KWAME NKRUMAH UNIVERSITY OF SCIENCE AND TECHNOLOGY, KUMASI

INSTITUTE OF DISTANCE LEARNING

The Contribution of Pension Funds to Housing Provision in Developing Countries: Case Study of SSNIT in Ghana

A Dissertation presented to the Institute of Distance Learning, KNUST in Partial Fulfillment of the Requirement for the Commonwealth Executive Master in Business Administration

BY

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JULY, 2011

DECLARATION

"I declare that I have wholly undertaken the study reported herein under supervision"

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"I declare that I have supervised the student in undertaking the study reported herein and I confirm that the student has my permission to present it for assessment".

MR. JONATHAN ZINZI AYITTEY ………………… …………………

(SUPERVISOR) SIGN Date

……………………………………… ………………… …………………

(HEAD OF DEPARTMENT) SIGN Date

DEDICATION

This report is first of all dedicated to God almighty, whose unwavering love and mercy have been my sustenance all my life. I also dedicate it to my lovely children, Seyram Franklyn Mensah Anatsu and Sedinam Esenam Mensah Anatsu as well as my wife, Cynthia Prempeh-Anatsu, whom together have shown me the love that I need from beloved ones.

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ABSTRACT

Residential property finance in Ghana is still at its rudimentary stage of institutional financial accessibility with the preponderance of the informal ways of financing and the periodic government makeshift programmes and policies aimed at rescuing the situation. Housing is recognized as a basic necessity of life which ideally must be available and affordable to the citizenry without discrimination based on economic situation or any other circumstances. These have, however, remained illusions since currently those who need funds for housing cannot freely and adequately access them. SSNIT, in recognition of the fact that contributions are the collective savings of the people and in line with its social contract with the contributors has tried to address these problems over the years in many forms. Some of these include direct involvement in construction of housing units, direct mortgage arrangement with its contributors and indirect financing of housing through the establishment of financial institutions and intermediaries to mobilize resources for housing finance, among others.

The study assesses the contribution of the pension funds to housing provision in the country through the various forms the Trust had attempted to meet the housing needs of its contributors. The opinions of the contributing public was solicited and analyzed to arrive at findings and conclusion thereon. Appropriate recommendations were proffered to some of the shortfalls of the system, which the study considers as the panacea to housing finance problems in the country.

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LIST ABBREVIATIONS

BHC:	Bank for Housing Construction
CDOs:	Collateral Debt obligations
CMOs:	Collateral Mortgage Obligations
CSS:	Contract Saving Schemes
DB:	Defined Benefit
DC:	Defined Contribution
FGBS:	First Ghana Building Society
GDP:	Gross Domestic product
GREDA:	Ghana Real Estate Developers Association
HFC:	Home Finance Company
HIPC:	Highly Indebted Poor Countries
HPF:	Housing Provident Fund
ILO:	International Labor Organisation
ISSA:	International Social Security Association
MBSs:	Mortgage Backed Securities
MIS:	Management Information System
NPRA:	National pension Regulatory Authority
NRCD:	National Redemption Council Decree
NSSF:	National Social Security Fund
SIC:	State Insurance Company
SPSS:	Statistical Package for Social Scientist
SSB:	Social Security Bank
SSNIT:	Social Security and National Insurance Trust
S & L:	Savings and Loans

CHAPTER ONE

INTRODUCTION

1.0. Background

Housing as a basic necessity of life, must ideally be available to the citizenry of every nation without discrimination based on economic circumstances, ethnic considerations, social segmentation, political orientation, among others. However, due to rapid population growth and the increasing urbanization and constraints in the housing delivery system, the supply of housing especially for the low and middle-income households, has become one of the most crucial problems facing most developing nations, of which Ghana is not an exception. During his turn at the "Meet the Press Series" in July, 2010 (on the passage of the STX housing deal by Parliament, which is essentially aimed at providing additional 200,000 housing units to the existing stock) the Minister of Water Resources, Works and Housing estimated the national housing stock deficit at 1million units as at year ending 2009.

Ghana has had a number of development plans that, among other things, cover policies and programmes for the housing sector. Housing policies and objectives during the pre-1986 period emphasized the need for government to provide adequate housing through direct involvement in housing construction. The central government was then assigned the role of both providing the required resources and construction of houses through its corporations and departments. The leading idea behind these early housing policies centred on the general belief that central governments needed to intervene in the provision of certain basic but essential goods as a social responsibility towards its citizenry, in order to protect the poor and the vulnerable in society. Unfortunately, however, in 1986 the then Ministry of Works and Housing stated that the State Housing Company Limited, which was then one of the main public sector institutions for housing delivery, was delivering at 13% of its planned output. The Ministry also estimated that the private sector's contribution to the national housing stock had declined to about 25% of its previous levels of 32,000 units per annum. Currently it is estimated that about 3,450,000 additional housing units would be required by 2025 at an annual rate of approximately 138,000 to adequately house every Ghanaian at a national average household ratio of 1.5 per household, given the national population growth rate of 2.4% (2000 & 2010 Population and Housing Census).

Given the huge market that potentially exists for the housing sector in Ghana it would have been expected that financial institutions and the investing public would be aggressively directing investments into that sector. Real estate investment and finance are inextricably linked and equity investors or borrowers would therefore treat real estate investment as much as a financing decision. Real estate investment essentially means investing in immovable properties such as land and everything attached to it such as buildings, also known as properties. A characteristic feature of housing investment is its relative size and long investment horizon, requiring large amounts of long-term finance, which particularly fits the investment categories of pension funds. This research therefore investigated the contributions of pension funds in the real estate industry, examined the barriers militating against the sector as a preferred investment option and proffered recommendations aimed at addressing the problems so identified.

1.1. Statement of the Problem

Housing financing has been identified to be one of the major problems facing the housing sector. In a country where the average propensity to save is very low largely due to general low income levels, it becomes extremely difficult for an average income earner to mobilize income and material resources to undertake capital investments such as housing. Majority of Ghanaian salaried workers can simply not make any meaningful saving from their meagre salaries to finance house construction. One of the major means of raising funds to finance the purchase and construction of houses in many parts of the world is through the use of a mortgage instrument. However, the mortgage industry in Ghana is almost non-existent. Most banks are also reluctant to grant loans to people without collateral in the form of landed properties, which unfortunately, most owners have no prove of secured titles to.

As the population continues to grow and urbanization accelerates, the necessity of providing adequate housing also mounts. Unfortunately, however, there is a continuous widening gap between the requisite finances required in the housing sector and the resources available for providing adequate housing for the population. There is therefore the need for adequate long term investible resources to be directed at this sector by government, banks and non-bank financial institutions and the general investing public. The reality on the ground, however, indicates that some of these institutions and individuals are not enthused about locking up resources in a relatively low-yielding, long term investments as housing when they could so easily turn around their investments in other short-term investments. It therefore becomes imperative for resource-owning institutions with long term liabilities such as Pension Fund Managers and Insurance Companies to help salvage the precarious financing problem in the housing sector. Pension funds are a ready source of investment in the mortgage industry in other parts of the world and have significantly contributed to providing affordable and adequate housing for their respective populations. SSNIT as Ghana's pension fund manager has contributed immensely in providing housing facilities to a section of the population. It is, however, believed that the institution could have done much more than its current level of contribution. It could also be observed that SSNIT as an institution has been out of housing construction since year 2000 and only recommenced in 2009 to construct some 350 housing units in Adenta, a suburb of Accra. This research is therefore set out to investigate the contribution of SSNIT to solving the financing problem of the housing sector in Ghana.

1.2. Objectives of the Study

The main objective is to investigate pension funds as an alternative to housing finance. In the pursuance of this objective the study shall explore the following critical areas, which include among other things:

- To examine the core business of SSNIT and find out what informed the Trust's decision to enter into housing;
- To examine the individual policies and projects of the Trust and their outcome so far as housing delivery is concerned i.e success and failure.
- To examine the practical domestic problems militating against the housing sector as a preferred investment option for pension funds

1.3. Justification of Study

Increasingly the housing deficit problem in Ghana is assuming a crisis situation, due to the continuous mismatch between demand for and supply of housing units for the populace. This problem has also somewhat taken a political dimension with the various interest groups suggesting various ways this social and basic human need could be addressed. Admittedly, previous governments have made strenuous but inconsistent and piecemeal attempts at solving this problems with some disjointed policies that did not holistically tackled the bedrock of the problems. The most fundamental problem of the housing sector is access to soft, flexible and adequate long term finance. Nevertheless, some quasi-government institutions such as the Social Security and the National Insurance Trust (SSNIT) and the State Insurance Company (SIC), among others, entered into the housing industry by directly engaging in housing provision or extending some form of financial support to other organizations, both private and public institutions engaged in housing provision. SSNIT, since its entry into the housing industry has directly or indirectly contributed immensely to alleviating the severity of the housing problem the country faces. However, the story of SSNIT's contribution has not been told in a comprehensive and coherent manner as expected. It is therefore the intention of this study to examine the core business of SSNIT and find out what informed the Trust's decision to enter into housing, identify all the various ways that the Trust had attempted to help solve the housing problem since 1974, examine the individual policies and their outcomes as far as housing delivery is concerned

1.4. Scope of Study

A detailed research into the chosen topic is obviously a daunting task that undoubtedly requires a lot of time, material and financial resources as well as a balanced combination of varied technical brains from related fields of studies in housing finance, mortgage administration, pension fund management, among others, to adequately address. This study has, however, tried to focus on the contributions of pension funds in the real estate industry over the years in a comprehensive and focused manner, examined the barriers militating against the sector as a preferred investment option and proffered recommendations aimed at addressing them.

1.5. Research Methodology

Systematic and orderly procedures and processes have been adopted in attaining the objectives of this study. Both primary and secondary sources have been relied on in this dissertation. The theoretical aspect of this study has been restricted to secondary sources such as books, lecture notes, seminar papers, journals and relevant literature on pension fund management/administration, mortgage systems and some relevant legislation in selected jurisdictions in the world, including Ghana.

Primary data was obtained by means of interviews with selected staff and management members of SSNIT, SSNIT contributors and some home owners at some selected SSNIT flats in Accra and Kumasi. Two categories of questions were designed and administered to the interviewees. Mostly closed-ended questionnaires were administered to the homeowners in the selected Estates whiles the engagement with the institutions visited was mostly interactive and for that matter follow-up questions were asked to seek further clarifications.

Simple random sampling techniques were used on the selection of the sample space for the prospective home owners/SSNIT contributors while the purposive sampling method was adopted for the study institution to enable access to the relevant information from the appropriate sources. Based on reconnaissance survey at SSNIT customer care unit, Adum-Kumasi, it was realized that on the average 200 contributors visited on daily basis to take statements, make enquiries, register or make payments. Based on this information the study considered to interview fifty (50) of the contributors for five consecutive days. In all, two hundred and fifty (250) contributors were interviewed.

Both qualitative and quantitative methods of analysis of data were adopted with the use of statistical tools such the SPSS for the interpretations and presentation of the data so collected from both primary and secondary sources and presented in percentages, averages, bar charts and pie charts where appropriate.

1.6. Organization of the Study

There are five chapters in all. Chapter one deals with the introductory aspect of the study, statement of the problem, objectives of the study and research methodology.

Chapter two deals with the review of relevant literature on pension fund administration in Ghana and some African countries, Ghana's Pension Act 2008 (ACT 766) and other literature found appropriate for an indebt research into the chosen topic. Chapter three basically deals with the study institution, the Social Security and National Insurance Trust with a detailed statistics on its organizational structure, investments portfolios and policy on investments in housing, among others.

Chapter four deals with the presentation and analysis of data. It shows how pension funds have been used in housing finance over the years and how it impacted on the access to housing units by Ghanaians. And chapter five focuses on the summary of findings, recommendations and conclusion.

1.7. Limitation of the Study

Some inevitable challenges were encountered during the course of this study that are worth outlining. Time has never been the best ally of any researcher seeking to do detailed study on topical issues such as the one under consideration in this study. It was therefore not surprising that time constraint was a serious limitation to this work.

Adequate resource for such a study was always going to be an issue and indeed was felt to the core since the researcher had to solely finance every expenditure on the study. There were times that the researcher had to travel to other places in search of relevant data. Cost of accommodation, transportation, feeding and other associated costs were all borne by the researcher.

The bureaucracy usually encountered in public institutions was hugely a limiting factor that delayed the completion time of this study.

In spite all the above enumerated problems enough data has been collected, sieved and analyzed to form the basis of the findings, recommendations and conclusion contained in this study.

CHAPTER TWO

LITERATURE REVIEW

2.0 Introduction

In the opening chapter attempt was made to outline and motivate the study of the use of pension fund in housing finance in developing countries, case study of SSNIT in Ghana. The purpose of this chapter is to relate this study to previous scholarly attempts to describe, analyze and explain academic writing and the process of its acquisition.

The concept of housing finance has been reviewed from the perspective of the basic necessary conditions for its effective implementation, using a comparative analysis of the situation in both developed and developing economies with much emphasis on the basic characteristics of developing economies/markets per the qualifying conditions. Pension fund administration systems in some developing countries and their contribution to housing finance have also been considered.

2.1 The Concept of Housing Finance

Housing finance is a broad topic, the concept of which can vary across continents, regions and countries, particularly in terms of the areas it covers. No concise definition of housing finance has been sighted and considered concise and definitive enough, that could be relied on as a working definition for the study. However, some statements presented in quotes below by some authorities offer snapshot of what housing finance as a topic covers.

"Housing finance brings together complex and multi-sector issues that are driven by constantly changing local features, such as a country's legal environment or culture, economic makeup, regulatory environment, or political system". (Chiquier & Co, 2009).

Housing Finance as a concept had evolved over the years in the developed economies with various schemes and models being tested and tried in some economies and the success stories being replicated in emerging economies. Some of the schemes readily recallable include Building Societies/Saving & Loan Schemes, Commercial Banks, Contract Saving Schemes, Specialist Mortgage Banks, Combination of different systems, secondary mortgage markets, Primary Mortgage systems, and Housing Provident Funds, among others.

According to Boleat (1989), *"The purpose of a housing finance system is to provide the funds which home-buyers need to purchase their homes. This is a simple objective, and the number of ways in which it can be achieved is limited. Notwithstanding this basic simplicity, in a number of countries, largely as a result of government action, very complicated housing finance systems have been developed. However, the essential feature of any system, that is, the ability to channel the funds of investors to those purchasing their homes, must remain." (Boleat, 1985)*

However, in more recent years, a number of other definitions with much wider scope have appeared.

King (2009), considers housing finance in this way; *"Put simply, housing finance is what allows for the production and consumption of housing. It refers to the money we use to build and maintain the nation's housing stock. But it also refers to the money we need to pay for it, in the form of rents, mortgage loans and repayments."* (King, 2009).

Or

"There is recognition of other relevant forms of housing finance [apart from residential mortgage finance] such as developer finance, rental finance, or microfinance applied to housing. Developer finance is often in the form of unregulated advance payments by buyers, and developers sometimes provide long-term finance to buyers through installment sales when mortgages markets are not accessible. Microfinance for housing is typically used for home improvement or progressive housing purposes. Loans are typically granted without pledging properties. Although the overall impact of microfinance in housing remains limited, this activity can represent an important source of funding for those in the informal sector." (Chiquir & Co, 2009).

For the purpose of this study, however, housing finance shall be considered to be "***all the relevant institutional arrangements by which finance flows freely and adequately from those that have it to those that need it for the sole purpose of house acquisition".***

2.2 Sources of Funds for Housing Finance

The aim of a housing finance system is to provide funds to the producers and purchasers of housing, both rental and owner-occupied to enable them actualize their respective desired goals. This simple description has spawned a broad array of institutional arrangements, ranging from contractual savings scheme, to depository institutions specializing in mortgage finance, to the issuance, sale and trading of mortgage securities. All of these arrangements have been created with the same purpose in mind, to channel funds from savers to borrowers. As economies develop, provision of housing finance often moves away from extensive reliance on special circuits towards integration of housing finance into broader financial markets. As populations continue to grow and urbanization accelerates, the necessity of providing adequate housing also mounts. There is therefore the need to put in place effective and flexible finance systems that would enable all interested players to participate in the market fairly and equitably.

In fulfillment of these desires therefore there are in existence several models for housing finance in various jurisdiction based on variety of fundamental prerequisites and enabling conditions. Some of these include but not limited to Building Societies/Saving & Loan Schemes, Banks, Contract Saving Schemes, Specialist Mortgage Banks, Combination of different systems, Secondary mortgage markets, Primary Mortgage systems, Housing Provident Funds, Developer Finance, Rental Finance and, and Micro Finance, among others.

2.2.1 Building Societies/Savings and Loans Scheme

A savings and loan association (or **S&L**), also known as a **thrift**, is a financial institution that specializes in accepting savings deposits and making mortgage and other loans. The terms "S&L" or "thrift" are mainly used in the United States; similar institutions in the United

Kingdom, Ireland and some Commonwealth countries include building societies and trustee savings banks. They are often mutually held (often called mutual savings banks), meaning that the depositors and borrowers are members with voting rights, and have the ability to direct the financial and managerial goals of the organization, similar to the policyholders of a mutual insurance company. It is possible for an S&L to be a joint stock company and even publicly traded. However, this means that it is no longer truly an association, and depositors and borrowers no longer have managerial control

According to Chiquir et al (2009), in many countries, the traditional and still predominant mechanism for formal financial-sector finance for housing is the retail depository institution as depicted in the figure 2.1 below.

Fig. 2.1: Depository and Direct Lending

Source: (Chiquir et al, 2009).

In this system, an institution gathers savings from households and enterprises and makes loans to homebuyers (figure 2.1). By taking in savings from non-homebuyers, depository institutions can access a much larger pool of funds than through dedicated savings, including a stable mass of core deposits at a relatively cheap funding cost. (Chiquir et al, 2009).

It further indicated that several deposit-taking institutions exist, including commercial banks that offer a complete range of banking services, savings banks that deal largely with the household sector, and specialist housing-finance institutions (building societies or savings and loan associations) that focus their lending primarily on housing.

2.2.2. Commercial Banks

Commercial banks are institutions that accept deposits, make business loans, and offer related business services. Commercial banks also allow for a variety of deposit accounts, such as checking, savings, and time deposit. These institutions are run to make a profit and owned by a group of individuals, corporate bodies and in some instances central governments. While commercial banks offer services to individuals, they are primarily concerned with receiving deposits and lending to businesses.

Commercial banks historically did not have a major involvement in housing finance. (Chiquer et al, 2009). Their traditional purposes of financing business and providing means of payment lead them to a commercial rather than a consumer orientation. Commercial banks traditionally have concerns about locking up their investible capitals in long term investments like housing finance and for that matter tend to shy away from that field, especially when most of their funding comes from short-term deposits that can be easily recalled at a short notice.

Financial liberalization in some developed economies has, however, changed the role of traditional commercial banks in recent times. Banks are now heavily involved in housing finance through various mortgage instruments and other forms that hitherto were no go areas for banks due to their relatively unattractiveness.

2.2.3 Contract Saving Schemes

Contract savings schemes can be viewed as specialized depository institutions circuits, which are usually major components of the housing finance systems of some countries (Chiquir et al, 2009). These institutions usually generate funds through loan-linked savings contracts, generally at a below-market fixed rate of interest. There are two variants of the system, which include the closed system and the open system.

Under the Closed system, funding of Contract Savings Schemes for Housing loans exclusively relies on savings funds previously collected by the Contract Savings Scheme for Housing institution. The most prominent closed Contract Savings Scheme for Housing scheme in Europe is the German/Austrian bauspar system, which has been also implemented in the Czech Republic, Slovakia, Hungary, Croatia and Romania.

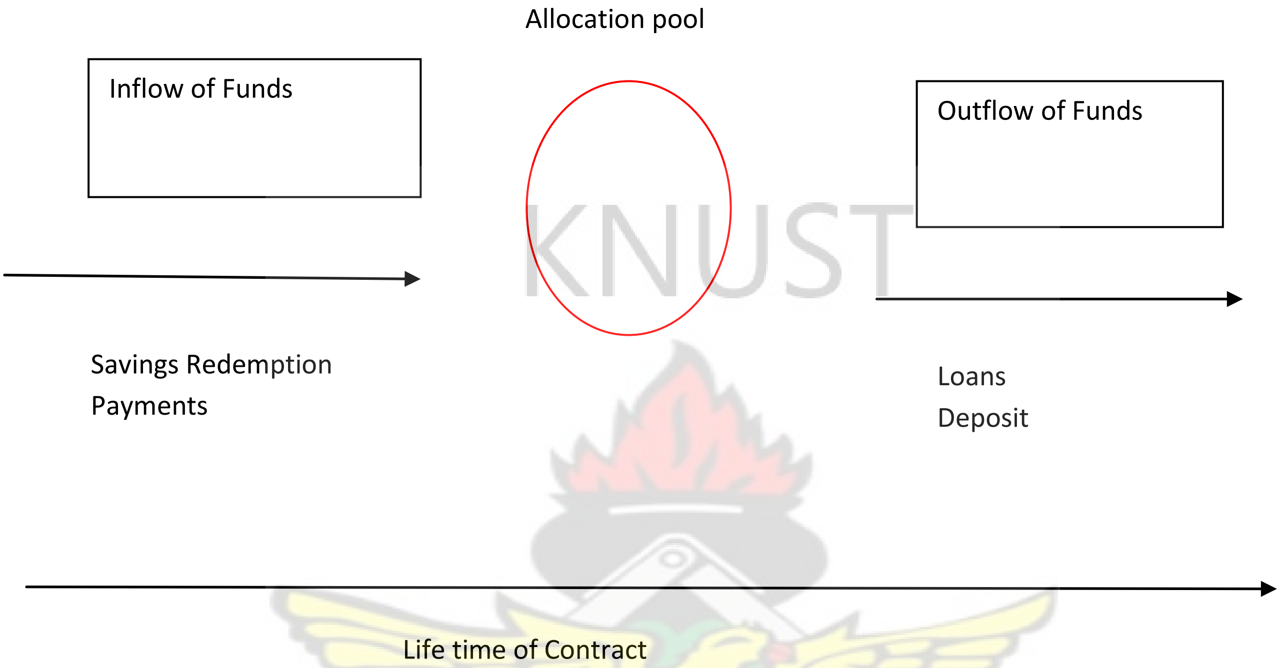
Under the Open system, however, external funding is permitted when the inflow of savings does not suffice to meet the contractual commitments of the Contract Savings Scheme institution towards the savers. Open systems have appeared in France and Slovenia.

Contract Saving Schemes link the individual savings contributed into a collective fund to the promise of a housing loan from this fund in the future. Since contract savings schemes do not require an external market for capital, it is one of the simplest and oldest collective funding mechanisms in housing finance. It is however, operated differently in various parts of the world even though the underlining principles are essentially the same.

Latin America and Asia Contract Savings Schemes for Housing are practiced under monopolistic provident funds or they are part of the product range of a housing bank (e.g. Iran). Typically, they are regulated by proprietary charter acts. In China, for example, the Housing Provident Fund is a compulsory savings scheme to which employees have to adhere.

Contributions will be deducted from the employee's salary and topped up by the employer (half of the employee's savings amount).

Fig. 2.2: Mechanism of CSS

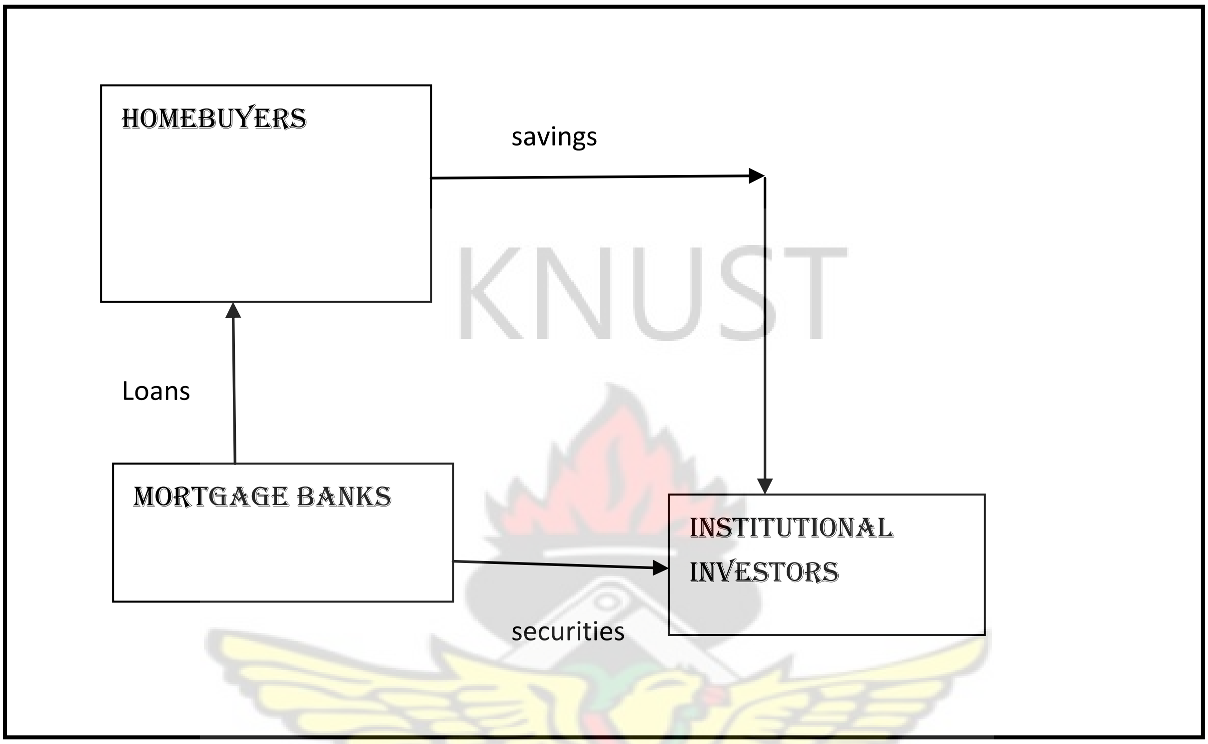


Source: (Chiquir et al, 2009).

2.2.4 Specialized Mortgage Banks

An alternative to depository institution lenders are mortgage banks. In such systems specialized institutions (mortgage banks) originate and service portfolios of mortgage loans that are funded by securities they issue. According to Chiquir et al (2009), these securities (mortgage, or covered, bonds) are general obligations of the mortgage bank and are typically purchased by institutions with long-term sources of funds (for example, pension funds and insurance companies). A major feature of mortgage banking system is the predominance of long-term, fixed-rate mortgages that are match-funded with corporate debt. The bonds are considered very high quality as a result of conservative underwriting, strong regulation, priority rights of investors in the event of bankruptcy, and transparent operations. (Chiquir et al, 2009).

Fig. 2.3: Mortgage Bank System



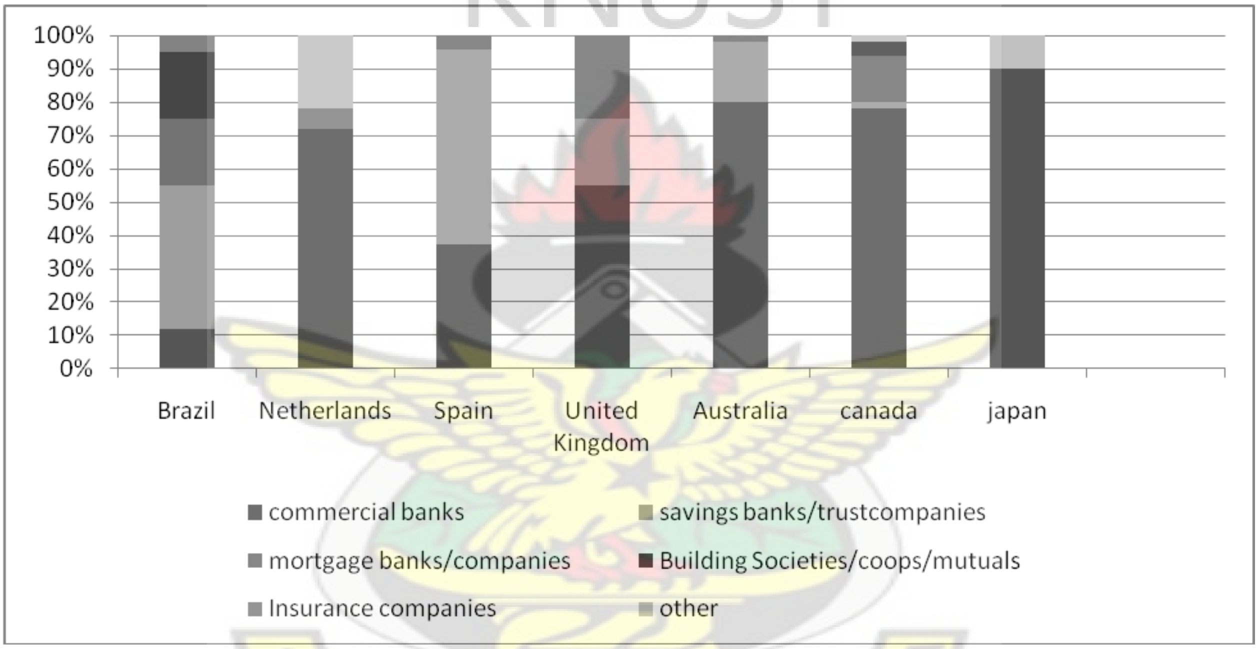
Source: Chiquir et al, 2009.

Mortgage banks are also considered to be transparent and efficient producers of mortgage assets. However, as with other specialist systems in developed countries, mortgage banks are in decline. For a example the Home Finance Company was set in Ghana in 1993 solely as a specialist mortgage finance institution to address the crucial problem of lack of funding for the housing sector in Ghana. In the process of time, however, this institution has shifted its focus from solely mobilizing resources for housing finance into mainstream banking due to the exigencies of the banking environment. Their reach is limited by their specialization, as their funding source constrains their product selection (that is, the need to produce standardized assets in high volume to achieve liquidity and low fixed cost of funding) and their inability to provide other types of financial services.

2.2.5 Combining Different Systems

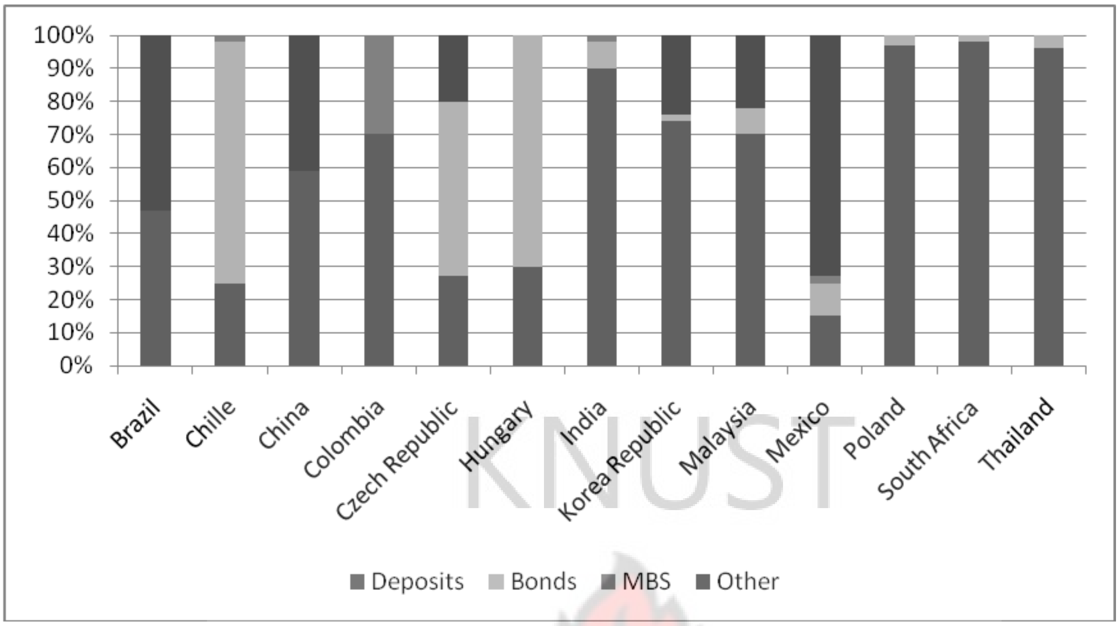
Figure 2.4 shows the market shares of different lenders in major developed markets. Commercial and savings banks have more than 70 percent market share in all countries except Germany. Non depositories (mortgage banks or mortgage companies) have significant market share in Australia, Germany and the United Kingdom.

Fig. 2.4: Mortgage Lenders by type



Source: Chiquir et al, 2009

Fig. 2.5: Emerging mortgage market funding



Source: Chiquir et al, 2009

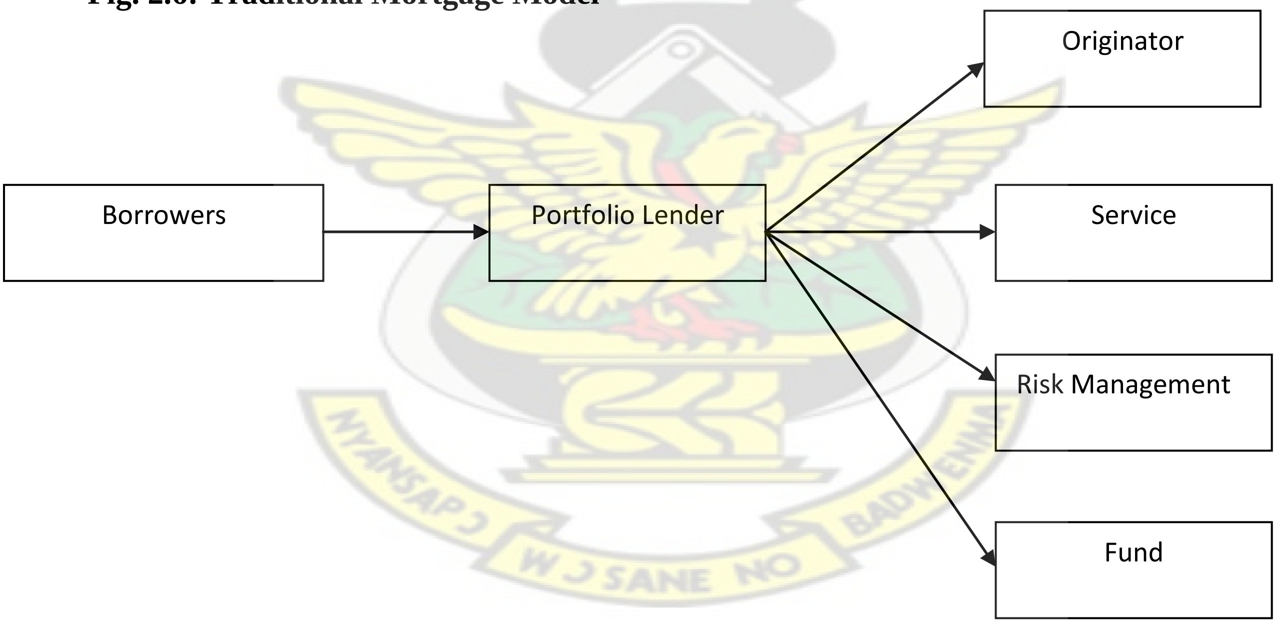
Figure 2.5 shows the number of different types of lenders in a number of major emerging markets. In most countries, commercial banks and savings institutions dominate the provision of housing finance. Two notable exceptions are Brazil and Mexico, which have large Housing Provident Fund (HPF) special circuits. China and Korea also have sizeable special circuits. Note that figure 2.5 refers to funding share rather than lending share.

2.2.6 Primary Mortgage Systems

Primary Mortgage Systems are arrangements that allow individual landowners/house owners the luxury of paying their house's installment payment for the purchase of these assets under long term flexible payment terms.

The traditional model of mortgage lending is the portfolio lending model in which one institution performs the major functions of origination, servicing, funding and portfolio risk management (Lea, 1998). These intermediaries may utilize the services of third-party vendors, such as mortgage insurers, appraisers and credit agencies. However, a single firm accomplishes the primary functions. The portfolio lender originates a mortgage to a homebuyer, services it and performs the pipeline risk management and portfolio management functions, including funding. Portfolio lenders may be depository institutions (commercial banks, savings banks, savings and loans, building societies), contract savings institutions or European- style mortgage banks.

Fig. 2.6: Traditional Mortgage Model



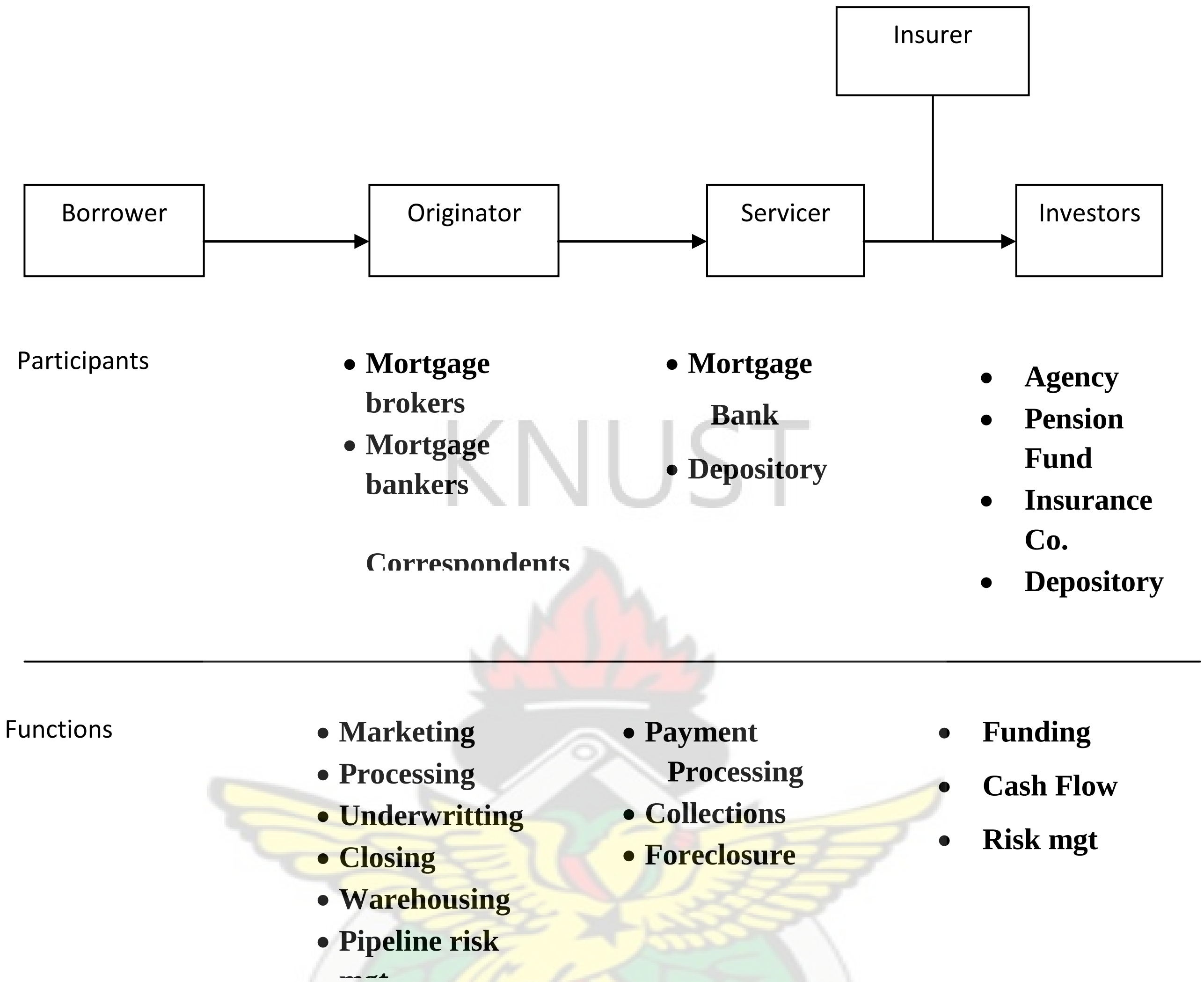
Source: Chiquir et al, 2009

2.2.7 Secondary Mortgage Markets

Investopedia defines Secondary Mortgage Market as the market where mortgage loans and servicing rights are bought and sold between mortgage originators, mortgage aggregators (securitizers) and investors. The secondary mortgage market is extremely large and liquid. A large percentage of newly originated mortgages are sold by their originators into the secondary market, where they are packaged into mortgage-backed securities and sold to investors such as pension funds, insurance companies and hedge funds. The secondary mortgage market helps to make credit equally available to all borrowers across geographical locations.

Wikipedia on the hand considers Secondary Mortgage Market as the market for the sale of securities or bonds collateralized by the value of mortgage loans. The mortgage lender, commercial banks, or specialized firm will group together many loans and sell grouped loans as securities called collateralized mortgage obligations (CMOs). The risk of the individual loans is reduced by that aggregation process. These securities are collateralized debt obligations (CDOs), also known as mortgage-backed securities (MBS). The Collateralized Mortgage Obligations are sometimes further grouped in other Collateralized Debt Obligations. Mortgage delinquencies, defaults, and decreased real estate values can make these Collateralized Debt Obligations difficult to evaluate. This happened to BNP Paribas in August, 2007, causing the central banks to intervene with liquidity (Wikipedia, 2011).

Fig. 2.7: Modern Mortgage model



Source: Chiquir et al, 2009

2.2.8 Housing Provident Fund

Housing Provident Funds are specialized financial institutions that collect mandatory savings from employees from public or private sector, expressed as a defined percentage of their salary. Sometimes the employers are also required to make additional proportional contributions (for example, one-to-one match in China).The Housing Provident Fund then manages these accrued long term savings, which are often remunerated at a below market yield. This permits the contributing members of the Housing Provident Fund to

- Withdraw their accrued saving as a down payment for a housing investment (but they cannot otherwise withdraw their savings before retirement);
- Receive long term mortgage loans, usually at a preferential rate (either directly lent by the HPF or through another lending institution;
- Benefit from retirement savings as additional income to the retirement system; and
- Receive unemployment severance payments (in some cases).

The organization products and governance are shaped to reflect their multiple functions. Although they act as deposit takers and lenders, they are not banks and are often not regulated as such (in terms of financial adequacy, provisioning, financial oversight, and so on). Although they provide retirement benefits, they are neither regulated as pension funds or subject to investment limits and performance benchmarks. They are typically created through a specific law, or in some cases their existence is laid out in the constitution. Their activities and products are determined by law.

2.3 Characteristics of Housing Finance in Developing Countries

Some of the basic characteristics of developing countries are manifested in the form of low income, inadequate housing, poor health and inadequate or nonexistent public services. Developing countries also have low labor productivity because of the lack of complementary factors, such as capital and experienced management, to raise it. Most developing countries have very high population rates too, with high birth rates and declining death rates. They also have a shorter life expectancy than developed countries, which translates to a smaller percentage of the population being available for labor.

Developing countries have relatively low levels of labour productivity, i.e. output per unit of labour. This is mainly due to the absence or severe lack of complementary factor inputs such as physical, capital and / or experienced management to raise labour productivity, there is need to mobilize savings and foreign finance in order to generate new investments in physical capital goods, and build up the stock of human capital through investment in education and training.

In addition, institutional changes in land tenure, credit and banking structures, honest and efficient administrations and the restructuring of educational and training programmes should be tailored to the needs of the developing societies. High rate of population growth and dependence burdens: In 1990, the world's population was estimated at 5.3 billion, of which more than 3/4 lived in the less developed countries. Almost all the developing countries possess high population growth potential characterised by high birth rate and high but declining death rate. Death rates in developing countries have fallen, compared to the past, due to improved health conditions and control of major infectious diseases. On the average annual population growth rate in developing countries is 2% as compared with about 0.7% in developed countries. Birth rates are generally high in the order of 30-40 per 1000 whereas those for advanced countries are less than half that figure.

An important consequence of high birth rate is that a larger proportion of the total population is the younger age groups. This leads to a higher economic dependency burden since about 40% of the population in developed countries. With many dependants to support, it becomes difficult for the workers to save and invest in productive assets.

Substantial dependence on agricultural produce and export of primary products: The majority of the people in developing countries live and work in rural areas. Over 75% of the population in African and 63% in Asia are dependent on agriculture compared to only 5.5% in North America. Agriculture contributes well over 20% of GDP for most developing countries compared to only 3% in developed countries. In Uganda agriculture contributes about 45% of GDP and close to 90% of the population like and work in rural areas, heavily dependent on subsistence agriculture for a livelihood and the production of a few cash crops for an income.

The basic reasons for the concentration of people are basic needs of food, clothing and shelter. Agriculture productivity is low because of primitive technology, poor organisation and limited physical and human capital inputs. Primary products account for over 60% of all exports in developing countries and over 94% of total export earnings in sub- Saharan Africa. Other factors include:

- High and rising levels of unemployment and under employment
- A dualistic economy. (Kintu, 2008)

2.3 Major Constraints in Delivery of Housing in Developing Countries

Although there has been significant progress in the formulation and implementation of housing policies and to some extent strategies in the past decades, many constraints still hinder progress in housing development in developing countries, particularly for low income and other vulnerable groups. These constraints include but are not limited to the following issues.

2.3.1 Lack of effective implementation strategies

This is the first and most important step in the challenge of adequate shelter for all. The key for overcoming these constraints is to promote an effective facilitative role in order to harness the full potential of all actors in housing production. Most governments in the developing world have adopted enabling shelter strategies and initiated actions to support the actors in the housing delivery process. There is, however, extensive room for improvement and articulation in this area and close the gap what is on paper as a policy document and what is really happening on the ground.

2.3.2 Poor promotion of security of tenure

Promoting security of tenure is a prerequisite for sustainable improvement of housing and environmental conditions. Squatter settlements upgrading projects need to be carried out addressing tenure issues to prevent/reduce evictions. Governments should focus on regularization schemes in order to provide incentives to families to invest in their homes and communities. Promoting security of tenure can also support better functioning of rental housing markets. There is no doubt that every effort should be made to make best use of existing housing stock and improve the quality of living in these settlements.

2.3.3 Inadequate supply of affordable land

Lack of adequate land for urban development particularly for low-income housing is perhaps the single most important impediment in achieving the goal of shelter for all. Proper records and registration of land is the first step in formulating and implementing a strategy on land. It is estimated that only about 1 per cent of land in the Sub-Saharan African countries are covered by any kind of cadastral system. Land cadastral systems should urgently be improved in developing countries and particularly in Africa. Scarcity of land leads to escalating land prices, overcrowding of existing neighborhoods, illegal invasion of vacant land and growth of squatter settlements. This trend can only be reversed by the provision of adequate and affordable land for low-income housing. In order to increase the supply of urban land, the financial and technical capabilities of the municipalities must be strengthened. It is also necessary to create conditions that would facilitate the growth of private land development agencies. Governments should formulate a regulatory framework ensuring that such private sector land developers will serve all income groups.

2.3.4 Improving Infrastructure and services

Financing and facilitating infrastructure to meet basic needs of many urban communities have been difficult for the majority of governments and local authorities. This is, in most cases, due to the high standards that make provision of infrastructure very costly. Too often, infrastructure services are unnecessarily subsidized and frequently the subsidies are wrongly directed. As public authorities have not been able, in general, to provide infrastructure to the growing number of urban communities, individual households, community groups and informal enterprises have increasingly taken over this task.

2.3.5 Promotion of housing finance mechanisms

Housing finance institutions in developing countries and particularly in Africa provide services only to a small proportion of the population. Financing of housing mostly comes through informal sources of credit. This is a result of national policies that are not successful in encouraging domestic savings and the development of domestic financial institutions and instruments. Lacking collateral, the guarantee of regular and recorded income, the low income groups depend completely on informal credit sources, which are expensive and mostly short-term. Establishing and in rare cases (since there are few) strengthening mechanisms for financing low income housing and in this relation inclusion of the informal settlements is a fundamental issue.

2.4 Pension Funds in Housing Finance in Some Developing Countries

The role of pension fund assets in supporting access to housing is hugely attractive to housing development in developing countries due to the basic characteristic features of both housing investments and pension funds; housing investments are long term in nature and pension funds also have long term liabilities.

Pension funds often represent the most significant proportion of domestic savings and therefore offer a substantial source of capital that could be used as end finance for housing in addition to funding the housing development industry in general. Also, pension funds fall into the group of asset holders with long term horizon, which actually fits the need of borrowers for housing, who seek long-term finance.

In some African countries such as Kenya, Tanzania, Uganda, South Africa and Rwanda pension assets constitute a large pool of funds, equivalent to a significant part of Gross Domestic Product (GDP). However, pension funds have seen limited use in housing finance in these countries in spite of their suitability for such long term financing. Mutero et al, (2008), put forth the following reasons for the limited use of pension funds for housing investment in developing countries;

i. Trustees and their fund managers have inadequate knowledge of housing markets, especially low-income sub-markets, and are unfamiliar with the associated investment risks. Indeed, the pension fund community has scanty knowledge of housing micro-finance and the incremental construction process that is commonly used by the vast majority of households to improve their housing.

ii. The capital markets in developing countries are underdeveloped, limiting the investment options open to pension schemes.

iii. Some pension funds are too small to set aside funds for lumpy investments required to acquire housing and property assets.

iv. A number of private schemes face substantial liabilities in respect of members nearing retirement and therefore cannot afford to tie up their funds in illiquid investments such as housing finance.

v. Pricing of pension funds often makes them unattractive for mortgage lending particularly in settings where government bond offers highly attractive yield.

vi. The institutional capacity is lacking to utilize pension funds for housing especially for the purpose of addressing the needs of low-income groups. (Mutero *et al*, 2010)

In spite of these bottlenecks, Mutero *et al*, 2010 concluded that housing advocates acknowledge that housing would be attractive asset class for pension funds if the associated concerns were addressed. Property has over the years been touted as a sure hedge against inflation.

Public schemes hold the bulk of pension funds in most developing countries such as Tanzania, Uganda and Rwanda, but this dominance is less pronounced in Kenya and South Africa where a large numbers of occupational schemes have been established by the private sector. As in the rest of the world, there has been a steady shift in Kenya and South Africa from Defined Benefit (DB) to Defined Contribution (DC) schemes. Defined Contribution schemes also predominate in Uganda. Even though Defined Contribution schemes, unlike Defined Benefit schemes, transfer the investment risk to the member, their stance towards risk is not any less conservative because of the monitoring role played by members who take an active interest in the performance of their individual accounts.

"A defined benefit fund is one that specifies the benefits a member will receive on retirement. The investment risk falls on the fund, which commits to pay a certain benefit, usually a proportion of salary at retirement, regardless of the performance of the fund's investments. Members' contributions are pooled and invested by the fund in a way that ensures it is able to meet the defined benefit liabilities. The additional gains or losses that the fund makes accrue to the fund"

while

"In a defined contribution fund the members' contributions are set at a specific rate (usually a percentage of salary) and these are ring-fenced and invested- the member is able to assess the performance of his or her individual contributions. On retirement, the individual member's benefit is the amount that he/she has contributed plus any investment return earned. The investment risk therefore rests with the member."

Kenya Situation

Kenya's pension assets amount to about 20 per cent of GDP, the fourth highest such share in Africa after South Africa, Egypt and Mauritius. The retirement benefits sector is composed of the civil service scheme, the National Social Security Fund (NSSF), occupational schemes and individual pension schemes, with a coverage rate of around 15 per cent of the workforce (10 per cent or 800,000 Members of the NSSF, 3 per cent in the civil service scheme, 1.5 per cent in private and public occupational schemes and 0.5 per cent in individual retirement benefit schemes. The civil service pension scheme is unfunded, with pensions paid out from general taxation.

Table 1: Pension system in Kenya

Scheme Type	National Social Security Fund	Public Service Pension Schemes	Occupational Schemes	Individual Schemes
Legal Structure	Act of Parliament	Act of Parliament	Established under Trust	Established under Trust
Membership	Employees in formal sector establishments with 5+employees excluding public service employees	All public service employees, including civil servants, teachers and disciplined forces. Separate scheme for armed forces	Formal sector workers in companies that operate retirement schemes	Open to all on voluntary basis
Funding	Funded	Non funded	Funded	Funded
Regulation	RBA	Act of Parliament	RBA	RBA

Source: Raichura (2008) based on RBA website

According to data collated by FinMark Trust (December, 2010) the National Social Security Fund of Kenya was invested with two core principles; (a) security– the investments should assist the Fund to meet its commitments in a cost-effective way; and (b) profitability. The Fund was therefore shared in the following proportion in the various investments

➢	Real Estate	20%
➢	Equities	6%
➢	Corporate Loans	4%
➢	Mortgage Securities	2%
➢	Treasury Bills	16%
➢	Bank Deposit	16%
➢	Bonds	36%
Total		**100%**

The above data indicate that as much as 20% of Kenya's pension funds ais invested in the real estate industry, second only to to Bonds, which takes the share of 36%. It is a demonstration of how pension funds are being used in Kenya to help the citizenry acquire their places of aboard.

2.4.1 Rwanda

Rwanda's pension industry comprises one public pension fund the *Caisse Sociale du Rwanda*, and about 40 nascent private pension schemes. There are, however, no readily available statistics on the different private firms that operate in-house pension schemes and their total portfolios. (Mutero *et al*, 2010)

The investment distribution of the Rwandan Pension Fund is largely skewed towards treasury bills, equities and fixed deposit investments, per the report collated by FinMark Trust (December, 2010). The distribution is as follows;

- Treasury Bill 57%
- Corporate Loans 3%
- Fixed Deposits 11%
- Mortgage Securities 4%
- Equities 13%
- UCT 1%
- Kacyiru Executive Apartment 5%
- Real Estate (Kacyiru) 0.2%
- Land for Devt. (Kiyovu) 1%
- Land for Devt. (Gaculivo) 3%
- Government Debt 2%
- Total **100%**

The above data indicate that approximately 13% of Rwanda's pension funds is directly or indirectly linked to the real estate sector of the economy. As much as 57% of the fund is invested in treasury bill giving an indication of lack of invetment opportunities or the preponderance of high risk invetment avenues, which are not ideal for pension funds.

2.5 Profile of Housing Finance in Ghana

2.5.1 Economic Background

Ghana like many other developing countries is plagued by population growth rates of about 2.4% per annum, high rural-urban migration and low-incomes for the majority of the population (Population and Housing Census provisional Report, 2010). The agricultural sector is the dominant sector in the Ghanaian economy in terms of its GDP, employment, and foreign exchange earnings. The country's economic performance since 1990's has been good. Real growth in GDP has averaged 4.37% from 1990 through 1995 and currently average 6% in the last three years. 2011 GDP growth rate has been projected at 14.5% including oil revenue and 7.3% without oil revenues. The financial sector has also been restructured. Inflation however has been a problem. In 1990, annual inflation topped 37% before dropping significantly to just over 10% in 1992 and a single digit in 1999. However, in 2000 inflation shot up to almost 40% and then declined to 18.8% at the end of 2008. Currently inflation is hovering around 8.9%, which is arguably the best figure so far recorded in the history of the Ghanaian economy. The GDP per capita stood at about $350 in 2000 compelling the then new government to opt for the country joining the league of the Highly Indebted Poor Countries (HIPC) due to high foreign debt burden. Subsequently the GDP per capita was estimated at $600.00 until the recent rebasing of the economy, which moved the country's GDP per capita to $1,000.00,

2.5.2 Policy Orientation and Housing Delivery

The unstable political climate of the early 1980s in Ghana crippled the housing market, as people were afraid to build. The years were also characterized by Government's lack of resources to provide appropriate housing. Ownership of property, especially houses, is a very important aspect of the Ghanaian tradition. Houses do not only provide shelter, but also serve as a measure of social standing and prestige. Despite this high importance placed on houses and property, the Ghana Real Estate Developers Association (GREDA) (1998) notes that only 5% of those who wanted to own a house could do so from their own resources. Others (60%) would need some form of financial assistance and the remaining 35% were not capable of owning and building a house in their lifetime.

It is estimated that given the combined effect of the level of housing deficit from previous years and the rate of population growth, Ghana needs 1.2 million housing units by the year 2025. To achieve this target, some 133,000 new housing units must be delivered annually. Between 1990 and 1998, the Social Security and National Insurance Trust (SSNIT) provided over 10,000 blocks of flats.

2.5.3 The Housing Finance System

The banking system in Ghana did not escape the economic decline and political instability of the 1970s and 1980s. General lack of confidence in the banking system by the public, the banks' inability to engage in venture capital, high default rates, widespread fraudulent practices and lack of expertise to properly appraise projects were some of the problems that faced the banking system (Hanson, 1999). Few banks in Ghana offer mortgages to High Net Worth customers. The First Ghana Building Society (FGBS) has so far been unable to provide mortgage financing on a sustained basis. Home Finance Company Limited (HFC) has turned out to be the dominant housing finance institution in Ghana, providing a wide range of mortgage financing on a sustained basis to a broad spectrum of customers. The HFC was originally conceived to operate as a secondary mortgage institution providing sustained housing finance in a two-tier housing system. A two-tier mortgage financing system in Ghana was based on the following assumptions: that there would be strong Central Government support for HFC given the acute housing shortage; that the creation of HFC as a secondary mortgage institution would be the catalyst to jump start primary mortgage lending by banks after their restructuring. The newly restructured banking system would be insulated from significant risk through an arrangement whereby the primary institution would bear only 10% default risk, with Government bearing the remaining 90%. HFC was thus to bear no default risk. The operation of the mortgage market has turned out differently as only one primary institution (the HFC) has been active in the market. Financial institutions supposed to operate in the primary market do not consider the commission of 1.5% p.a. attractive enough. This is in spite of the fact that they would not invest their own funds and bear only 10% default risk.

Most households in Ghana use their own savings, sweat equity, barter arrangements and remittances to build their houses. The commercial financial institutions provide very little support to low and moderate-income households in the form of mortgages. Where it has done so, it has favoured the owner occupied and new dwellings and offers very limited support to the rental and incremental housing development. The traditional mortgage lender is limited in its ability to serve low and moderate-income households. The payment-income ratio is too high. Transaction costs in lending to this market are usually high and small loans are unprofitable and riskier for a commercial lender. Ferguson (1999), notes that incremental building process is the only building strategy that works for low and moderate-income households. In Ghana, the incremental building process is used largely. Empirical evidence from the micro-finance institutions around the developing world supports the argument that shorter loans are better for the poor. Mortgage loans are usually for longer terms of up to twenty years. .

2.6 General Principles for the Investment of Social Security Funds

The basic principles which govern the investment of social security funds are the same as those of other financial institutions, namely; safety, yield, liquidity and Economic & Social Utility

2.6.1 Safety

This is a very important condition with regard to the investment of social security funds. SSNIT has been entrusted with other peoples' property. As a result, very strict rules have to be observed as regards the safety and control of the investments. Safety must be looked at as a two-dimensional condition- ***"Nominal"*** safety and ***"Real"*** safety.

SSNIT must ensure that the nominal value of the invested capital is recovered and that regular payment of interest must be ensured. This will, however, not be sufficient if the value of money has depreciated. Investment managers must therefore, also seek Real safety of the investments, that is, they must try and maintain the real value of the invested amounts as well as their yields.

It must be noted that the current investments in the housing sector by the Trust flatly fall short of this criterion. Interactions with SSNIT officials on this subject revealed that the Trust has never been able to charge economic rent nor recouped the investment sunk into housing due to both political considerations and social attitudes of the beneficiaries over the years. These investments in their current state simply do not meet both the nominal and real safety conditions.

2.6.2 Yield

The yield of interest on investments is also important, especially the yield on the investment of the long-term reserves. The investment of the long-term reserves must earn interest, at least at the technical rate of interest otherwise the scheme will face an actuarial deficit. For the investment of the contingency reserve, it is however, not necessary to seek investments with highest yield because the principal objective for the placement of these funds is liquidity.

2.6.3 Liquidity

The contingency reserves for short-term needs should be placed in liquid investments which are easily convertible into cash. On the other hand, the long-term reserves for the payment of future pensions which are primarily intended to earn interest do not require a high degree of liquidity.

2.6.4 Economic and Social Utility

After satisfying the conditions of safety, yield, and liquidity, the economic and social utility of the investments must be taken into account in the investment policy. It is in the interest of SSNIT that funds are invested in such a way that they contribute to the improvement of the health, education, and the standard of living of the people, as well as the creation of employment.

2.6.5 Harmony with Public Interest

In a country like Ghana where there is scarcity of capital, it is important for SSNIT′s investible funds to be placed at the disposal of the National Economy, with due regard for the requirements of **safety, yield** and **liquidity**. It must however, be stressed that in contributing to National Economic development, the funds should not be used as means of obtaining money for the government to finance deficits.

2.7 Investment Objectives

In the development of the policy guidelines, the major objectives are:

- To maintain a long-term optimum fund ratio through realization of real returns on investment.
- Maintain a portfolio mix which ensures low risk on investments
- Ensure adequate liquidity to enable the Trust meet its obligation when due.

Under Act 766, the Investment Policy has to be reviewed when necessary in line with guidelines issued by the National Pensions Regulatory Authority in consultation with the Board of Trustees.

2.8 Investment Portfolio

The Trust′s investment portfolio is grouped as follows:

- **Equity:** Listed, unlisted
- **Fixed Income**: Bonds, Term Loans, Treasury, and Students Loan
- **Alternative Investments**: Real Estate, Private Equity, and Economically Targeted Investments.

CHAPTER THREE

SOCIAL SECURITY AND NATIONAL INSURANCE TRUST

3.0 Introduction

The Social Security and National Insurance Trust (SSNIT) is a statutory public Trust charged with the administration of Ghana's National Pension Scheme. The Trust is currently the biggest non-bank financial institution in the country. Its primary responsibility is to replace part of lost income due to Old Age, Invalidity and payment of Survivors' benefits to deceased dependants.

The Pension Scheme administered by SSNIT has a registered active membership of over One million and over 100, 000 pensioners who collect their monthly pension from SSNIT (SSNIT Annual Report, 2010).

The Trust was established by Article 32 section (1) of the National Pension Act, 2008 (ACT 766), which states, among other things, that: "***There is established by this Act a body known as the Social Security and National Insurance Trust".*** Section (2) of article 32 of the Act further described the Trust as a body corporate with perpetual succession and a common seal and may sue and be sued in its corporate name.

Further, Section (3) states **"*The Trust may for the performance of its functions acquire and hold movable or immovable property, and may enter into a contract or any other transaction".*** Also, Section (4) of article 32 states ***"Where there is hindrance to the acquisition of property, the property may be acquired for the Trust under the State Property and Contracts Act, 1960 (C.A. 6) or under the State Land Act 1962, (Act 125) the cost shall be borne by the Trust".*** This part of the Act forms the basis of the Trust's investment in real estate, which is the focus of this study.

3.0.1 Object of the Trust

Section (33) of the Act states; ***"The object of the Trust is to operate the basic national social security scheme referred to as the social security scheme and other schemes as determined by law on the recommendations of the National Pensions Regulatory Authority".***

3.0.2 Functions of the Trust

Section (34) of the National Pension Act, 2008 (ACT 766) outlined the functions of the Trust as follows;

To achieve its object the Trust shall;

- Operate the basic national social security pension scheme and other schemes as may be prescribed by law;
- Have a Fund into which shall be paid the contributions and any other moneys as may be required under this Act;
- be responsible for the general administration of the social security scheme and regulations made under it;
- ensure the provision of social protection for the working population forvarious contingencies including old age, invalidity and death;
- be responsible for the administration and investment of funds within the framework of general directives issued by the Board of Trustees and approved by the Authority;
- collaborate with other complementary social protection schemes in respect of specified operational and administrative functions to achieve efficiency, cost savings and avoidance of duplication of functions;
- have general control of the funds and investments of the social security scheme and the management of the Trust; and

- perform any other functions that are ancillary to the objects of the Trust.

3.1 BRIEF HISTORY OF SSNIT

3.1.1 Introduction

The Social Security and National Insurance Trust (SSNIT) is a statutory public Trust charged under the National Pensions Act 2008 Act 766 with the administration of Ghana's Basic National Social Security Pension Scheme and to cater for the first tier of the contributory three-tier scheme. The Trust is currently the largest non-bank financial institution in the country.

The primary responsibility is to replace part of lost income of Ghanaian workers or their dependants due to Old Age, Invalidity, or loss of life. The Pension Scheme as administered by SSNIT has a registered membership of approximately one million with over 110,000 pensioners who regularly receive their monthly pensions from SSNIT. The annual absolute growth of pensioners is over 7,000.

3.1.2 The Trust

The Trust was established in 1972 under NRCD 127 to administer the National Social Security Scheme. Prior to 1972, the Scheme was administered jointly by the then Department of Pensions and the State Insurance Corporation. Until 1991, the Trust administered a Provident Fund Scheme, and this was converted into a social insurance pension scheme which was reformed in January 2010 by an Act of Parliament, Act 766. The Act was, however, enacted on December 12, 2008 to replace the previous-Cap 30 and SSNIT Pension Schemes.

Act 766 makes provision for a contributory 3-Tier Pension Scheme; the establishment of a National Pensions Regulatory Authority (NPRA) to oversee the administration and management of registered pension schemes and trustees of registered schemes. Under the Act, Social Security and National Insurance Trust is to manage the basic National Social Security Scheme referred to as the 1st Tier.

The other Tiers of the National Pension Scheme are:

- Tier 2 - A mandatory fully-funded and privately managed occupational scheme.
- Tier 3 - A voluntary fully-funded and privately managed provident Fund and Personal pension Plan.

3.1.3 Vision

The vision of the Trust is "To develop SSNIT into a World-Class Pension Administration Institution, Dedicated to the Promotion of Economic Security of the Ghanaian Worker through Prudent Investment Mechanisms.

3.1.4 Mission

As its institutional mission, "SSNIT is to Provide Cutting-Edge Income Replacement schemes through Improved Business Oriented Methods and State- Of-The-Art-Technology for the Benefit of Stakeholders and Ghanaians by professional, Dedicated and Quality-Driven Leadership and Staff.

3.1.5 The Core Functions of SSNIT

- Register employers and workers;

- Collect contributions;
- Manage records on members;
- Invest the funds of the Scheme;
- Process and pay benefits to eligible members and nominated dependants.

3.1.6 Governance Of The Trust

The governing body of the Trust is a Board of Trustees consisting of

i. chairperson,

ii. two persons nominated by the President, at least one of whom is a woman,

iii. two representatives of Employers' Associations,

iv. four representatives of Organised Labour,

v. one representative of National Pensioners' Association,

vi. one representative of the Ministry responsible for Finance not below the rank of a Director,

vii. one representative of the Security Services who is not a member of the Ghana Armed Forces, and

viii. the Director-General of the Trust.

This provision is contained in section (36) sub-section (1) of the Pension Act. Sub-section (2) further provides that ***"the members of the Board of Trustees shall be appointed by the President in accordance with article 70 of the Constitution***". Further, sub-section (3) states that ***"the Board of Trustees shall ensure the proper performance of the functions of the Trust"***.

3.1.7 Tenure of Office of Members

Section (37) sub-section (1) provides that a member of the Board of Trustees shall hold office for a period not exceeding three years and is eligible for re-appointment but a member shall not be appointed for more than two terms in succession. Subsection (1) does not apply to the Director-General of the Trust.

Sub-section (3) also provides that a member of the Board of Trustees may at any time resign from office in writing addressed to the President through the Minister. Under subsection (4) it is provided that a member of the Board of Trustees who is absent from three consecutive meetings of the Board without sufficient reason ceases to be a member of the Board of Trustees.

Subsection (5) states that the President may by letter addressed to a member revoke the appointment of that member. In subsection (6) it is noted that where a member of the Board of Trustees is, for a sufficient reason, unable to act as a member, the Minister shall determine whether the inability would result in the declaration of a vacancy.

3.2 Administration Of The Trust

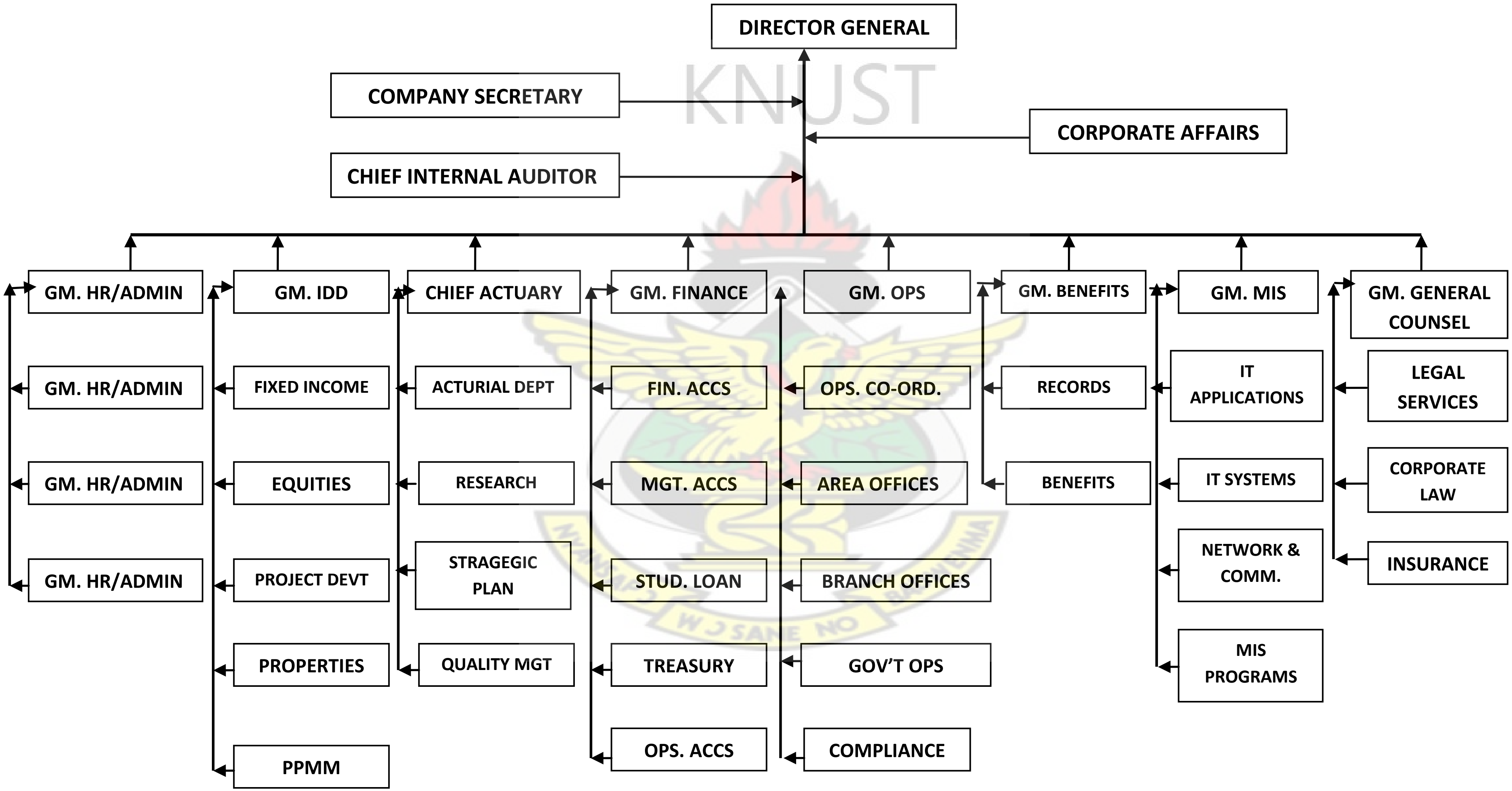
3.2.1 The Director General

The President in accordance with article 195 of the Constitution of Ghana appoints the Director General to head the day-to-day administration of the Trust. Section (43) sub-section (1), National Pension Act, 2008 (ACT 766). The Director General's term of office is specified in the letter of appointment.

There are seven General Managers in charge of Legal/Administration, Finance, Operations, Investment and Development, Management Information Systems (MIS), Medicals and Human Resources/Administration that help the Director General in the day-to-day running of the Trust.

There are also several functional Managers that preside over the various departments in the Trust. These departments that operate under the various general managers are captured in the organizational structure diagram below.

SSNIT ORGANISATIOANAL STRUCTURE



3.3 How SSNIT Operates

SSNIT has a decentralized operational system made up of the Area, Branch, and Day Offices. An Operations Co-ordinator at the Head Office co-ordinates all operational activities and reports to the General Manager, Operations. There are seven (7) Area Offices, forty-eight (48) Branches and eighteen (18) Day Offices spread throughout the country.

Membership of the SSNIT Scheme is open to all workers in Ghana except officers and men of the Ghana Armed Forces and any other person who is expressly exempted by law. The scheme is also optional for the self-employed. Every worker is to ensure that he/she is registered under the scheme and issued with a membership number into which contributions are paid on his/her behalf by his/her employer.

If, on the other hand, the member is self-employed he/she is required to regularly pay his/her contributions to the Trust. A member is expected to keep only one social security number throughout his/ her working life. The member is also required to take good care of the membership certificate.

The employer is also under strict obligations to register all workers and deduct and pay contributions on their behalf. Payment should be accompanied with contribution reports indicating which member is being credited with what contribution. This payment should be done not later than the 14th day of the ensuing month as late payment will attract the payment of interest.

The employer should keep proper records of all Social Security numbers and personal records of workers and required to notify SSNIT of change of labour force, location, status or cessation of operations. The employer is also required to above all, keep accurate records of his/her operations, particularly with regard to workers and their remunerations. The employer should release all such information and documents for inspection when required to do so by an accredited officer of the Trust.

The employer should report of the employment of any new graduate from a tertiary institution for the purpose of the repayment of his/her students' loan if he/she is a beneficiary of the SSNIT Students' loan scheme.

3.3.1 Employers' Obligation

Every worker shall remit all the eighteen and half percent (18.5%) total contributions on behalf of each employee to SSNIT within the fourteen (14) days contribution period in a manner specified below.

- Separate payments shall be made in respect of the 13.5% and 5%.
- No part payments shall be made by any Employer.
- Two separate contribution reports in respect of the thirteen and half per centum (13.5%) and five per centum (5%) indicating the names and social security numbers of each worker must be submitted together with the payment.
- An employer is obliged by law to submit the contribution report for that month at the end of that month, whether the contribution is remitted to the Trust or not.
- The contribution report or data accompanying both the 13.5% and 5% can be submitted in electronic form in addition to a clean and accurate hard copy.
- It is an offence under Pensions Act 766 to fail to remit the mandatory contributions by the fourteen (14th) day of each ensuing month.
- The penalty for non-payment of mandatory contribution within the specified period (i.e. the 14th after the end of each month) is a sum equal to 3% per month of the contribution payable. For the avoidance of doubt, the non-payment of the 5%

mandatory contribution within the specified period shall attract the 3% penalty.

3.3.2 The Branches

The above obligations of the employer and the benefits processing and payments are made possible through the operations and activities at the various branch offices across the country. The most significant activities of the branch offices include but not limited to the following:

- Registration of employers and employees
- Collection and management of data on employers and employees
- Inspection of establishments and collection of contribution
- Distribution of contributors statement of accounts
- Assembling, processing and, vetting of claim documents as well as payment of benefits
- Processing Student Loan Repayment

These activities are carried out by the various Branch Managers in the various forty eight (48) Branch offices across the country with assistance from the various unit heads. Some of the units under the branches include the Branch Accounts Units, Branch Compliance Unit, Benefits Unit, Management Information System Unit, Public Affairs Unit and Prosecution Unit in Grade "A" offices.

The offices are graded in "A", "B", "C", and "D" based on criteria such as volume of work, coverage area, contribution collection, quantum of contribution collected and the amount of claims processed, among others.

3.3.3 Area Offices

The Area Offices which exercise supervision over the Branches carry out the following activities:

- Co-ordinate operational activities between the Branches and Head Office Operations Coordinator;
- Institute legal action against defaulting employers;
- Collate accounting returns and reports from the Branches under them;
- Public Education on SSNIT Operations.

The Area Mangers work with the assistance from the Branch Managers, and other officers in the Area Offices such as the Area Accountants, Area Estate Officers, Area Prosecutors, Area Public Affairs Officers, among others.

3.3.4 Operations Coordinator's Responsibilities

- To provide input into the formulation of policies relevant for operations and assists to implement them.
- To assist in the preparation of divisional action plans.
- To assist in developing and implementing service designs which will satisfy customers. Examples are:

  a. Evaluate and analyse reports from the various sections of the Operations Division and makes appropriate recommendations

  b. Collects, collates and analyses periodic Operations Reports for the Board.
- Monitors compliance with the Social Security Law by employers and employees.

3.4 The Basic National Pension Scheme (Tier-1)

3.4.1 Contingencies

It is a Social Insurance Scheme under which members contribute during their working life and receive monthly Pension in the event of Old age, Invalidity; or in case of Death, the member's' dependants receive a Survivor's Lump sum Benefit.

3.4.2 Contributions and Other Vital Features

- The worker contributes 5.5% of monthly basic salary.
- The employer contributes 13% of worker's monthly basic salary.
- The minimum contribution shall be 18.5% of the approved monthly equivalent of the national minimum daily wage.
- 2.5% is transferred to the National Health Insurance Fund for provision of medical insurance.
- 5% is transferred to Tier 2.
- SSNIT effectively withholds 11% for the administration of Tier 1.
- The self-employed members contribute 18.5% of their declared income.
- The maximum salary on which contribution would be assessed will be determined by the Trust periodically. This is to check the practice where some high income earners increase their salaries 3 years prior to retirement to the detriment of the scheme.
- The minimum contribution period shall be 180 months (15 years) in aggregate. This minimum contribution period will come into effect in 2015.
- The new minimum age at which a person may join the Basic National Pension Scheme is 15 years and the maximum is 45 years.

- The 12-year annuity guarantee period under the old scheme has been increased to 15 years.
- A worker who is entitled to retirement benefits under the pension scheme in existence before the commencement of this Act and is aged 55 or above is exempt from the scheme unless he/she opted to join.
- The accumulated contribution over the working life of the employee is expected to fund about a third of the projected future pension payments to the employee.
- Pensions are paid monthly to qualified members.
- The Pension benefits are earnings related and based on a formula prescribed in the law governing the scheme.

Other factors, which affect the level of benefits are the age at which members apply for old age pension and also how long a member contributes to the Scheme.

- The Pension paid will fall between 37.5% and 60% of the average of the three best years' salary depending on how long he/she contributed to the scheme at age 60.
- Those unable to contribute up to the minimum 180 months (15 years), receive a return of their contributions accumulated at a prescribed interest rate.
- A member can opt for early retirement between ages 55 and 59 and receive a reduced pension.
- Pensions are reviewed annually based on the changes in the average wage of contributing members and other economic indicators.
- Pensioners of the Scheme made up of those on old age and invalidity pension, receive monthly benefits through their bank accounts.

3.4.3 Financing

The scheme is self-financing through the contributions of members and returns on the investments of the funds. Â The contribution rate is 18.5% (worker - 5.5%, employer 13.0%) of the earnings of a member.

3.5 Affiliation

The Trust has been in Social Security Business since 1965. In 1998 it won the "Good Corporate Citizen Award". It is a member of the International Social Security Association (ISSA) which is affiliated to the International Labour Organisation (ILO). The Trust is the first Social Security Organisation to go Pension in Africa South of the Sahara.

CHAPTER FOUR

DATA PRESENTATION AND ANALYSIS

4.0 Introduction

The contribution of SSNIT over the years to housing delivery is empirically evaluated in this chapter. The analysis will also focus on the efforts of the fund and its impact in helping the middle and the low income households in meeting their housing needs.

As already indicated, the housing policies and objectives during the pre-1986 period emphasized the need for government to provide adequate housing for the citizenry through direct involvement in house construction. This assignment was to be fulfilled by the central government through its departments and corporations. Unfortunately, however, it was later realized that the government alone was incapable of meeting the ever-increasing housing need of the nation due to the fact that the state institutions charged with this responsibility were actually delivering far below their planned output, which was always outstripped by the rapid population growth of the nation. The policy emphasis was therefore shifted to the creation of a sound basis for the stimulation and encouragement of private enterprises in house building activities. Consequently, in 1987, the National Housing Policy and Action Plan 1987-1990 was prepared. The policy advocated a shift from state production to intervention in the input market (Korboe, 1992).

4.1 Investment Policy of SSNIT

Primarily, as a result of the partial funding design adopted by the SSNIT Scheme, the Trust is able to accumulate huge reserves which are invested to generate income to augment the contributions of members. The investment policy guidelines seek to achieve safety, high yield, diversification and liquidity.

Nevertheless, in line with its social responsibilities, the Trust also undertakes socially oriented investments in sectors such as health, education, housing and the provision of basic infrastructure. The Trust remains the largest single institutional investor on the Ghana Stock Exchange that is helping to nurture the development and sustenance of the Capital Market in Ghana. The Trust has shares in a number of listed companies on the stock market. In addition, the Trust has investments in unlisted equities, commercial and residential properties all over the country.

It is instructive to indicate here that per the quotations in the Trust's investment policy SSNIT views investment in housing more as a social intervention programme rather than a profitable venture that colossal portions of its investible funds should be committed to. This mindset has therefore been the influencing factor in the type of housing units constructed, the pricing of these houses as well as the payment terms for both the purchase and rental of these houses. It is worth noting that SSNIT has never charged economic rent in any of its Estates across the country. For example, whereas those who have purchased their two bedroom flats at Asuoyeboah Estate are renting them out to interested people at rates between GH¢150.00 and GH¢200.00 SSNIT is still renting similar flats with the same level of accommodation and finishes at GH¢30.00 within the same Estate. This rent is unrealistic and ridiculously low and therefore does not present any incentive to the Trust directing investment into such a venture. Such characteristics do not satisfy the basic criteria of safety, yield and liquidity that guide the investment of pension funds. It is therefore a limiting factor in committing more funds to that sector of the economy. Unfortunately, also the beneficiaries of these housing investments equally consider SSNIT housing investments as social intervention programmes rather than a competitive investment options that the Trust could take advantage and recoup its investment. Civil strife and political pressures are therefore usually brought to bear on the Trust in its attempt to charge economic price for these housing investments.

4.2 SSNIT's Contribution to Housing Provision

4.2.1 Direct Housing Development

SSNIT, like many other public institution and some private real estate developers with the necessary wherewithal, entered the house construction industry on a mass scale in an attempt to addressing the ever-precarious housing demand/supply imbalances in the system around 1989 after the development of the National Housing Policy and Action Plan, 1987-1990. SSNIT started mass production of houses in 1989 and by the end of 1999, which is within a spate of 10years, was able to construct 7,923 housing units comprising 6,572 flats, 631 semi-detached and 720 fully detached houses throughout the country. This could be considered as a significant effort by any institution as a contribution to the general national effort of providing a descent place of abode for every citizen. Also, in March 2009 the Trust recommenced the construction of housing units and by the end of 2010 three hundred and fifty (350) units of three bedroom flats were constructed at Adenta, a suburb of Accra bringing the total housing units constructed by the Trust to 8,273.

Table 4.1: Housing Units Delivered by SSNIT, from 1989 to 2010

Type of Accommodation	Number of Units	% Of units provided
Fully Detached Houses	720	8.7
Semi-Detached Houses	631	7.6
Units of Flats	6,920	83.7
Total	8,273	100

Source: Field Survey, 2011

The country has consistently been experiencing a huge deficit of demand for housing over supply, particularly by the class of the society within the lower income groups, which is largely constituted by majority of the contributors to the Social Security Scheme. Interestingly enough, the government does not seem to be putting in place any workable initiative and strategies that could practically reduce to a significant extent the ever-increasing gap between demand for housing units by the poor and the supply thereof. Individuals and private real estate developers who have attempted addressing this needs have always invariably priced their products beyond the reach of the poor, apparently due to the cost involved in undertaking such enterprises. Most SSNIT contributors desirous of owning their own houses therefore resort to the popular incremental constructional method, which usually span their entire working life largely due to lack of adequate housing finance schemes in the country.

The table 4.1 above indicates that SSNIT housing units largely targeted those of the lower and the middle income brackets. This observation is anchored on the fact that SSNIT's concentration was more on building flats rather than semi-detached and the fully detached houses, which are usually patronized by people within the higher income range, due to the usually high offering prices. The flats are significantly cheaper and are priced within the affordable range of an average SSNIT contributor. Further information obtained from SSNIT indicates that a two bedroom self-contained flat at Asuoyeboah Estate is currently being sold at GH¢16,072.00 whiles the three bedrooms are going for GH¢24,108.00 with flexible terms of payments. Purchasers are accorded the luxury of making an initial deposit or to start payment without deposits towards the purchase and spread the rest of the outstanding amount over a period of five years on equal monthly instalment payment basis.

Flats compose as much as 83.7% of the Trust's total housing units constructed over the years. It was revealed that the payment terms for both rental and sales were significantly flexible, making it possible for a lot of the beneficiaries to acquire their flats. It was also revealed that out of the total housing units of 8,273 that were constructed over the period only about 700 representing less than 10% are left on rental currently. More than 90% have been purchased by the respective beneficiaries due to the relatively low prices and the flexible terms of payment accompanying them. It is also instructive to state here that all the beneficiaries of these houses are contributors to the social security fund. They are usually found in the lower and middle-income bracket of the society. Pictures of some of the block of flats at the Asuoyeboah Estate, Kumasi are attached and marked as appendix.

4.2.2 Direct Mortgage Financing

It was noted in Chapter one under the statement of the problem that housing financing has been identified to be one of the major problems facing the housing sector in Ghana. It was further noted that the average propensity to save by Ghanaians is very low largely due to general low income levels. It therefore becomes extremely difficult for an average income earner to mobilize money and material resources to undertake capital investments such as housing. Majority of Ghanaian salary workers can simply not make any meaningful saving from their meagre salaries to finance house construction. Most Ghanaians, in the attempt to own their places of aboard therefore resort to the popular incremental constructional method, which usually span their entire working life, with some not even able to complete until their demise. These are usually the bane of the middle and the low income earners in their attempt to own a house.

One of the major means of raising funds to finance the purchase and construction of houses in many parts of the world is through the use of a mortgage system. However, there are inadequate mortgage systems and institutions in the country to accord the citizenry the opportunity to utilize such facilities towards house acquisition. Where these facilities exist the pricing and the amortization period of these mortgage facilities are usually inimical to the economic fortunes of most low and moderate-income earners in the economy and therefore unattractive to them. Most Ghanaians therefore do not consider mortgage facilities as the first option in their attempt at house acquisition.

SSNIT, in recognition of the fact that majority of its contributors were within the low and the moderate-income group and for that matter would find it quite difficult raising the necessary funds to purchase their flats on an outright payment basis or to access the existing mortgage facilities in the market due to the high installment payments associated with them, set up a primary mortgage scheme for the tenants of the flats that desired to purchase their respective flats. The tenants were given the option to make an initial deposit or to start the amortization without any payment of deposits. This was flexible enough to encourage all tenants to acquire their house. It is instructive to indicate that by the end of the amortization period, over 90% of the tenants had utilized the opportunity and owned their respective houses through this direct mortgage facility with the Trust.

4.2.3 Indirect Mortgage Financing

SSNIT has also been indirectly supporting the housing industry by helping established institutions charged with the responsibility of mobilizing resources for housing finance in the country. SSNIT, in collaboration with successive governments had sort to establish institutions aimed solely at developing formal debt financing system for housing. Some of these institutions included the Bank for Housing and Construction (BHC), Social Security Bank (SSB – now SG-SSB) and First Ghana Building Society (FGBS), among others.

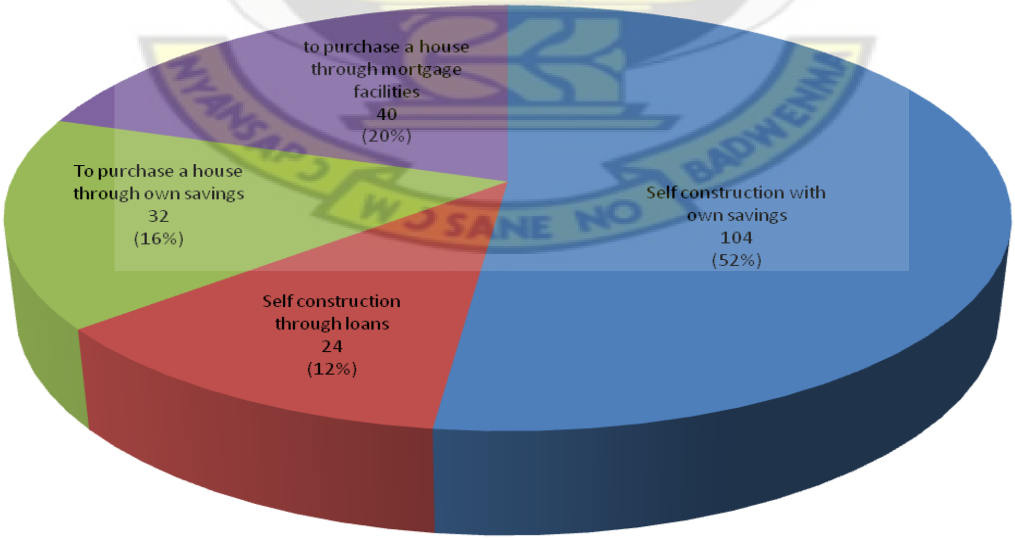
Even though the primary mortgage system was almost non-existent the government of Ghana in collaboration with SSNIT established the Home Finance Company (HFC-now HFC Bank) as a secondary mortgage institution. HFC was established with the core objective of providing service of mortgage finance and also to raise funds for mortgage finance. With no strong primary market yet in operation, the initiative was based on operating a secondary mortgage market with the HFC acting as the liquidating institution for the participating financial institutions (Asare, 2004). The effort of SSNIT was very significant in establishing HFC, which is another demonstration of the Trust’s commitment towards housing provision in the country. The Trust provided approximately 65% of the start-up capital in the sum of $16.2million whiles the top up of $8.2million was provided through a loan arrangement with the World Bank by the Government of Ghana (Asare, 2004).

4.3 Means of House Acquisition

Traditionally, majority of Ghanaians attempt to own houses by adopting the popular incremental method of construction. The respondents were asked about how they intended financing their houses, with the possible choices of self construction with own savings (incremental approach), purchase a house through mortgage facilities, purchase a house through own savings and self construction through loans.

Most Ghanaians are either totally unaware of the existence of mortgage finance schemes or find such facilities too expensive to patronize and therefore not an option for them in their effort to acquire houses. This observation was aptly amplified in the data obtained from the field, where out of the total number of 200 workers sampled, only 40 respondents representing 20% of the total sample space wished to acquire their houses through a mortgage arrangement.

Fig. 4.1: Preferred Means of House Acquisition



Source: Field Survey: July, 2011

Out of the 200 people sampled, 104 respondents representing 52% wished to finance their dream houses through the incremental constructional approach, which is the most popular form of house construction and acquisition in Ghana currently. 16% of all respondents wished to purchase their houses through own savings whiles 12% would like to construct their houses through loans from the banks.

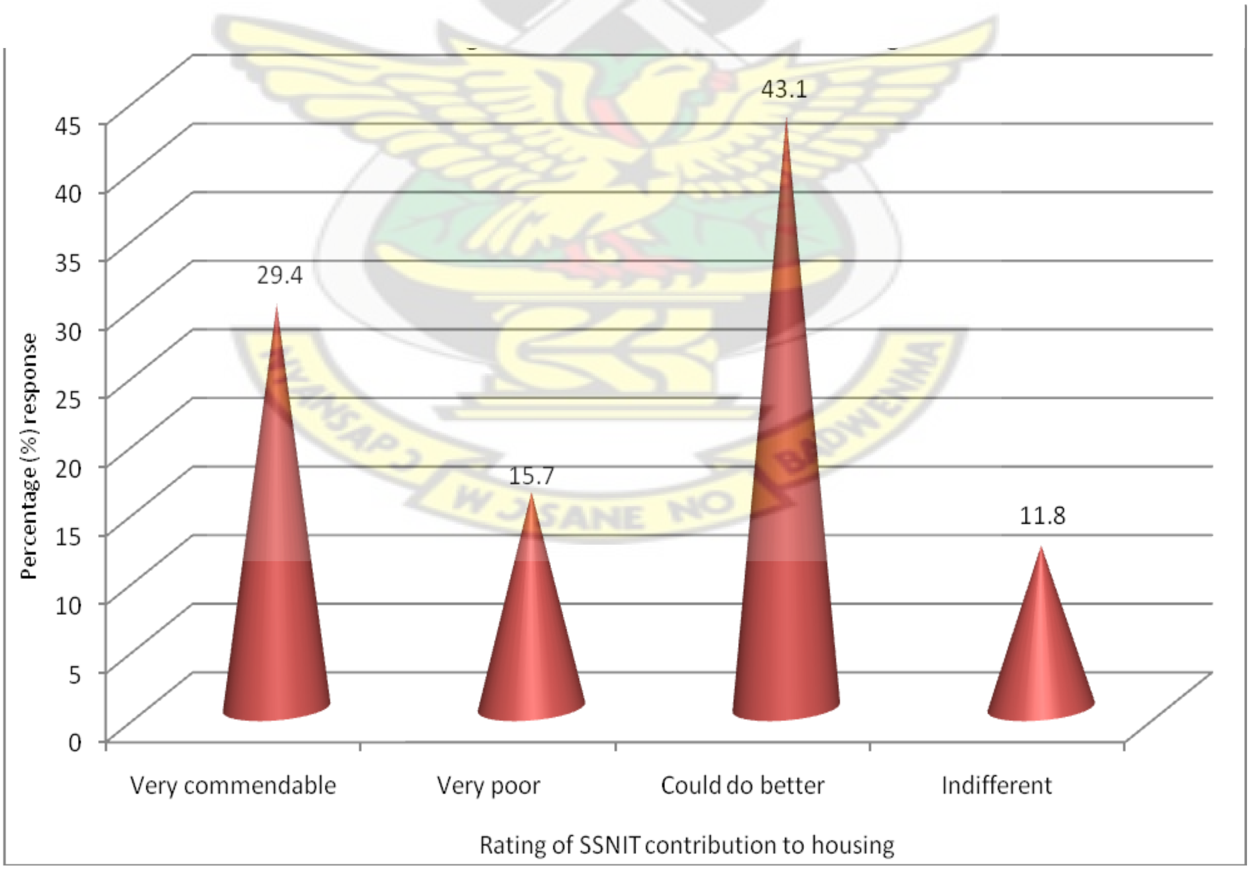
One point that stands out clearly is that majority of respondents (68%) simply do not want to finance their house acquisition through any formal financial arrangement with any financial intermediaries. They preferred to acquire their houses through own savings (increment constructional method or purchase a house with own savings). Most Ghanaians desirous of owning houses are either unaware of the mortgage facilities available or consider that it is much more expensive using the available mortgage facilities than using the incremental method of construction, even if this form of housing development would take them their lifetime to complete. In fact, the mortgage facilities are only attractive to the rich in society because of the pricing. Most SSNIT contributors can simply not afford these mortgages and therefore they appropriately look elsewhere for finance for house construction and acquisition rather than the mortgage system.

4.4 Perceptions of SSNIT's Contribution to Housing by the Public

This study also sought to estimate the views of the general public regarding the effort of the Trust in housing provision in the country. Appropriate questions were therefore asked in the administered questionnaire to enable the study conclude on the general perception on what the Trust had done so far in housing and to as well solicit views on the way forward. It is instructive to note that the name of SSNIT in the minds of some people was almost synonymous to housing provision. Such people therefore tendered to believe that housing provision was a core function of SSNIT but, which the Trust is currently relegating to the background. The field data shows that most of the respondents were judging SSNIT through their individual needs for housing and erroneously believed that housing provision was one of the core functions of the Trust. Most of the respondents, unfortunately did not believe that SSNIT had done a commendable job in housing provision so far.

The chart below indicate that out of the total respondents of 204 only 60 of them representing 29.4% considered the contributions of SSNIT to housing provision in the country as commendable. 43.1% believed SSNIT could do better while 15.7% thought the Trust's contribution was utterly abysmal. The rest 11.8% of the respondents did not have any opinions on the Trust's contribution.

Fig. 4.2: Contribution of SSNIT to housing



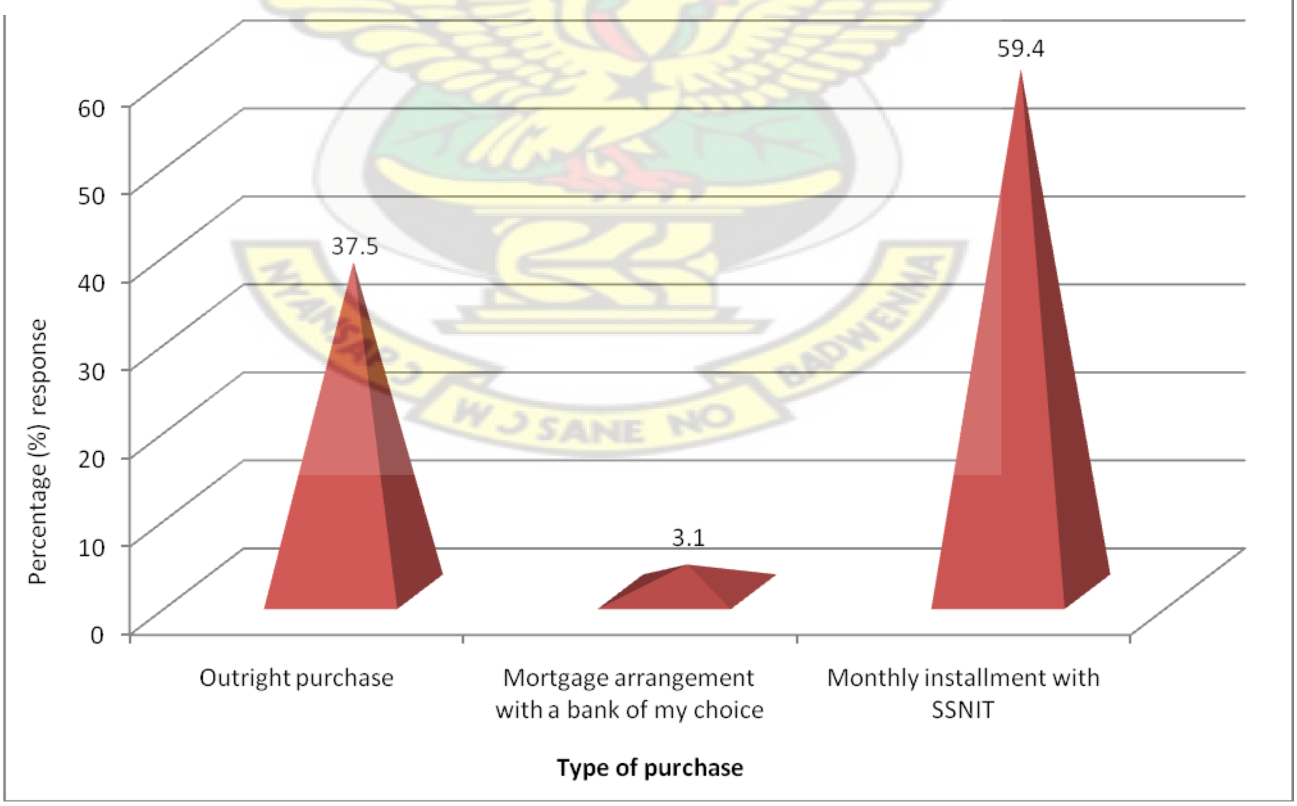
Source: Field Survey, July 2011

4.5 Public Confidence in SSNIT Housing Packages

It is important to point out that, in spite of the perceived disapproval level by the public of the Trust's contribution to housing development in the country, majority of the sampled population still preferred to buy and pay for their houses from SSNIT rather than any other options available on the market. They believed that SSNIT houses are comparably much more affordable with flexible terms of payment and therefore economically attractive to their resources, and also believed that SSNIT houses have secured titles and therefore insulated from the land disputes that are usually associated with housing in Ghana.

The fig. 4.3 below indicate that approximately 60% of all respondents wished to finance their house acquisition through monthly installment payment arrangement with SSNIT.

Fig. 4.3: Type of Purchase

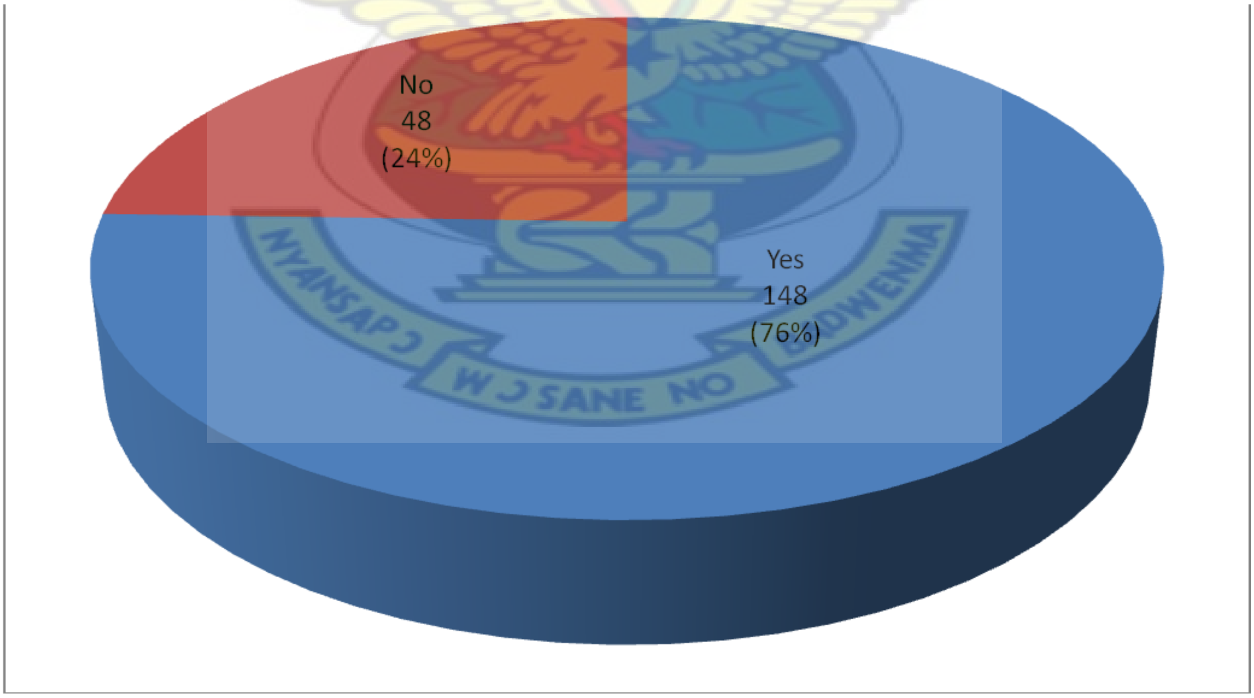


Source: Field Survey, July, 2011.

4.6 Continouos Public Expection on SSNIT's Provision of Housing Units

The study also, among other things, sought to gauge public expectation on the continuous investment of the Trust in housing. Two questions were asked to two categories of respondents. The study desired to find out about the expectations of those that wanted to construct their own houses but lacked the necessary funds to undertake such ventures. This was necessary because of cultural values of some of the Ghanaian population. Some respondents might want to construct their houses in their hometowns and villages, which places the Trust might not consider appropriate to build such facilities. The question was therefore asked whether they would welcome the idea of SSNIT giving a portion of their contributions to them as loans specifically towards house construction/purchase during some period in their working lives.

Fig. 4.4: use SSNIT contribution as loan for a house



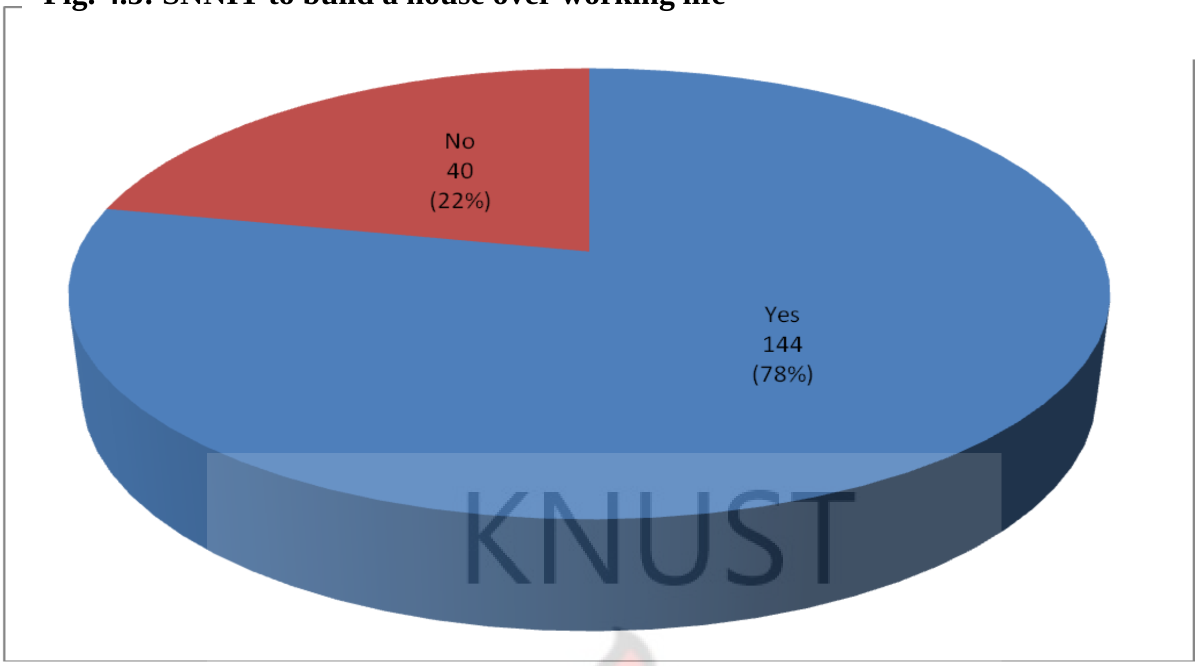
Source: Field Survey, July, 2011

It could be realised from the above chart that as high as 76% of the respondents were firmly in support of this idea. It is, however, instructive to indicate that the current Pensions Act (Act 766) does not support this idea and therefore its implementation by the Trust could only be possible upon the amendment of the Act. The 24% of the respondent that disagreed with the suggestion of the Trust granting loans to contributors specifically towards house acquisition further indicated that they already have their own places of aboard. They therefore suggested that the loan should be granted but not be tagged solely to housing but to be made flexible enough to enable them acquire other assets.

The study also tried to enlist the support of the public on the idea that the Trust should build and allocate houses/flats to contributors, which cost shall be amortised over the working life of the contributors on monthly installment payment basis. This would be in the form of a primary mortgage arrangement between the Trust and its contributors.

The result presented in Fig. 4.5 Below indicates that as much as 78% of all respondents were in support of this idea and would really relish the opportunity to own their houses through this arrangement.

Fig. 4.5: SNNIT to build a house over working life



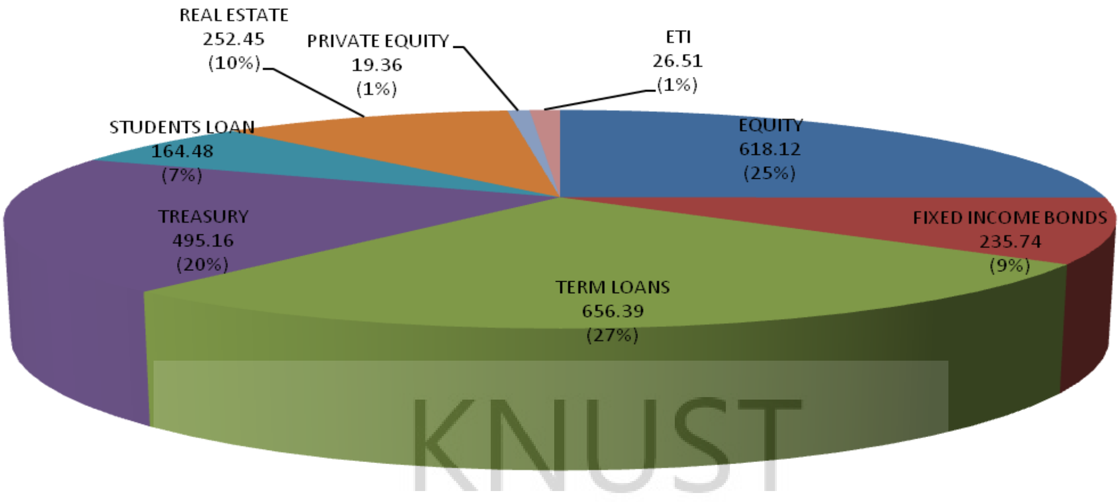
Source: Field Survey, July, 2011

It is also important to indicate that this particular option does not require any form of amendment to the current act in order to implement. It is therefore an important option the Trust must consider in its continuous attempt to help the contributing public acquire their own places of aboard whiles at the same time trying to cushioned itself against future acturial malfunctioning of the pension fund. It should also be pointed out that pension funds usually have long term liabilities and for that matter are safe sources of funds for long term investments such as housing.

4.7 SSNIT Asset Allocation for 2010

Per SSNIT's investment policy and its general investment principle of ensuring safety, high yield, liquidity of funds, and economic & Social Utility of its investments as indicated earlier assets are appropriately allocated year-by-year in the various investments to reflect these ideals. The chart below depicts the asset allocation of the Trust in 2010 accounting year, which was exactly the same in 2009 as well.

Fig 4.6: SNNIT Assets Allocation for 2010 (Gh ₵ M)



Source: Field Survey, July, 2011.

The figure indicates that 10% of the Trust's asset in the sum of 252.45 million Ghana Cedis was committed to real estate investment in general. Further information from SSNIT also suggests that approximately 90% this amount was channeled into the Adenta Estate-infilling housing project. This data therefore give the indication of SSNIT's commitment to housing provision.

Comparatively, data available in the chapter two of this study indicate that as much as 20% of all pension funds in Kenya were channeled into the real estate sector while approximately 13% of such funds in Rwanda were channeled into the sector. It should be pointed out that SSNIT holds investment in sizeable number of institutions and companies that are either directly or indirectly connected to housing finance of one kind or the other. When these investments are aggregated SSNIT asset allocation chart would significantly shift in favour of real estate.

CHAPTER FIVE

SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Summary of Findings

The study was undertaken, essentially to evaluate the contribution of pension funds to housing provision in developing countries with SSNIT as the case study. Pension funds have been hugely attractive to housing investments across the world due to the basic characteristic features of both; housing investment has a basic characteristic feature of long term investment whiles pension schemes also have long term liabilities. As at year ending December, 2010, the fund size of pension fund in Ghana was estimated at GH¢2976.29 million (source: SSNIT Annual Report, 2010) which is approximately US$1984.20million. This was estimated to form approximately 20% of the real Gross Domestic Product (GDP) of the Ghanaian economy.

Pension funds in Ghana over the years have represented the most significant proportion of domestic savings and have served as a substantial source of capital that have been used over the years as end finance for housing in addition to funding the housing development industry in general. SSNIT as the pension fund administrator of the country has immensely contributed to the housing sector through direct involvement in actual housing construction, helping set up housing finance infrastructure and administering mortgage facilities with its clients, among others. In spite of the significant contribution to the housing sector over the years the impact has not been hugely felt because of some limiting factors identified below:

- Financing Housing Programmes in Ghana
- High Public Confidence in SSNIT Housing Units

- Public Expectation Outstrips SSNIT's Capacity and Commitment
- Defective Housing Investment Policy Orientation of the Trust
- Lack of Coordinated and Integrated Approach to harmonize its Investment in Real Estate

5.1.1 Financing Housing Programmes in Ghana

SSNIT has been very visible on the ground in all spectrum of housing finance in the country. The Trusts commitment to housing finance in Ghana cuts across the entire housing industry, from construction to the disposal of the last unit of housing. The study discovered that SSNIT was committed to housing through actual construction of housing units, setting up housing finance institutional infrastructure and packaging mortgage schemes that enabled the contributors to own their houses. The study discovered that SSNIT had constructed about 8,000 housing units within a spate of ten years (1989-1999), when it temporarily withdrew from direct construction.

Also, noticeable was the commitment to helping reforming the housing finance institutional infrastructure in the country. The study discovered that SSNIT had been very committed not only to delivering housing units through direct construction but also setting up housing finance institution that would mobilize resources for the sector to ensure that there was sustained funding for housing programmes in the country. This was demonstrated in the setting of institutions such as the Bank for Housing and Construction (BHC), Social Security Bank (SSB – now SG-SSB) and First Ghana Building Society (FGBS), Home Finance Company (HFC-now HFC Bank) among others. SSNIT also parceled out direct mortgage arrangements with its tenants/contributors to own their respective houses in a flexible manner.

5.1.2 High Public Confidence in SSNIT Housing Units

The study also discovered that majority of Ghanaians have high confidence in SSNIT housing and therefore would prefer owning a house from SSNIT to any other available options on the market.

Housing as a basic necessity of life, is desired by every worker/contributor, which provision the respondents considered must engage the attention of SSNIT much more than any other investment in the country. As high as 78% of all respondents wished that SSNIT would build houses for them and allow them the luxury of amortizing the cost for these houses for the rest of their respective working lives. They believed that SSNIT houses are comparably much more affordable with flexible terms of payment and therefore economically attractive to their resources and also believed that SSNIT houses have secured titles and therefore insulated from the land disputes that are usually associated with housing in Ghana.

5.1.3 Public Expectation Outstrips SSNIT's Capacity and Commitment

Ghanaians in general and SSNIT contributors in particular believed that SSNIT was not committed to providing accommodation for its members as expected. In the minds of most contributors the name of SSNIT was almost synonymous to housing and for that matter thought that SSNIT should be concerned and engage itself with providing affordable housing units for its members than it had done. Only 30% of all respondents believed that SSNIT had done a commendable work in the housing sector. The rest of the respondents either believed that SSNIT could do better or thought its performance so far was poor when measured against public expectation. Unfortunately, this perception seemed to have been confirmed by SSNIT's asset allocation chart presented in figure 4.6, where only about 10% of its resources was channeled to the real estate industry out of which a portion would be directed to housing provision. It was also noticed that SSNIT had been out of the actual construction of housing units since year 2000 and only recommenced construction in 2009. There were also no evidences to suggest that SSNIT was in anyway helping its contributors acquire housing units during the period it never engaged in actual construction.

5.1.4 Housing Investment Policy Orientation of the Trust

In spite of SSNIT's huge investments in the housing industry over the years the Trust had always viewed the commitment of its resources into the sector as a social intervention programme rather than a competitive commercial investment option that was appropriate and strategic for its funds. In the Trust's investment policy in figure 4.1 real estate investment was captured under the Economic and Social Utility investments. In the preamble to the group of investments captured under the Economic and Social Utility, the policy noted that it recognized the fact that the Trust was operating in a developing country and that the contributions were the collective savings of the population and therefore these savings should be directed towards improving some basic provision of services that will generate some return as well as benefit the population. It therefore encouraged management to be very selective in this sector so as to pick on areas that could be formulated to provide cost recovery and a modest return to investment. Included in this sector were Housing Finance Schemes, Students Loan Scheme and Industrial Estates. This view point has unfortunately affected the Trust's investment in housing in many negative ways, particularly in the pricing of its products.

This policy orientation therefore defined how much of the Trust's resources could be channeled into such social intervention programmes as housing. It therefore failed to answer the basic housing finance problems of an average SSNIT contributor.

5.1.5 Lack of Coordinated and Integrated Approach to harmonizing its Investment in Real Estate

The Trust has failed to put in place a coordinated and integrated approach to harmonizing its numerous investments in the housing industry. SSNIT was building housing units at the same time it was investing heavily in the establishment of HFC, a secondary mortgage institution. One would have therefore expected that expertise would be developed in such areas as mortgage administration and general housing finance to synergize the strength from construction through to the delivery of the final product to the consumer.

However, there has not been established any known coordinated and integrated system to effectively link the construction and delivery of these units to the consumer through an established mortgage arrangement. SSNIT did not seize the opportunity to insist that everybody purchased the houses through mortgage arrangement, which could have substantially helped in strengthening the mortgage system and by extension the entire housing finance system.

It was also realized that the primary mortgage arrangement SSNIT repackaged for some of the purchasers in 2004 did not achieve the desired result. The default rate was so high that when the Trust reopened sale of flats in November, 2010 after it had earlier suspended the exercise for revaluation in 2007, it put all the flats on outright sale. Under the mortgage arrangement the recovery rate was estimated at 60%. One of the reasons that accounted for this default was the fact that the amortization period was too short and for that matter the monthly installment payments were huge and therefore overstretching resources of the purchasers. And since these monies were not deductible directly at source or from the purchasers' bank accounts it became convenient for them to defer payments.

Also, there have been inconsistencies with the institutional arrangements within the Trust for the management of its investment in housing. The construction/development, management and maintenance of these houses were respectively placed under three different departments with departmental heads of equal ranking. In a nutshell, all three departments were operating disjointed programmes without any coordination and integration. In simple terms the Trust clearly lacked direction regarding what it was actually seeking to achieve with its investments in the housing sector.

5.2 Recommendations

The above findings are some of the successes and failures of the use of SSNIT's pension fund in housing provision in Ghana. A number of western standard solutions exist and in fact, some have been tried but without much success on how to address some the failures identified. It is therefore important at this point to fashion out practical workable housing finance options that take cognizance of the country's specific local problems and cultural variations. The following recommendations are therefore proffered for consideration and implementation.

5.2.1 Introduction of Housing Loan Scheme for Contributors of SSNIT

Housing loan Schemes must be introduced for workers and contributors to the scheme across board without respect to place of work, level of income, position held, among others. All these should be determinants for the amount of loan any contributor could access at any given time. Qualification for the loan itself should be based on the length of time the contributor has contributed to the scheme. Ten (10) years of continuous contribution to the scheme and a minimum of fifteen (15) years remainder on the working life of the contributor should be the qualifying condition for accessing the housing loan scheme. It is acknowledged that the contributions to the pension scheme are the collective savings of the population and therefore these savings should be directed towards improving some basic provision of services that will generate some return as well as benefit the population directly. There could be no better way of directly affecting the lives of contributors than affording them the opportunity to acquire one of the most basic necessities of life, housing. These loans should be administered by the banks on behalf of SSNIT in collaboration with mortgage finance institutions at a much lower rate of interest specifically for housing acquisition purposes. There should be a minimum of fifteen (15) and maximum of twenty-five (25) years amortization period for these loans. As much 76% of the respondents supported this recommendation, which was captured under point 4.8 in chapter four.

5.2.2 Allocation of SSNIT Housing Unit to Contributors

Data indicated that as high as 78% of the respondents had confidence in SSNIT housing units and would be glad to be given the opportunity to acquire a house and pay over their working lives. It is therefore recommended that SSNIT build flats and allocate to contributors who have twenty (20) years and more left on their working life, which cost should be amortized during the working life of the contributor. This should be parceled as direct or primary mortgages between the Trust and the beneficiaries of the scheme in order to eliminate the high administrative costs that go with secondary mortgages. In order to avoid the incident of default the payment for these monthly mortgages should be deductible from the salaries of the beneficiaries at source.

Alternatively, SSNIT could enter into partnership with all or some of the banks to deduct these monthly payments from the accounts of the beneficiaries. In this case it is only the partnered/approved banks that the beneficiaries would be allowed to hold salary accounts with. This will therefore remove the unpleasant administrative cost the banks would have charged and in effect present a win-win situation.

5.2.3 Collateralization of SSNIT Contribution

One of the basic requirements for accessing loans from the banks and other lending institutions in Ghana is the deposit of valid collaterals, which normally come in the form of realty. It is the firm belief of this study that in addition to the property being acquired being used as collateral SSNIT contributions could as well be made to serve as collateral for accessing loans specifically for house acquisition. This could significantly reduce the risk of default and for that matter reduce the risk factor in the cost build up in the interest rate charged on these loans. After years of contributing to the scheme members should be able to use their contributions as collateral to secure loans from the bank for house acquisition before going on retirement. The current situation where contributors attempt to use their pension lump sums to start house construction after retirement is unacceptable. Most of them are never able to complete these houses. Meanwhile, all their life benefits would have been sunk in the ground in uncompleted housing projects whiles they are left unsheltered. It is therefore recommended that the portion of the National Pension Act, 2008 (Act766) that prohibits the use of the pension fund as collateral by contributors be amended and subsequently practicable workable schemes put in place for contributors to access housing loans using their SSNIT contributions as collaterals.

5.2.4 Establishment of Specialized Contract Saving Scheme

It is also recommended that a specialized Contract Savings Scheme for Housing be established and operated as a Housing Provident Fund, which shall be a compulsory savings scheme to which employees have to adhere as being practiced in China. Contributions will be deducted from the employee's salary and topped up by the employer to be paid into the scheme on behalf of the employee. SSNIT should be made to provide the seed money for the take off of the scheme. After contributing for some specific number of years a contributor could apply and be granted housing loan amounting to twice the employee's total contribution. The employee's SSNIT contribution shall be set as collateral against the overdraft in order to secure the scheme from repayment defaulting and subsequent collapse. Eventhough this scheme would reduce the net income of the contributor in the short run the benefits to be accrued through effective implementation are enough motivation for the workers to accept it. However, a significant pay rise before the introduction of such schemes would help ameliorate the effect of the deduction and substantially assuage public agitation and anger against it.

5.2.5 Reformation of the Mortgage System

Government and all institutions committed to the housing sector must concertedly direct energy and resources, both financial and human towards reforming mortgage administration in the country in such a manner that it would be appealing to the public to make all property transactions through the mortgage system.

SSNIT has been playing a lead role in the housing sector and must be encouraged to continue to adequately resource the implementation of all or any of the above recommendations to adequately provide the necessary finance for the housing sector.

5.3 Conclusion

It would appear that banks, pension funds and other investors in the economy are more conversant with stocks and bond issues than the unattractive and long term investments such as housing, and have thus kept low profile as far as the housing sector is concerned. SSNIT, being conscious of the fact that it operates a social security scheme and for that matter the contributions are the collective savings of the contributors has over the years tried to invest in projects and activities that directly provide social protection for the people while trying to secure the future of the pension fund from actuarial challenges. There is no better way to satisfy these two requirements than housing, which is one of most significant basic necessities of life.

SSNIT has thus invested in housing construction, housing finance infrastructure development as well as helping some of its contributors have access to funds for the purpose of housing acquisition. Public optimism in SSNIT's continuous finance for housing is high and majority of Ghanaians wished to own houses through SSNIT-assisted programmes one day. SSNIT's contribution has, however, not met public expectation in spite of the fact that it has addressed the housing problems of some sections of the society.

From the foregoing, it could be realized that the role of SSNIT in housing finance in Ghana cannot be overemphasized. Nevertheless, finance is still a major problem confronting the housing sector of the country. The implementation of the above recommendations are therefore considered as the panacea to housing finance difficulties the country currently faces if all relevant players in the industry partnered government concertedly to vigorously pursue the implementation of these and other measures to a successful end.

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APPENDIX 1

QUESTIONNAIRE FOR PROSPECTIVE HOME OWNERS

NB *This questionnaire is entirely for academic purpose. The information obtained shall strictly be treated as confidential. You are therefore encouraged to provide accurate answers to the questions, please.*

1. Genda: (a) Male (b) Female
2. Age: (a)20 -30 (b) 31-40 (c) 41-50 (d) 51-60 (e)Above 60
3. How long have you been working (a) 0-5yrs (b) 6-10yrs (c)11-15yrs (d) 16-20yrs (e) above 20yrs
4. Level of education: (a)no formal education (b) up to JHS (c) Up to SHS (d) up to Tertiary (e) Masters and above
5. Occupation: (a) Self/private employment (b) Civil/public Service (c) Financial Institution (d) Professional
6. Income Level: (a) GH¢300.00-GH¢800.00 (b) GH¢801.00- GH¢1300.00 (c) GH¢1,301.00- GH¢1,800.00 (d) GH¢1,801.00- GH¢2,300.00 (e) Above GH¢2,300.00 per month.
7. Do you wish to own a house within the next five (5) years? (a) Yes (b) No (c) Not decided (d) Not sure
8. How do you wish to acquire your house: (a) Self Construction with own savings (b) Self construction through loans (c) to purchase estate house through own savings (d) to purchase a house through mortgage facilities.
9. If through mortgage, how much monthly payment can you afford to pay to amortise the loan? (a) Less than GH¢300.00 per month (b) GH¢301- GH¢600.00 (c) GH¢601.00- GH¢900.00 (d) GH¢901.00- GH¢1,200.00 (e) Above GH¢1,200.00.

10. How long would you want to use to pay for the house (a) Five (5)yrs (b) Between 5yrs and 10yrs (c) Between 10yrs and 15yrs (d) Between 15yrs and 20yrs (e) More than 20yrs.
11. What type of house do you want to own (a) Two (2) bedrooms self-contained (b) Three (3) bedrooms self-contained (c) Four (4) bedroom self-contained (e) Five (5) bedrooms above
12. From whom would you want to purchase a house (a) SSNIT (b) Private Estate Developers (c) State Housing Company (d) Any Other ....
13. If SSNIT, why: (a) SSNIT houses are affordable (b) SSNIT houses have secured titles (c) SSNIT houses have flexible terms of payment (d) Any others ....
14. How much do you know about SSNIT houses across the country (a) Very much (b) Not much (c) No knowledge of SSNIT houses (d) Any others..
15. How would you rate the contribution of SSNIT to housing supply in the country? (a) Very commendable (b)Very poor (c) Could do better (d) Indifferent (e) Any others.
16. Would you want to rent/buy a SSNIT if given the opportunity? (a) yes (b) no (c) indifferent
17. If buy, would you want to buy through (a) outright purchase (a) Mortgage arrangement with a bank of your choice (c) Monthly instalment payment with SSNIT (d) Any others ....
18. How much would you want to buy a four bedroom house constructed by SSNIT? (a) GH¢75,000.00- GH¢1,000,000.00 (b) GH¢50,000.00- GH¢74,999.00 (c) GH¢25,000.00- GH¢49,999.00 (d) Below GH¢25,000.00

19. If rent, how much would you want to pay for a four bedroom house? (a) GH¢250.00-350.00 (b) GH¢349.00- GH¢450.00 (c) GH¢449.00- GH¢550.00 (d) above GH¢550.00.
20. Would you want part of your SSNIT contribution to be given to you as loan towards house contruction/purchase(a) yes (b) no
21. If no, why

    ....

22. Would you want SSNIT to build a house for you and spread the payment over your working life? (a) yes (b) no. Indicate your opinion frankly;

    ....

23. Which of the Ten (10) regional capitals of Ghana would you want to own a SSNIT house? ....

Thank you for taking the pains to answer this questionnaire.

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7. Have you purchased your flat/house? (a) yes (b) no (c) in the process (d) do not want to buy (e) can't buy
8. If (b), (d) or (e) why ....
....
9. If (a) or (c), how long did you use or were you given to pay up for the purchase of the flat? (a) Outright Purchase (b) 1yr (c)up to 5yrs (d) more than 5yrs
10. Do you think do you think the payment terms were flexible? (a) yes (b) no
11. Do you think SSNIT houses are affordable (a) yes (b) no
12. If you were given the chance would you buy another one? (a) yes (b) no
13. Do you think SSNIT should build more houses to sell? (a) yes (b) no

APPENDIX 2

Plate I: SSNIT Flat type, Phase II at Asuoyeboah-Kumasi

Source: Field Survey: July, 2011

Plate II: SNNIT Flat type: Phase I - four storey of 48 flats

Source: Field Survey: July, 2011

Plate III: SNNIT flat type, Phase I - three storey of 28 flats

Source: Field Survey: July, 2011

Plate IV: SNNIT flat type, Phase II – block of flats

Source: Field Survey: July, 2011