Pension Reform in Nigeria: How not to 'Learn from Others'

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ABSTRACT While the Chilean pension reform has received considerable attention, its emulation in Nigeria has not. This article is the first in-depth analysis of the Nigerian reform. It suggests that the Nigerian authorities failed to learn the lessons of Chile. They transposed a system that both failed to serve the country from which it was copied and that is inappropriate to the country to which it was copied. For countries such as Nigeria, alternative forms of provision for old age are needed. A social pension might be considered.

KEYWORDS *Chile, Nigeria, pension reform, social pension*

The issues of policy learning and policy transfer have attracted considerable academic attention in the last decade. Social scientists have been interested in whether learning is possible, how people learn and under what circumstances policy transfer is possible, what the role of international institutions and policy entrepreneurs has been, and at which speed policies are diffused (Weyland, 2005). At the European level, policy learning and transfer has received a quasi-official status. The European Commission has developed the Open Method of Coordination, which promotes the exchange of information, the publication of good practice, the comparison of performance against benchmarks, and relies on peer pressure as a means of initiating change and reform (Casey and Gold, 2005; Dostal, 2004; Zeitlin and Pochet, 2005).

Although the literature on policy learning covers many subjects, much of the recent interest in policy learning has been directed towards social policy in the wider sense. With respect to policy learning and pensions, a persistent interest has been with the Chilean reform of 1981, with the way in which it became an example that other countries have emulated, and with the role the World Bank

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has had in propagating it as a 'model'. Many studies have looked at the way in which other Latin American countries set up 'Chilean-like' systems (Weyland, 2004). Some have considered the way such a system was transplanted to the newly independent countries of central and eastern Europe (Müller, 1999). Others have commented that advocating pension reforms involving the introduction of Chilean-like systems into the advanced industrialized economies amounted to encouraging 'technology transfer in reverse' (Casey, 2005).

With one exception – a mainly descriptive paper produced by the International Monetary Fund (IMF, 2005a) – none of the studies have dealt with the case of the Nigerian pension reform. Yet the new pension system introduced in Nigeria in 2004 was the product of a deliberate attempt at transfer – a transfer both of broad principles of policy and of administrative and delivery structures. Nigerian policy makers were of the view that, if they could initiate such a reform, it would produce the same benefits for their country as they saw it having produced for Chile.

This article is divided into four sections. The first section looks at the policy learning and transfer processes as they apply to the Nigerian pension reform. The second section examines the reasons why reform was seen as essential, the way in which it was carried out, and the manner of operation of the new system. The third section assesses the newly reformed pension system in terms of its operating costs and its contribution to the economic development of Nigeria. In all three sections, comparisons with Chile are made. The last section discusses issues of governance and suggests that a social pension rather than a private, funded pension system might provide the way forward for old age security in Nigeria.

Policy Learning and the Nigerian Pension Reform

It might seem unlikely that Nigeria would look to Chile when seeking a model. Nigeria is not contiguous with (or even in the same continent as) Chile. Neither, as Table 1 shows, could it be perceived similar in terms of economic or social development – even if the comparison is of Nigeria at the end of the 20th century with Chile some three decades earlier. The only similarity is that, when the Nigerian pension reform was initially conceived, the country, like Chile in 1981, was ruled by a military dictatorship. It might be possible to argue that this gave Chile a 'high status' in the eyes of the then policy makers.[1]

However, by the time the Nigerian government was giving serious attention to pension reform, the Chilean model was being criticized. The World Bank had come to recognize that Chilean-like reforms had not always delivered the benefits that had initially been proclaimed, that too many assumptions had been made, and that other reforms were also required – reforms that at best complemented, or even preceded pension reform (Gill et al., 2005; Holzmann and Hinz, 2005; World Bank, 2005).[2] Equally, in Chile, dissatisfaction with the existing system, in terms of its costs and its failure to make

TABLE 1 *Comparison of Chile and Nigeria prior to pension reforms*

	GNI per capita at PPP, current $	*Rural population (as % of total population)*	*Informally employed (as % of workers)*	*Illiteracy rate (% of population 15+)*	*Life-expectancy at birth*	*Age dependency rate (60+/15–59) actual and projected for 30 yrs*	*Statutory pension age prior to reform*		*Pension coverage rate (as % of workforce)*
							m	*f*	
Chile	2,742 (1981)[a]	19 (1980)[a]	30 (1980)[b]	8.6 (1980)[d]	69.3 (1980)[a]	7.2 and 4.9 (1980 and 2010)[d]	65	60	62 (1980)[b]
Nigeria	403 (2004)[a]	53 (2004)[a]	90 (inc. self-emp) (2004)[c]	31.9 (2003)[d]	43.5 (2003)[a]	10.6 and 10.2 (2005 and 2035)[d]	60	60	8 (2004)[e]

Notes: [a] World Development Institute; [b] Mesa-Lago (1989); [c] National Statistical Bureau of Nigeria; [d] UN common database; [e] own estimate.

adequate provision for many of the old, had been a persistent theme of the 2005–6 presidential elections. In 2006, the new administration announced wide-ranging changes to pension provision, placing greater emphasis both on solidarity and tax financing and on tighter controls on the operations of pension providers (Gobierno de Chile, 2006). In this respect, Nigeria seems to be at the very end of the 'ogive- or S-shaped' path of policy dispersion (Orenstein, 2003) – the pension reform was made at a time when initial enthusiasm was well past and disenchantment had set in.

The Nigerian pension reform project was initiated as early as 1996. It was an element of the *Vision 2010* project under which the then military government charged a team to chart the goals to be reached by the time Nigeria reached the 50th anniversary of its independence (Pension Subcommittee, 1997). One of the objectives was that 'by the year 2010 most Nigerians shall have access to some form of social protection offered by the formal Social Security Program' (Pension Subcommittee, 1997: 45). Those examining pension provision made an inventory of other countries' systems. In their end report, they presented the pension systems of: Ghana, a neighbour; the UK, the former colonial power; the United States, a dominant world power; and Chile (Pension Subcommittee, 1997). When proposing the way forward, they were emphatic that a Chilean-type system provided the solution. They argued (Pension Subcommittee, 1997: 47–8) that pensions were 'instruments for the promotion of economic growth and development' and continued:

> Countries that have set the right policies and undertake the appropriate reforms, such as Chile, have reaped very bountiful economic benefits, even beyond the dreams of the initiators. Chile, with near hero GDS/GDP ratio [savings rate] and very low per capita income in the early 80s, is today a completely transformed economy and the envy of other South American countries. Chile's rapid economic growth was mostly financed by long-term savings primarily from pension funds; channelled to the real sector through the capital market. Nigeria can perform the same feat if not better. (Pension Subcommittee, 1997: 47)

Indeed, they were sufficiently bold as to suggest that:

> Chile's economic circumstances in the 1980's were almost similar to Nigeria's today: low GDP per capita, low savings, high unemployment, high inflation, etc. Nigeria desires a quantum leap in her economic output just as Chile in the early 1980s. If the reformed pension system facilitated Chile's economic renaissance, adapting Nigeria's system to some of the good attributes is only natural and sensible. (Pension Subcommittee, 1997: 48)

The publication of the report was not immediately followed by action. This came only after the military regime gave up power and, following elections in 1999, a civilian government took office. The new government formulated its own programme for economic and political renewal, NEEDS (National

Economic Empowerment and Development Strategy), although it acknowledged that 'core values [of that strategy] draw on the Vision 2010 report' (Government of Nigeria, 2004). NEEDS emphasized macro-economic stability and put poverty reduction at the forefront. It also pledged a reform of public services, an intensified fight against corruption and an increasing role for the private sector. However, it was not until 2003 that attention was turned to pension reform. At this point, the International Financial Institutions (IFIs) became involved.

The Role of International Organizations

The IFIs played only a limited part in the reform of the Nigerian pension system. Those drawing up the *Vision 2010* report referred neither to the World Bank's seminal *Averting the Old Age Crisis* publication, nor to any subsequent Bank studies. Equally, although the IMF was aware of the *Vision 2010* exercise, and made reference to it on two occasions, it made no mention of its proposals for pension reform.[3] Neither did any contemporary World Bank reports.

The IMF, and not the Bank, seems to have been the first of the IFIs to engage with the Nigerian government on pension reform. The IMF's involvement was initiated by the government and took the form of a request for advice. That request was acted upon with alacrity – an IMF team visited the country in September 2003. The team included experts from the Bank. At least two reports were produced. Although these remain 'unpublished and confidential', they contained assessments of the transition costs for a scheme very similar to that finally legislated for and compared the replacement rates pre- and post-reform (IMF, 2005a).

In late 2003, the Bank started to prepare a technical assistance programme for Nigeria. Although this was designed to improve economic reform and governance in general, it did contain a component that was relevant to pensions. Of the US$180m made available, some 7%, or US$6.7m, was intended to support the pension reform by providing consultancy and computer systems (World Bank, 2004). The IMF initiated a Policy Support Instrument (PSI) with Nigeria that involved the Fund offering help in assessing the progress of NEEDS and (as appropriate) endorsing progress made, but it offered no financial assistance. Elements of the pension reform programme were included in the PSI agreement (IMF, 2006).

The manner by which the Bank became involved might, in part, be attributed to personalities. A Nigerian economist, who held a senior position at the Bank, was recalled from Washington as an advisor to the president as early as 2000 and appointed minister of finance shortly after the 2003 election. Although she had had no direct involvement with Latin America or with pensions, the Chilean model cannot have been unfamiliar to her. Moreover, Nigeria had long been a beneficiary of Bank assistance and the conclusion of the loan agreement could be seen as recognition of acceptable progress.

There are no indications that Bank assistance was made conditional upon a particular kind of pension reform. Indeed, the Bank has claimed it advised against the establishment of a 'multi-pillar' system in Nigeria on the grounds that the financial sector there was insufficiently developed (World Bank, 2005).[4] As far as the Nigerian government was concerned, taking steps to reform pensions was seen as a way of improving the country's credibility. Pensions were a component of public expenditure, and one over which little control had been exercised in the past. Thus, reforming pensions was seen as consistent with efforts to improve fiscal policy making as a whole. The inability of the government to produce satisfactory information on pensioner numbers or pension liabilities made improvements in data an item of the reform upon which both the Bank and the IMF concentrated – the Bank via its loan to improve economic governance and the Fund via the PSI. The IMF was also concerned that many pensions, although promised, were either totally unpaid or only partly paid. If these pension liabilities were recognized, the size of the public debt might be considerably larger than that recorded in the published accounts (IMF, 2005a).

The other international body that became involved in the pension reform was the International Labour Organisation (ILO) – through its social protection division. Like the Bank and the Fund, the ILO commented upon the lacunae of data recording systems. The ILO was drawn in relatively late – in response to a request from the Nigerian pension authority to assist it in calculating the entitlements of those who would not transfer to the new system.[5] Although the ILO did not favour Chilean-style pension systems, it saw itself as having a more general obligation to ensure that people affected by reform did not lose the rights that they had acquired (ILO, 2006).

The New Nigerian Pension System

The Nigerian reform was radical. It involved a new basis for determining pensions and new delivery structures. In this section, the factors that motivated the reform are examined in more detail. Thereafter, the manner of operation of the new system is described. Last, the structures by which it is regulated are presented.

THE REASONS FOR REFORM

There were some similarities between the pre-reform pension systems of Chile and Nigeria. The most notable of these was the way in which each system was rather fragmented. By 1980, there were some 32 different pension schemes in Chile and under these nearly 100 different plans. Although three schemes accounted for the majority of contributing members – blue-collar and white-collar workers and public sector employees – these were not uniform in their conditions. The scheme for public sector workers was the most favourable in terms of retirement age and benefit calculation formula (SAFP, 2003). There were special schemes for specific occupational groups – of which the most important, quantitatively, was the scheme for the military – and the privileges available under these schemes were substantial.

In Nigeria, too, there were many pension schemes (Pension Subcommittee, 1997; see also IMF, 2005a). Most were much newer than those of Chile. It was not until after independence, in 1960, that the first national scheme was introduced in Nigeria. It was developed out of the provident fund scheme that had operated for the colonial civil service and, like it, took the form of a severance payment scheme, paying a lump sum on retirement. It was not until 1994 that a National Social Insurance Trust Fund (NSITF) that paid out an annuity was established.

The NSITF covered only private sector workers. It was overshadowed by the various schemes for public sector employees. There were special schemes for federal public servants, for the (federal) police and security services and for the military. At the same time, each of the 36 federal states, plus the capital territory, had its own pension system for its public employees, as did each of the 774 local government authorities. In addition, each of a multitude of publicly owned (federal or state) enterprises (often referred to as 'para-statals') had its own pension scheme.

The retirement age was normally 65, but federal civil servants could retire on a full pension after 35 years' service, as could military personnel after 10 years. The maximum pension under the NSITF scheme was fixed at 65% of last salary, but for federal civil servants it was 80%. Last, pensions for federal civil servants were supposedly adjusted in line with civil service salaries. By contrast, there was no provision for indexing in the legislation covering the NSITF scheme.

A yet more important difference between the various Nigerian schemes was their financing. The pension schemes for federal, state and local civil servants were non-contributory and unfunded. The NSITF scheme operated on a PAYGO basis, being financed by employee and employer contributions. The pension schemes for para-statals were non-contributory but, at least nominally, funded.

Private sector firms could establish their own occupational schemes, and these provided both pension and severance payments. Some were contributory, some not. Some were funded, some not. How widespread these occupational schemes were is unclear. Many were small. Those that were funded, and thus eligible for tax privileges, covered only a few thousand employees (Pension Subcommittee, 1997).

By the mid 1970s, nearly 80% of the Chilean workforce was covered by one or other of the statutory pension schemes. Even by the end of the decade, the coverage rate was some 68% (SAFP, 2003). In contrast, the coverage rate of the

TABLE 2 *Coverage of pension schemes in Nigeria*

	000s	*As % share of total workforce*	*As % share of formal employment*
Total workforce[a]	48,000	100.0	
All in formal employment[a]	4,800	10.0	100.0
Federal civil servants[b]	160	0.3	3.3
State government employees[c]	800	1.7	16.7
Local government authority employees[c]	500	1.0	10.4
Police[d]	160	0.3	3.3
Other federal security employees[e]	82	0.2	1.7
Military[e]	80	0.2	1.7
Para-statal employees[f]	1,300	2.7	27.1
All public sector employees	3,082	6.4	64.2
Contributors to NSITF[g]	630	1.3	13.1
All in a pension scheme	3,712	7.7	77.3

Notes: [a] Nigerian Bureau of Statistics; [b] http://allafrica.com/stories/200607270298.html; [c] Barkan et al, 2002; [d] http://www.cleen.org/policing.%20driver%20of%20change.pdf; [e] http://www.nationsencyclopedia.com/Africa/Nigeria-ARMED-FORCES.html; [f] Nigerian Bureau of Public Enterprise; [g] ILO (2006).

Nigerian system was scarcely 8%. In Chile, it was only the self-employed – perhaps a quarter of the workforce – who were not liable to contribute. In Nigeria, some 90% of those who work are in the informal labour market. Moreover, of private sector workers, only those in establishments with at least five employees were obligatorily insured. In an economy of micro-enterprises, these workers made up a tiny fraction of the total. As Table 2 shows, the majority of covered workers were public servants and employees of para-statals.

Not surprisingly, pension expenditure for retired public sector workers dwarfed expenditure for retired private sector workers – in 2004 federal government expenditure on pensions for federal civil servants, the police and the military were the equivalent of nearly 0.9% of GDP, while benefits paid out by the (admittedly immature) NSITF system were the equivalent of under 0.01 per cent of GDP.[6]

Both the Chilean and the Nigerian system were regarded as over-costly. The Chilean system, which was absorbing some 3% of GDP in 1980, was forecast to be costing 20% of GDP by 2000 – the result both of demographic developments and of improvements to entitlement that had been legislated (SAFP, 2003). The Nigerian system was seen as vulnerable not because of adverse demography but because of its generosity. Reference was usually made to the schemes for federal employees, to the opportunities these offered to take some form of benefit after a very short period, and to the low minimum age of entitlement to a pension. It was less frequently made to the schemes for state and local government employees, but the IFIs frequently commented upon the fiscal deficits run by lower level administrations and upon the need to take control of government expenditure here. The pension reform was seen as helping to put the system on a 'fiscally sustainable footing' (IMF, 2005c: 66).

Both the Chilean and the Nigerian systems were regarded as inefficient and inequitable. Criticism of the Chilean system concerned the high contribution rates that discouraged employers from hiring labour and both employers and workers from making proper declarations of earnings. The differences in retirement ages for different categories of worker, and the way in which linking benefits to final earnings disadvantaged those with interrupted careers and those doing manual work, were pointed to (SAFP, 2003).

In the case of Nigeria, the privileges of civil servants were mentioned – the reform was also intended to make the system 'equitable' (IMF, 2005c: 66). On top of this, the various parts of the system were seen as inefficient. The occupational pension schemes run by the para-statals were largely unregulated and unsupervised (Milliman, 2002). The NSITF had no proper information technology and many records were merely on paper (IMF, 2005a; Pension Subcommittee, 1997). Administrative costs were high – consuming over a quarter of total income in 2004 and over three quarters at the start of the century.[7] There were allegations that the pension records of some parts of the civil service, the military and the para-statals were 'padded' with 'ghost pensioners', but it was also recognized that pensions for former federal and state employees often went unpaid (see many reports at http://www.globalaging.org). Estimates for the extent of arrears to former federal employees (including those from the military and from federal para-statals) have been put in the order of 2–3% of GDP, while arrears for state and local government pensioners cannot even be quantified (IMF, 2005a).

THE POLITICS OF REFORM

Soon after re-election in 2003, the president set up a Pension Reform Committee. Membership of that committee remains unclear – it is often referred to by the name of its chairman, i.e. as the 'Adeola Committee'. It did not start its work from scratch but rather built on the proposals of the *Vision 2010* committee. Its chairman had been a member of that committee, although not of its pension subcommittee, and his committee drew very closely from the pension subcommittee's findings and recommendations.

The Adeola Committee considered not so much basic principles but rather the details associated with establishing a Chilean-style system and with drawing up the appropriate legislation. Legal drafts were circulated for discussion with interested and affected parties, in particular representatives of business – the Nigerian Employers' Consultative Organisation (NECA) – and labour – the Nigerian Labour Congress (NLC), the Trade Union Congress (TUC) and Confederation of Free Trade Unions (CFTU). This did not prevent the NECA from complaining of being excluded from critical discussions. Initially, both business and labour argued that pension reform should focus on addressing existing pension arrears in the public sector. Both were concerned about the future of the tri-partite NSITF – both enjoyed an entrenched position in its administration. The NSITF collected contributions from employers and employees in the formal private sector and had built up a reserve. There were fears that one purpose of the reform might be to acquire these assets and to use them to solve the pension crisis in the public sector (Oshinowo, 2003).[8]

The demands of business and labour were, in part, satisfied by allowing the NSITF to establish a Pension Fund Administrator (PFA), an option that had featured in the 1997 report of the *Vision 2010* committee. Co-owned by the NSITF, the NLC, the TUC, the NECA and three financial service companies, that PFA – 'Trustfund' – has equal representation of business and labour on its governing board.[9] This did not prevent business from continuing criticism of the reform, although its opposition became more muted. Business and labour were also given one seat each on the Pension Commission (PenCom), the body that was to regulate the new system.[10] Subsequently, both business and organized labour stood behind the new system and, through their participation in Trustfund, actively promoted it.

The Pension Reform Act of 2004 concerned only federal-level schemes. The remit of the federal government with respect to pension policy did not cover the 36 federal states, the local government authorities below them, or the parastatals that these states might have established. The most the government could do was to exhort lower level governments to emulate the reform. PenCom duly drafted a law that each state could apply. It took two years before all agreed to enact the necessary legislation (Komolafe, 2006). As of spring 2007, six states had completed the process and sixteen were in the final stages of doing so.[11]

HOW THE NEW PENSION SYSTEM WORKS

Apart from its coverage, the new Nigerian system imitates the Chilean system closely. The similarities can be seen in Table 3.

Transfer to the new system is obligatory. Contribution rates for employees will actually be increased. Civil servants moved from paying no contribution at all to paying 7.5% of salary and private sector workers saw their contribution rate rise from 3.5% to 7.5%. There is no legal requirement for any compensation to be made to employees for the fall in take-home pay. The contribution rate for private sector employers also rose – from 6.0% to 7.5%. For federal employers, pension costs were made more explicit, since these have to pay the 7.5% employer contribution.[12]

Comparing benefits between old and new systems is fraught and depends upon a myriad of assumptions. At the time of the Chilean reform, it was argued that the new system would offer benefits as favourable as its predecessor – some 80% of last earnings. Later estimates, using 'more realistic' rates of return and expected persistence of contribution, suggest a replacement rate of about 40%, with somewhat more for men and somewhat less for women (IMF, 2005b; Mesa-Lago, 1994).

TABLE 3 *Comparison of Chilean and Nigerian mandatory pension systems*

	Chile	*Nigeria*
Public PAYGO	Closed	Closed
Covered workers	All employees, including agricultural workers and domestic workers	All federal civil servants, military, police, private sector employees in enterprises with 5 or more employees
Non-covered workers	Self-employed (unless choosing), family workers, the military	State and local government employees, self-employed and employees in enterprises with fewer than 5 employees (unless choosing)
For new/for existing employees	Mandatory/initially voluntary	Mandatory/mandatory (unless within 3 years of retirement)
Contribution (pension only)	10%, employee only	Private sector and federal government – 7.5% employee, 7.5% employer; military – 2.5 employee, 12.5% employer
Payout	Annuity, deferred annuity and drawdown, scheduled drawdown	Annuity, deferred annuity and drawdown, scheduled drawdown
Minimum pension	Yes, but set on ad hoc basis at about 75% of minimum wage, subject to min. 240 months contributions	Under old system 80% of minimum wage, under new system, yes but not specified
Disability pension	Excluded, requirement to take out a separate insurance with pension fund	Early pension permitted but no enhancement of benefits
Survivors benefit	Covered by supplementary disability insurance	Employer required to take out life insurance for the employee
Mandatory investment targets	Relative to average	Separate targets per asset category (e.g. for government bonds, weighted average of 2 year bond rate; for equities, Nigeria all shares index)
Asset allocation rules or 'prudent man'	Asset allocation rules	Asset allocation rules

(Continued)

TABLE 3 (Continued)

	Chile	*Nigeria*
Contribution collection	Decentralised (by pension funds)	Decentralized (by pension funds)
Past contributions	Covered via recognition bonds (redeemed at point of retirement)	Public sector unfunded schemes – covered via recognition bonds (redeemed at point of retirement) financed by transfer of 5% of wages into special redemption account at CBN; private sector (in old PAYGO) – accrued values to be calculated and credited to new individual accounts
Charges	Average 1.61% of wages on top of contribution[a] (effectively making average contribution rate c.11.6%) [approx. equal to charge of 1.2% of assets under management over 20 years]	Maximum 3% of assets under management (plus trivial Niara 100 per month as contribution) [approx. equal to making total contribution rate c.19.5% over 20 years]
Transfers between funds	Max. twice per year	Max. once per year

Note: [a] Excludes mandatory disability insurance contribution.

The proponents of the Nigerian reform were not explicit about what the scheme would offer, describing it only as providing a 'stable, predictable and adequate source of retirement income' (PenCom, 2004). Simulations carried out by the World Bank and the IMF suggest that the replacement rate for a person with a full career will be in the order of 40% of final wage or salary – to be compared to the maximum of 80% awarded under the federal civil servants scheme and of 65% under the NSITF scheme. Although this suggests a substantial cut in benefits, the IMF argued that the new system, unlike the old, ensures pensions will actually be paid, so that effective replacement rates might not be so different (IMF, 2005a). On the other hand, it also conceded that, to the extent that arrears were paid, this argument would be weaker.

With respect to the fashion in which benefits are taken upon retirement – an annuity but with opportunities to take a lump sum and to make programmed withdrawals – the Nigerian scheme mimics the Chilean one almost exactly. Like the Chilean scheme, it also provides for a minimum pension. However, nothing is said about the level of this pension or how it is financed. If the minimum is the same level as under the NSITF system (80% of the minimum wage), it is not high.

One of the few differences between the two systems is the treatment of disability and of survivors. The Chilean system keeps disability benefits outside the old age pension system. Disability insurance is mandatory, but an additional contribution – some 1.5% of insurable wages – is required. The new Nigerian scheme follows on from the NSITF scheme in offering an early pension to those deemed 'no longer mentally or physically capable' of carrying out their current job or are obliged to retire due to 'total or permanent disability either of mind or body'. However, there is no suggestion as to the pension being enhanced or topped up in any way to take account of lost years. The supplementary disability insurance under the Chilean system also provides benefits to survivors. Under the NSITF, survivor benefits were available, but under the new system these are provided by life insurance policies that employers are required to take out for their employees.[13] The policy is taken out by the employer, who is obliged to cover the premium in addition to the contribution made for a pension.

In order to deal with accrued entitlements, the Nigerian reform copied the Chilean reform by granting recognition bonds – in the Nigerian case, these are called 'Federal Government Retirement Bonds'. These bonds cover only the pensions of federal civil servants and other federal employees. Under the Chilean reform, a recognition bond was made out in the name of each contributor and placed in his or her individual account, the value being calculated as an amount sufficient to pay that fraction of the full pension that had been earned by service and wage to date. Under the Nigerian reform, arrangements are less clear. Bonds are to be issued to individuals, but no value has yet been set beyond the requirement that 'the right to retirement benefits … be recognised' (Pension Reform Act, 2004: para. 12.1).

The obligation behind the recognition bonds is supposedly met by each federal ministry or authority transferring the equivalent of 5% of its wage bill to a special central government account. However, there is no explanation of the adequacy of that sum, since no actuarial appraisal of the old systems was carried out. Arrangements for private sector employees are even less transparent. All contributions made in the employee's name to the NSITF are supposed to be calculated and, other than those necessary to administer and pay minimum pensions, be credited to a retirement savings account held by Trustfund.[14] The government seems to have given itself some space of time to resolve the question of what transfer values will be, since the assets held in this account cannot be transferred to another PFA for five years.[15]

The absence of clarity is a cause for some concern. In Chile, calculating transfer values was not without problems. Assessment was made on the basis of wages in the period two years prior to the reform. In Nigeria, where record keeping is acknowledged as a problem and inflation is high, it is uncertain what value the Retirement Bonds will have or how much of the real value of accruals will be transferred. Moreover, the opportunities for favouritism and discrimination are potentially rife.

THE REGULATION OF THE NEW SYSTEM

The importance of institutional capacity and effective regulation for the successful operation of a system based on individual accounts is widely acknowledged. Effective banks and life assurors – the providers and custodians – and a transparent and well-functioning equities and securities market – for the investment of assets – are required. So, too, is a dedicated regulator of the pension system and a dedicated regulator of financial services and financial markets. Clear accounting standards and reliable measures of creditworthiness are also needed.

An appropriate infrastructure was built up gradually in Chile. Some elements pre-dated the 1981 pension reform, some were created simultaneously and others later (SAFP, 2003). By the time the pension reform was made in Nigeria, a considerable number of the necessary elements were in place, but not all were functioning satisfactorily. The World Bank economic governance project sought to improve the capacity of the Economic and Financial Crimes Commission (EFCC) – the body set up to fight corruption – and the Securities and Exchange Commission (SEC), to assist in the greater use of International Accounting Standards and to strengthen the Nigerian Standards Accounting Board. The appropriations for these objectives (US$6.6m) were almost as great as those made to assist the pension reform (World Bank, 2004).

Not surprisingly, there is a high degree of similarity in the pension governance systems of Nigeria and Chile. The Nigerian Pension Commission (PenCom) closely mirrors the Chilean Pensions Superintendency. These overseeing bodies are responsible for approving pension fund administrators (PFAs) and pension fund custodians (PFCs). In both countries administrative and custodian roles are separated.[16] One of the Nigerian PFAs – Trustfund – differs from any other (including those in Chile) in being overseen by a board on which sit representatives not only of government but also of labour unions and business – something out of which it makes a virtue in its publicity material.[17]

PenCom, like the Superintendency, is responsible for setting rules governing investment portfolios. When the Chilean pension reform took effect, the domestic credit rating infrastructure was relatively underdeveloped. Determination of whether assets were of investment grade was the task of a Risk-Rating Commission, consisting of the Superintendency and representatives of financial institutions. Local credit rating agencies grew up later. In Nigeria, an indigenous rating agency had existed since 1992, but a second came into existence only recently. Its founding appears not unrelated to the requirement that, as is now the case in Chile, the issuer of any security in which pension assets are invested must have been rated by at least two agencies.

In the early years, the Chilean pension funds were forbidden to invest in equities or to invest abroad. It was only after some years that rules on equity investment were relaxed and only in 1991 that investment abroad was permitted. At present, Nigerian PFAs are forbidden to invest abroad and tight limits are placed on the extent they can invest in equities. On the other hand,

TABLE 4 *Nigerian investment rule restrictions*

Asset type	*Details*	*Maximum within portfolio (%)*	*Minimum rating*
Federally issued instruments	No limit	100	None (but currently rated BB by S&P and BB – by Fitch)
Instruments issued by a federal state	Max. 2% of assets of any one state and not more than 2% of any one issue	20	None (none currently rated)
Corporate bonds, REITs, mortgage- and asset- backed securities and debt instruments	Max. 2.5% of all issues of any corporate entity and not more than 2.5% of any one issue	30	BBB
Certificates of deposit and bankers' acceptances (money market instruments)	Max. 1% with respect to any one bank	25	A
Ordinary shares	Max. 1% in any one company and not more than 1% of that company's value	25	BBB (but AAA if IPO)
Open and closed funds	Max. 0.5% in any one fund and not more than 0.5% of that company's value	5	A
Foreign investments	Guidelines still to be issued		

investment in federal government securities is encouraged – these are automatically deemed as being of investment grade.[18] Investment rules are shown in Table 4.

The 2004 Pension Reform Act and the guidelines issued by PenCom demand a high level of professional knowledge by PFA and PFC personnel and lay down severe penalties for professional misconduct. On the other hand, they ignore one of the recommendations on pension fund asset management made by the Organisation for Economic Co-operation and Development (OECD, 2006) – that a PFA should provide a written statement about its investment strategies. This means that potential contributors have no opportunity to evaluate differences in investment strategies when making their choice of provider. None of the 13 PFAs initially operating provided such details, save the sole PFA offering three plans and distinguishing them as 'equity biased', 'balanced' and 'fixed income'.

Assessing the Nigerian Reform

Nigeria's reformers claimed that the reform would bring major benefits. Because it is so new, it is not possible to compare outcomes with aspirations. Nevertheless, there are some lessons that can be drawn from the experience of Chile, and these provide a basis for making an assessment of the Nigerian reform. This section considers both micro and macro issues – the costs associated with running such a pension system and the benefits such a system might have for the wider economy.

THE COSTS OF THE NEW SYSTEM

The 'Achilles heel' of pensions systems built around private, individual accounts has always been their administrative costs – the costs of collection of contributions, of management of accounts and of assets and the costs of 'annuitization'. Relative to public, PAYGO systems, systems of individual accounts lack economies of scale. A recent comparison of pension costs in the UK suggested that, while the overall costs of running the public pension system accounted for about 0.1% of contribution income, the costs of running a system based upon private accounts accounted for between 1–1.5%. This was sufficient to reduce the amount saved by up to 30% (Pensions Commission, 2005).

Many of the criticisms of the Chilean system have centred upon the costs that this implied. Under it, charges are levied as a supplement to contributions. There is no attempt to regulate the level of the charge – it was presumed that competition between PFAs would keep these down. This failed to happen. A considerable number of funds – 12 – were established initially, but rather than a competitive market of providers, an oligopoly, characterized by a lack of transparency with respect to essential details, prevailed (World Bank, 2005).

PFAs competed with one another not on cost but on 'service'. However, service meant superficial attractiveness. Plans were marketed, and an army of salespeople, rewarded on a commission basis, was recruited. In the early years, there were as many as 80,000, the equivalent of 2% of the labour force (Mesa-Lago, 1989). Commission-based salespeople offered gifts to those signing up, and sought to win over members of rival plans. Winning the latter over was made easier since there were no restrictions on the number of switches permitted. There was no correlation between charges and number of affiliates, or between charges and nominal returns (Mesa-Lago, 1994; World Bank, 2005).

To the cost of selling, which was a 'recurrent' cost, had to be added the enormous set-up costs that the individual pension providers had to bear. Moreover, the situation scarcely improved over time. At one time – 1994 – there were as many as 21 providers in the market, although, since then, consolidation has reduced the number down to six, of which the largest two account for two thirds of contributors and well over half of assets under management (Arenas de Mesa and Mesa-Lago, 2006; SAFP, 2003). The average level of charges actually rose over time before falling again to initial levels (World Bank, 2005). This was, to some extent, a consequence of government intervention. The Superintendency required that administrative charges be declared separately – i.e. not bundled with the disability and survivors' insurance premium – and exhorted providers to cut back on marketing and advertising efforts (World Bank, 2005). Even this has not been sufficient. To bring charges down, the government is now proposing that each year all new entrants be allocated to the provider offering the lowest charges and also committing itself to apply these to existing contributors (Gobierno de Chile, 2006).

The new Nigerian system suffers many of the same weaknesses. Initially, there were 13 open PFAs (as of 23 October 2007) competing for members and four custodians competing to manage the assets the plans collect. There is a maximum charge levied on assets under management, but this is 3% – twice as high as the destructively high 1.5% cited earlier and 10 times as high as the 0.3% at which an efficient, privately-managed system of individual accounts ought to be able to function (Pensions Commission, 2005). If the full charge were indeed levied, this could reduce savings over a 30-year period by over 40%.[19]

Competition among the plans might drive charges below the 3% maximum, but this remains an aspiration. Each of the Nigerian PFAs engages in advertising, and each has its own website. Some of these are highly sophisticated and contain animated features. They compete on appearance. None make mention of the charge that is to be levied. Certain of the PFAs have a relatively privileged position. Inertia, together with its access to the records of the NSITF, is likely to give Trustfund an advantage in enrolling private sector employees.[20] However, if the experience of Chile is valid, it is likely that few of the PFAs will survive, while the fewer PFAs there are, the lower the likelihood that competition occurs and the higher the likelihood that savings go not to finance old age but to support a new branch of the financial services industry.

Furthermore, any failure of a PFA is likely to bring its own costs. At the very least, the government might find itself obliged to pay minimum pensions to members of schemes that have failed. In fact, political pressure is likely to require intervention on a greater scale. In the early years of the reformed Chilean system, a number of pension fund providers were obliged to cease operating. Four of the largest PFAs came close to insolvency during the early 1980s and were rescued only by the government becoming, at least temporarily, the majority shareholder. A fifth was taken over by a creditor bank (Mesa-Lago, 1989). It is clear that, although the system was supposedly private, its survival depended upon support from the state. The same could be said to hold for the new Nigerian system. The government might be unable to allow it to fail.

Other costs to the state are those commonly referred to as 'transition costs'. Between half and three quarters of the value of the accounts of people retiring in Chile in the first 20 years of the reform was made up of the Recognition Bonds they had been awarded (Mesa-Lago, 1994). Redeeming these bonds placed a burden upon public finances that had to be met by the issue of new debt or the renunciation of spending for other purposes. Transition costs are unavoidable. There are opportunity costs to reforms of the type undertaken, whether or not they are declared through recognition bonds or some equivalent. Experience suggests that net costs are high in the initial decades following reform, tail off only after some 25 years and become negative only after some 40 years (Casey, 2004; Mesa-Lago, 2005).

In the case of Nigeria, the sole attempt at costing appears to be that carried out by the IMF and the World Bank in late 2003. Over some unspecified period, the new system for federal government employees will be only 10% cheaper than the old system. However, the IMF admitted that even this might be an overestimate, since it took no account of the contingent liabilities of the minimum pension (IMF, 2005a).[21] The ILO analysis of liabilities with respect to private sector pensioners and those close to retirement suggested that these might be as high as Niara 211bn – more than 5 times the value of the reserve that the NSITF had built up to date (ILO, 2006).

THE IMPACT ON CAPITAL MARKETS AND GROWTH

It is frequently argued that establishing a funded pension scheme can contribute to the development of capital markets and that the resulting accumulation of savings will promote economic growth.[22] The Nigerian government certainly stressed this. Describing the 'strategic implications' of the reform, it talked of 'the new scheme's potential to promote national savings' and, by implication, economic growth; of how funded pension schemes 'have the capacity to promote capital market development'; and of how 'DC schemes are believed to have the potential to generate positive economic externalities, including the promotion of deeper, more competitive, and more liquid financial markets' (PenCom, 2004).

The extent to which the Chilean reform has had a positive impact upon capital market development is disputed. Some have credited it with generating 'a financial deepening process that can be a decisive factor in order to develop a domestic capital market' (Haindl, cited in Matijascic and Kay, 2006: 12). The IMF has repeated this position, suggesting that '[t]he new system has created a significant demand for investment assets and has helped develop capital markets' (IMF, 2005b: para. 10). A more nuanced view is given by a recent World Bank study. This concluded that 'capital market development in Latin America (and in Chile in particular) has been driven largely by regulations imposed by the government on the pensions industry and other financial institutions' and that 'the role of pension funds in the development of capital markets in Latin American countries is largely determined by government instructions that touch every aspect of their operations, from the amount of contributions that the industry receives to the investment of pension assets' (Yermo, 2004: 2–3).

Others have been more sceptical. They have argued that pension reform by itself will not lead to improved capital markets since successful reforms also require regulatory changes, market liberalization, and the privatization of state-owned industries (Matijascic and Kay, 2006) and that 'it is *only* the combination of pension reform, privatization of public utilities, and effective regulation, against the background of very favorable macroeconomic conditions, that can explain the rapid development of capital markets in Chile' (Barrientos, 1998: 143, emphasis added).

The impact of funded pension systems on savings rates is also unclear. The academic literature is, at best, agnostic. It is recognized that saving can take many forms, one of which might substitute for another, and that increased savings by one party might merely finance increased indebtedness by another (Holzmann and Hinz, 2005; Orzag and Stiglitz, 2001). In the case of Chile, a substantial increase in the national savings rate was observable in the years immediately following the 1981 reform. However, much of this could be attributed to the tight fiscal policy, involving substantial budget surpluses, that was being pursued by the government. Moreover, although a major increase in corporate savings was also observed, this was attributed, as much as anything else, to a 1984 reform that reduced tax rates on both undistributed and distributed profits (Yermo, 2004).

As important as the level of savings is the form that they take. Funded pension schemes are argued to contribute to the development of long-term savings and, so, to the availability of long-term finance for investors. Because productive projects are less liquid, an increase in the availability of long-term capital should, on average, increase the returns to be made on investing in such projects (Holzmann and Hinz, 2005). Even if pension schemes invest solely in government bonds, they might have a positive impact in so far as they stimulate the debt market. 'They can create a demand for long-term rather than short-term public debt, and this eventually helps to build the yield curve' (Holzmann and Hinz, 2005: 113–14).

What is important is what actually happens. In the case of Chile, it is less certain that the pension system was able to channel finance to industry. Pension fund investment in equities has remained low, and Chilean PFAs own only about 10% of the stock market. Strict investment regulations prevent them from investing in equities that are not rated as investment grade. Yet the companies that could issue such equity tend to have adequate, and often cheaper, access to capital over the banking system, including access to finance from abroad. Those companies that have the greatest need for capital are not able to access pension savings and remain reliant on bank lending. In total, and over 20 years after the reform, banks still supply over five times more capital to Chilean industry than PFAs. At the same time, the PFAs own some two thirds of government debt (Yermo, 2004).

An assessment of whether the Nigerian pension reform is likely to contribute to economic development requires an appraisal of the country's financial infrastructure. The IMF concluded that, '[o]verall, [that infrastructure] has not fostered stability or supported investment and economic development', and it deemed the financial environment to be one of 'high risk'. As a consequence, banks were reluctant to supply loans to the real economy. The Fund also pointed out that long-term bank lending was unavailable and that the corporate bond market was inactive. Only larger, more established firms had access to equity financing through the domestic stock exchange. The banking system as a whole was 'unsound'. The level of non-performing loans was high and misreporting, systemic under-provisioning, widespread insider lending, and illegal transactions were common. A heavy reliance on cash was a sign of public mistrust of financial institutions (IMF, 2005d: para. 86).

The World Bank also saw Nigeria as lacking a financial sector that was strong enough to support a multi-pillar pension system and advised against reform of the sort that was being planned or undertaken. It described the country's financial sector as 'characterized by high margins, low levels of intermediation, and few financial products or services' (World Bank, 2005: Chapter 2).

A comparison of the Nigerian stock exchange with that of other countries where funded pension systems are to be found underlines the concerns both of the Fund and of the Bank. In 2004, the Nigerian stock exchange had a capitalization of little over 20% of GDP, compared to some 100% or more in the Netherlands, the UK and the USA. In terms of liquidity, the Nigerian exchange was even less important. The value of securities traded in that year was under 2% of GDP, compared to 100% or more in the countries mentioned earlier. Volumes traded relative to capitalization were similarly low. Moreover, stock market valuation refers to the value of all securities listed, not only to the value of those of investment grade. Of the 200-plus quoted companies, only some 60 have been rated at all. The number of instruments – equities, bonds and government paper – that might be eligible for receipt of investments by pension funds is reckoned to be no more than 40 or 45.[23]

The assets that are building up in the pension funds – currently at a rate of some US$45m per month, but US$100m if the federal scheme was fully up and running – are currently being invested in money market instruments. The fiscal surplus that is currently being run by the federal government means that there is not even a sufficiency of treasury bills in which they could be invested. Moreover, the price of domestic shares is currently being inflated by the shortage of new issuances, since domestic companies that are of investment grade have no need to raise additional capital. The shares of the multi-national oil companies that are active in Nigeria are neither quoted on the Nigerian stock exchange, nor are the shares of the recently privatized telecommunications companies, since these companies were bought up by foreign operators. The initial public offering of the one major company that was launched to manage a further range of privatized operations was undersubscribed and its shares, in any case, have not been deemed fit for pension fund investment.[24]

As a consequence, the regulator, PenCom, has had to take upon itself the somewhat unexpected role of encouraging the development of appropriate long-term financial instruments. It has pinned its hope on 'infrastructural bonds' that would finance improvements of communications and energy and, thus, improve Nigeria's productive potential. Exactly who would issue these bonds is unclear. To be of investment grade, they would, effectively, have to be backed by existing, rated domestic financial institutions. Since these have neither the interest nor the skills to develop such products, PenCom is looking for foreign advisors to assist it in realizing its aspirations.

It might be argued that the situation of Chile prior to the 1981 reform was not dissimilar to that of Nigeria at the start of the millennium. It is true that the Chilean stock market was small and illiquid. It grew partly as a result of a large-scale privatization programme that did not merely involve buy-ups by foreign companies, and in part as a result of a programme promoting economic stability that encouraged investor confidence. How far either has been achieved in Nigeria is uncertain. Pension reform alone will not create such conditions. It did not do so in Chile. Rather, it is only if such conditions prevail that pension reform in Nigeria has any chance of success.

Conclusions

Nigeria was the first country in sub-Saharan Africa to introduce a pension system based on individual, funded accounts. Two issues arise – whether the infrastructure exits that permits the operation of such a system and, yet more fundamentally, whether such a system is appropriate for the needs of a country like Nigeria. Both issues are addressed below.

GENERAL GOVERNANCE ISSUES

Clear regulations are a necessary but not a sufficient condition for good governance. An appropriate implementation and enforcement culture is also required. However, Nigeria is known for its low scoring on measures of sound administration. Even by 2005 there were only five countries placed lower than Nigeria out of the 158 rated by Transparency International (http://www.transparency.org). Equally, it was scarcely above the 6th percentile on the World Bank Institute rating of countries with respect to 'control of corruption' and 'rule of law' and only in the 16th percentile with respect to 'regulatory quality' (http://www.worldbank.org/wbi/governance). Moreover, many Nigerian commentators share the pessimistic views of external assessors (Oshionebe, 2004).

Any evaluation of the new pension system needs to take account of this. Even a casual analysis of the composition of personnel in the emerging pension fund industry shows a high degree of overlap with other business interests. Thus, two of the four PFC directors had also been members of the *Vision 2010* committee. The first chairman of PenCom was appointed as the managing director of Transcorp – the company founded to play a leading role in the privatization of state-owned enterprises. The chairman of Transcorp was the director general of the Nigerian Stock Exchange (NSE), and in this function, she promoted Transcorp shares to potential stock buyers (Abati, 2006; TMCnet, 2005). When the chairman of PenCom fell out with the president and was dismissed, he was replaced by a former managing director and chief executive of a bank that is the parent company of one of the four approved PFCs. Moreover, the heads of the major regulatory institutions – the SEC and EFCC, as well as PenCom – are hand-picked by the president who can also dismiss his appointees at any point.[25] There is a pattern of general lack of regulatory autonomy of Nigerian institutions (Herskovits, 2007).

However, it also has to be asked why the current reform was undertaken at all. A major push factor was that the old system was characterized by large-scale non-payment. At least part of the failure to pay out promised pensions in a timely fashion is attributable to the fact that almost all federal government revenue comes from a single source – oil – the price of which is unstable, while the distribution of the revenues lies with the federal government alone. Downturns in the oil price could significantly curtail income while leaving obligations, including pension obligations, unchanged. This applied as much to pensions owed to employees of the individual federal states, and the local governments below these, as to the pensions owed to employees of the federal government itself. The resources of lower levels of government consisted primarily of their entitlement to a predetermined share of national oil revenues. Moreover, the individual states and local governments have no control over the salary levels, and so pension entitlements, of their employees – these were set federally (Adamu, 2005; Barkan et al., 2001). All of this had been recognized in the *Vision 2010* report, and it had led it to pronounce that '[o]nly the rich [countries] can successfully operate an unfunded, non-contributory pension scheme' (Pension Subcommittee, 1997: 31).

The *Vision 2010* committee had set the objective of most Nigerians having access to a formal social security programme (Pension Subcommittee, 1997: 45), and it argued this could be achieved by establishing a funded pension system backed by large-scale privatization. Yet this objective was not met by the reform of 2004. The new system continues to exclude the poor and workers in the informal sector. Furthermore, federal, state and local employees might see the high deductions from their salaries for the funded pension system as another tax and might resist the new system in various ways. Last, it is at least questionable whether selling of state enterprises and issuing of shares to absorb pension savings, together with the transfer of pension management to private companies, will solve governance problems and uproot corruption.

AN ALTERNATIVE APPROACH: SOCIAL PENSIONS

If neither the old nor the new pension system is appropriate, policy makers might look at whether there are other ways to provide for older people in countries such as Nigeria. One of these might be a social pension – a cash transfer to old people in which eligibility is on residence and where financing comes not from contributions but from general tax revenue. The contribution of social pensions to the objective of poverty relief in developing countries has been long advanced by the ILO; more recently, it has been recognized by the World Bank as well (Holzmann and Hinz, 2005; Palacios and Sluchynsky, 2006). Social pensions have been credited with positive developments in those countries that have introduced them.

The Chilean government is about to introduce social pensions, termed 'basic solidarity pensions' (Gobierno de Chile, 2006). Currently, some 60% of the elderly population receive a very low pension or depend on social assistance (Arenas de Mesa and Mesa-Lago, 2006; Riesco, 2004). Its introduction is an acknowledgement that, after 25 years, the system of funded pensions has failed to address the pension needs of the majority of Chilean citizens.[26]

The costs for setting up a social pensions system has to be compared with the costs of other social policies such as support for primary education or basic health care. Some studies have suggested that social pensions have contributed to improving women's health, fighting rural poverty, heightening the status of older people in the family and increasing school enrolment (Johnson and Williamson, 2006). However, social pensions also have disadvantages. In the Nigerian case, it is not merely that they might weaken traditional systems of informal family care for the elderly (Johnson and Williamson, 2006). A social pension would still be reliant upon the same revenue base as the old, unfunded, pension scheme. It would be an *alternative* way of distributing government revenue, channelling it away from elites to broader swathes of the population, but the instability of the revenue source, and thus the likelihood of payments falling into arrears, would remain. Moreover, effective delivery mechanisms would have to be in place. Determining eligibility for a social pension has to be done on a decentralized basis, placing considerable powers in the hands of local administrative structures – informal ones as much as formal ones. The administrative capacity of state and local governments in Nigeria has been frequently questioned. A recent survey of state governments by the National Planning Agency found that, on a series of performance benchmarks covering areas such as fiscal management, service delivery and transparency, only 13 out of 36 states scored a minimum 25% (White, 2006).[27]

Nonetheless, a social pension system might be well-suited to address the 'catch-22' of a country such as Nigeria that needs to maintain a strong federal centre based on centralized resource endowment but that lacks legitimacy. Social pensions would distribute some of the oil wealth in an equal manner between richer and poorer states. The federal government could gain additional legitimacy through a social pension system.

To sum up, Nigeria might have tried learning from Chile, but it learned from the wrong book. Moreover, not only was that book wrong, it was also becoming outdated. Tackling the problem of social security in old age demands a different approach. Nigeria could learn useful lessons from abroad, but it should learn the latest, not the dated, lessons from Chile.

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NOTES

1. Proximity, similarity and status are often suggested as potential sources of encouragement and facilitators of policy transfer (Weyland, 2004: Chapter 1).
2. At best the attitude of the Bank could be summed up in a comment it made in its assessment of the history of pension reform in Latin America in the 20 and more years since 1981, namely that the various 'shortcomings [that were experienced], if not a failure of the reform *model*, are indeed failings of the *actual* reforms undertaken' (Gill et al., 2005: 5).
3. The Managing Director of the IMF spoke of *Vision 2010* at a conference, 'Nigeria: The Way Forward', in spring 1999, while the government outlined it in its Letter of Intent to the Fund of mid-2000, wherein it described the policies it intended to implement in the context of its request for financial support (see IMF, 1999, 2000).
4. In explaining how the reform nevertheless went ahead, the Bank referred to 'inconsistency in [its] pension assistance [that] can also be attributed to the lack of specific guidelines on how and when to support pension reform'. It went on to suggest that 'turnover in Regional Bank leadership can exacerbate inconsistency and lack of continuity, especially as Country Assistance Strategy priorities change. Further, when conflicts arise between the sector and country units, there is no agreed-upon method of resolution'. Here, Nigeria is cited as a case in point (World Bank, 2005: 50).
5. These were workers within three years of retirement age and people who had already retired.
6. Based on the authors' calculations using the consolidated accounts of the federal government produced by the IMF and data from the NSITF.
7. This can be calculated using data available from the NSITF website, see http://www.nsitf.com
8. By 2004, that fund was worth rather under 0.5% of GDP.
9. A further business interest group, the Nigerian Insurers Association, made representations to the committee, insisting that any legislation should include explicit reference to life insurers as potential providers of pensions. This demand was met by including into the law a provision allowing insurance companies to 'split' their licenses and to operate in the pension sector as long as they form separate business entities for this purpose (Alabadan, 2006).
10. There is also a representative of the Nigerian Union of Pensioners. The remaining nine ordinary members of the board members represent federal government interests, the Central Bank of Nigeria and the Securities and Exchange Commission.
11. Personal communication from PenCom.
12. In Chile, the reform meant that there were no employer contributions at all, while employees faced a substantial increase in contribution rates. This was supposed to be compensated for by a one-off pay increase, mandated by government. At a time of high inflation, how real the compensation was is questionable (Gruber, 1997).

13. If called upon, these policies pay out a lump-sum payment equal to three years' earnings.
14. It is unclear whether the minimum pension referred to is one for the individual or whether all potential minimum pensions are meant.
15. With respect to pension rights accrued in an occupational scheme, these are to be transferred to the PFA of the member's choice unless the occupational scheme has been able to transfer itself into a closed PFA.
16. In Chile, the custodian role was initially performed by the central bank and only subsequently by private companies (Queisser, 1998). In Nigeria, banks and insurers were given the opportunity from the start to set up companies that could serve as PFCs.
17. In Chile, the only example of social partnership involvement in the PFAs to be found was with respect to two of the original 12 PFAs that were managed by 'unions' and professional associations (Mesa-Lago, 1994: 129).
18. Federal government bonds were the mainstay of NSITF investments in the past. Such bonds were attractive in the sense that the nominal yield on them was high – higher than those available from other recognized investment products. However, if government bond yields remain high, it means that the government has failed to meet its objective of monetary and fiscal stabilization, while if the government does meet this objective, yields will have to fall.
19. This assumes an inflation rate of 5%, a nominal bond yield of 10.5%, a nominal equity yield of 12.5% and a portfolio of 35% equities and 65% bonds.
20. The federal government also appeared to give an advantage to certain of the new PFAs when the Ministry of Information and National Orientation issued a circular listing seven PFAs by name through which the civil servants could open their accounts – this at a time when 13 had been approved (ThisDay, 3 February 2006).
21. The federal states and local government authorities will incur their own transition costs when they, too, reform their pension systems.
22. For the World Bank, this was a secondary objective; the primary objective was consumption smoothing and the reduction of poverty (World Bank, 2005: 5). The Nigerian government's *Vision 2010* report, by contrast, stated (Pension Subcommittee, 1997: 16): 'There are two important roles pension schemes play in a modern economy. These are: (a) At micro level, it is a tool for human resource management; (b) At macro level, it is an important device for mobilizing long-term savings for the nation's economic growth.'
23. Personal communication from PenCom.
24. The company, Transcorp, was supposed to act as a sort of South Korean *chaebol*, pursing a leading role in the privatization of Nigerian enterprises. Its business focus included national telecommunications, the oil and gas sector and 'virtually every major area of the economy' (TMCnet, 2005).
25. For the legal right of the President to appoint and dismiss regulators, compare the relevant legal documents regulating the appointment and dismissal of PenCom, SEC and EFCC personnel (see http://www.nigeria-law.org; for the work of the EFCC, see http://www.efccnigeria.org/index.php).
26. The reform also aims to address issues of gender equality by introducing unisex annuity rates and contribution credits for child bearing. In addition, attempts are made to expand coverage rates of the self-employed and of low-wage workers. For a transitional period, these groups will receive subsidies for contributing to the system.
27. Senior civil servants from Nigeria, in conversation with the authors, expressed a strong preference for a pension system that was governed at the level of the

Federation rather than at the state or local level, since the distribution capacity of the Federation was seen to be higher (personal information, May 2006).

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RÉSUMÉ

Réforme de Pension pour le Nigéria: Comment pas 'Apprenez des Autres'

Tandis que la réforme de pension pour le Chili a reçu l'attention considérable, son imitation n'en a pas pour le Nigéria. Cet article est la première analyse approfondie de la réforme nigérienne. Il suggère que les autorités nigériennes n'ont pas appris les leçons du Chili. Ils ont transféré un système qui n'a pas servi au pays dont on l'a copié et c'était inadéquat au pays auquel il a été copié. Pour des pays tels que le Nigéria, il faut prendre les formes d'alternative des dispositions en prévision de la vieillesse. Ils pourraient considérer adopter une pension sociale.

RESUMEN

La Reforma de Pensiones en Nigeria: Como no se Debe 'Aprender de los Otros'

Aunque la reforma de pensiones en Chile ha recibido mucha atención, no se puede decir lo mismo respecto a su emulación en Nigeria. El presente documento es el primer análisis que examina en profundidad la reforma en Nigeria. Indica que las autoridades en Nigeria no han aprendido la lección de lo que pasó en Chile. Transpusieron un sistema que falló de servir al país de donde fue copiado, y que no es apropiado al pais que lo copió. Para los países como Nigeria, hay que buscar formas alternativas de provisión para la vejez. Una pensión social podría ser una posibilidad.

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