any effects from saving to economic growth are unlikely but the pension reform might lead to larger labor supply and hence a period of higher growth.

In sum the implementation of a three tier pension scheme in Ghana has proceeded smoothly and the uptake and acceptance of the funded tiers has been good. Some issues still remain unsettled. The interplay between the different pensions tiers coupled with the tax incentives appear complicated. This could lead to inappropriate distributional and insecure consequences. Public finances could be weakened in the short term. The impacts on economic performance in terms of increased saving and lower interest rates are also uncertain.

The shift to a three-tier pension system is welcome but further reforms are needed to address gaps in the Pension Act 766. The pension reforms are expected to break SSNIT's virtual monopoly, improve benefits, and extend coverage voluntarily to the informal sector. However, the act needs to (i) incorporate the IOPS principles; (ii) increase the operational autonomy and accountability in the appointment and removal of members of the Board as well as ensure financial independence in the provision of budgetary resources; (iii) introduce implementation regulations and guidelines; (iv) clarify the legal status of the guidelines as enforceable instruments; (v) provide guidelines governing the relationship between trustees and third parties; (vi) prohibit approved trustees investing in the securities of a company that has sponsored the formation of the scheme; (vii) specify the minimum terms of outsourcing contracts and give the supervisor access to third parties; and (viii) expedite plans to enter into MOUs with the relevant supervisors for exchange of information (Ghana: Financial System Stability Assessment Update, June 2011 IMF Country Report No. 11/131: Washington, D.C.http://www.imf.org)

Ghana has made significant progress over the past 20 years and it will really be a shame if all the achievements are allowed to be swept away by economic instability. In one breath, recent remarkable economic achievements risk being wiped off by threats of macroeconomic instability; on the other side, recessionary tendencies in developed and emerging economies are likely to result in weaker growth for Ghana, posing a big threat to the reliance on economic growth to boost the new pension system.

Ghana has undergone more than two decades of economic reforms creating a market based economy closely integrated with that of many other reformed economies in Africa and the rest of the world. In a nutshell, the fragility of national financial markets and the private sector, the overly bureaucratic institutional design of the new pension scheme, a lack of adequate knowledge about markets and financial instruments, as well as general administrative weaknesses are important factors that must be addressed if the current pension system arrangements in Ghana are to meet the objective of providing adequate benefits and coverage, otherwise, the new three-tier pension scheme would not work for Ghana and would have serious challenges as it happened in a place like Chile. The pension reform discussed in this paper is a further step in the direction of structural changes and market conformity. Still, the thesis suggests that there is room and reason for future reform to the Ghanaian pension system.

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