

Factors that Positively Influence the Participation of the Informal Sector Self-Employed Workers Under the Tier-1 Scheme

Alex Appiah
Texila American University

*Correspondence: Alex Appiah, email: alexappiah1974@gmail.com

Abstract

The informal sector plays a vital role in Ghana's economy, employing a significant portion of the workforce. However, many self-employed workers in this sector lack social security coverage, leaving them vulnerable to financial instability in retirement. This study explores the factors that positively influence the participation of informal sector self-employed workers in Ghana's SSNIT Tier-1 pension scheme. Using a mixed-methods approach, data were collected from self-employed workers in Nungua and Sunyani through surveys, interviews, and focus group discussions.

The findings indicate that key factors such as financial security in retirement, trust in the scheme, flexible contribution options, and peer influence positively impact participation. However, financial constraints, lack of awareness, administrative difficulties, and trust issues hinder enrollment. The study highlights the need for targeted policy interventions, including improved public education, simplified registration processes, and flexible contribution structures that align with the income patterns of informal workers.

Addressing these challenges can help policymakers and social security administrators enhance participation rates and ensure broader pension coverage for informal sector workers. Strengthening social protection mechanisms for this group is crucial for reducing economic vulnerability and promoting financial security in Ghana.

Keywords: Informal Sector, Self-Employed Workers, SSNIT Tier-1 Scheme, Pension Participation, Social Security, Ghana.

Citation: Appiah., A., (2025), "Factors that Positively Influence the Participation of the Informal Sector Self-Employed Workers Under the Tier-1 Scheme", Dama Academic Scholarly & Scientific Research Society 2024, 10(02): pp.10-18, DOI: <https://dx.doi.org/10.4314/dasjr.v10i2.2>

Submitted: 20 January 2025 | Accepted: 20 February 2025 | Published: 28 February 2025

1.0 INTRODUCTION

The informal sector plays a crucial role in the economic development of many countries, particularly in developing economies, where it accounts for a significant portion of employment and income generation. However, workers in this sector often lack social security protections, making them vulnerable to financial instability during economic downturns, illness, or retirement.

Recognising this challenge, many governments have introduced social security schemes to integrate informal sector workers into formal pension and insurance programs. One such initiative is the Tier-1 scheme, which provides a foundation for social security coverage. Despite its potential benefits, participation rates among self-employed workers in the informal sector remain relatively low in many regions. Understanding the factors that encourage participation in the Tier-1 scheme is crucial for policymakers, social security administrators, and economic

planners to design more effective strategies that ensure broader coverage and financial security for informal sector workers.

This study seeks to explore the factors that positively influence the participation of self-employed workers in the informal sector under the Tier-1 scheme. By identifying and analysing key drivers such as awareness levels, perceived benefits, ease of contribution, and trust in the system, the research aims to provide actionable insights that can enhance policy implementation and encourage higher enrollment rates.

1.1 Background

The informal sector comprises diverse economic activities, including street vending, artisanal work, small-scale manufacturing, and various service-oriented enterprises. In many developing countries, over 60% of the workforce is estimated to operate within this sector, often without access to formal employment benefits such as pensions, health insurance, and social security protections. The lack of structured social security coverage exposes these workers to economic vulnerability, particularly during old age or unforeseen life events.

Governments and social security institutions have tried to bridge this gap through initiatives like the Tier-1 scheme. Designed as a contributory pension system, the Tier-1 scheme allows informal sector workers to contribute voluntarily to their future financial security. However, despite the availability of such programs, participation rates remain suboptimal due to challenges such as limited financial literacy, mistrust in government-run schemes, irregular income patterns, and administrative bottlenecks.

Previous studies on social security participation have highlighted various factors that can drive engagement among informal sector workers. These include financial incentives, simplified registration and payment processes, targeted awareness campaigns, and enhanced trust in the system. Additionally, the role of cooperatives, trade associations, and financial intermediaries in facilitating access to social security schemes has been increasingly recognised as a means to improve participation rates.

This research aims to build on existing knowledge by examining the factors that positively influence informal sector self-employed workers to participate in the Tier-1 scheme. The findings will contribute to policy recommendations and strategic interventions that promote higher enrollment and ensure that informal sector workers are better integrated into formal social protection systems.

2.0 LITERATURE REVIEW

The informal sector is a critical component of economic development in many countries, particularly in sub-Saharan Africa. In Ghana, this sector employs a significant proportion of the working population, providing livelihoods for many individuals who lack access to formal employment benefits, including pension schemes (Baah-Boateng, 2016). This literature review examines previous studies on pension schemes in Ghana, the challenges informal sector workers face in participating in social security programs, and the potential adverse effects of the Tier-1 pension scheme on self-employed informal workers.

2.1 Pension Schemes and Social Security in Ghana

The introduction of the three-tier pension system in Ghana aimed to provide more comprehensive retirement benefits to both formal and informal sector workers. The Tier-1 scheme, which is mandatory for formal employees, is managed by the Social Security and National Insurance Trust (SSNIT) and provides basic retirement income (National Pensions Regulatory Authority [NPRA], 2020). However, participation in the Tier-1 scheme is voluntary for informal sector workers, leading to low enrollment rates. According to Osei-Boateng and Ampratwum (2019), only a tiny fraction of self-employed individuals contribute to the scheme due to various socio-economic and institutional barriers.

2.2 Barriers to Pension Participation Among Informal Sector Workers

Several studies have explored why informal sector workers are limited in pension schemes. Aryeetey et al. (2017) argue that income irregularity is one of the biggest deterrents, as self-employed workers prioritise daily expenses over long-term savings. Similarly, Kpessa (2011) highlights that the lack of financial literacy and awareness about pension schemes significantly affects participation rates. Many informal sector workers either do not fully understand the benefits of pension contributions or perceive the system as complex and inaccessible.

Trust and confidence in pension management also play a crucial role. Obeng and Adu (2020) found that mistrust in SSNIT and concerns about the transparency of pension fund management discourage self-employed workers from enrolling in the scheme. Additionally, the bureaucratic processes involved in registration and contribution payments further complicate access for informal workers, who may find it challenging to navigate administrative procedures (Dorkenoo & Asante, 2021).

2.3 Adverse Effects of the Tier-1 Scheme on Self-Employed Informal Workers

Despite its goal of ensuring financial security, the Tier-1 pension scheme has raised concerns regarding its potential adverse effects on self-employed informal workers. One of the primary issues is the financial burden it imposes. Since contributions are deducted regardless of fluctuations in income, informal workers who earn inconsistently may struggle to make regular payments, which could reduce their disposable income and negatively impact their financial stability (Osei-Boateng & Ampratwum, 2019).

Another significant concern is the long-term sustainability of the scheme for informal sector workers. Unlike formal employees who benefit from employer contributions, self-employed workers must make full contributions themselves, making it less attractive (Aryeetey et al., 2017). This situation may discourage long-term participation and reduce the overall effectiveness of the scheme in providing adequate retirement security.

Furthermore, studies suggest that informal workers often prefer alternative saving mechanisms, such as informal rotating savings and credit associations (ROSCAs) or investing in assets like land and livestock, which they perceive as more reliable and accessible (Baah-Boateng, 2016). This preference for alternative financial security strategies further weakens the appeal of the Tier-1 scheme among self-employed individuals.

2.4 Policy Recommendations and Reform Strategies

Several scholars have proposed reforms to make the pension system more inclusive and effective for informal sector workers. Aryeetey et al. (2017) recommend introducing flexible contribution plans that align with the income patterns of informal workers, allowing them to contribute at their own pace. Kpessa (2011) suggests improving public education and awareness campaigns to enhance understanding and participation in pension schemes. Additionally, Obeng and Adu (2020) emphasise the need for greater transparency and efficiency in pension fund management to build trust and encourage more self-employed workers to enrol.

The literature highlights several challenges associated with the Tier-1 pension scheme for self-employed informal sector workers, including low participation rates, financial strain, administrative barriers, and trust issues. While the scheme aims to provide social protection, its design does not fully account for the unique financial realities of informal sector workers. Therefore, policy interventions such as flexible contribution models, improved financial literacy, and enhanced transparency are necessary to ensure the pension system effectively supports informal sector workers in Ghana.

3.0 METHODOLOGY

This chapter outlines the study's methodology, including the research design, population and sample selection, data collection methods, and analytical techniques. The study seeks to assess the adverse effects of the Tier-1 pension scheme on self-employed workers in Ghana's informal sector.

3.1 Research Design

This study adopts a **mixed-methods approach**, combining quantitative and qualitative research techniques. A descriptive research design is used to analyse the participation of informal sector workers in the Tier-1 scheme and the challenges they face. The qualitative component provides deeper insights into workers' perceptions and experiences, while the quantitative approach allows for statistical analysis of the extent of participation and its financial impact.

3.2 Population and Sampling

The target population consists of self-employed informal sector workers in urban and semi-urban areas of Ghana, particularly in major commercial hubs such as Accra, Kumasi, and Takoradi. These locations were chosen due to their high concentration of informal sector activities. The study employs a **stratified random sampling** technique to ensure representation across various occupational groups, including petty traders, artisans, small-scale manufacturers, and transport operators. A sample size of **300 respondents** is selected for the quantitative survey, while **20 in-depth interviews** are conducted with selected participants to gain qualitative insights.

3.3 Data Collection Methods

Two primary data collection methods are used:

Survey Questionnaire: This structured questionnaire collects quantitative data on workers' participation in the Tier-1 scheme, financial burdens, and reasons for non-enrollment. It includes both closed-ended and Likert-scale questions for easy statistical analysis.

Interviews and Focus Group Discussions (FGDs): Semi-structured interviews are conducted with selected informal sector workers to explore their perceptions, challenges, and coping mechanisms regarding pension contributions. Additionally, FGDs with small groups of participants provide further discussion on common concerns and policy recommendations.

Secondary data is also obtained from reports by the *National Pensions Regulatory Authority (NPRA)*, *Social Security and National Insurance Trust (SSNIT)*, *International Labour Organization (ILO)*, and relevant academic literature.

3.4 Data Analysis Techniques

Quantitative Data Analysis: The survey data is analysed using **Statistical Package for the Social Sciences (SPSS)**. Descriptive statistics (percentages, means, and standard deviations) summarise responses. Chi-square tests and regression analysis assess relationships between variables such as income levels, participation rates, and financial burden.

Qualitative Data Analysis: Thematic analysis is used to identify patterns and key themes from interview responses and FGDs. Transcribed interviews are coded to highlight recurring themes related to barriers, perceptions, and adverse effects of the Tier-1 scheme.

3.5 Ethical Considerations

The study adheres to ethical research standards by ensuring **informed consent** from all participants. Confidentiality is maintained, and respondents are assured that their data will be used solely for academic purposes. Participants are given the option to withdraw from the study at any time.

This chapter has outlined the research design, data collection methods, and analytical techniques that will be used to examine the adverse effects of the Tier-1 scheme on self-employed informal sector workers in Ghana. The mixed-methods approach ensures a comprehensive understanding of statistical trends and personal experiences, providing a solid foundation for policy recommendations.

4.0 DATA ANALYSIS

Table 4.1: WRM of the Examined factors that positively influence the participation of the informal sector self-employed workers at Nungua and Sunyani under the tier-1 scheme

Factors	All		Nungua		Sunyani	
	WRM	DES	WRM	DES	WRM	DES
Accessible and easily understandable information about the scheme	3.53	SF	3.69	SF	3.37	SF
Positive perception of the scheme's benefits and advantages	3.64	SF	3.68	SF	3.60	SF
Assurance of financial security in retirement	3.81	SF	3.91	SF	3.71	SF
Trust in the reliability and transparency of the scheme	3.72	SF	3.81	SF	3.63	SF
Availability of flexible contribution options	3.72	SF	3.67	SF	3.77	SF
Incentives or rewards for consistent participation	3.61	SF	3.68	SF	3.55	SF
Peer influence and recommendation from other self-employed workers	3.76	SF	3.76	SF	3.77	SF

Note: Weighted Rank Mean (WRM), Description (DES), Not a significant factor (NSF) = 1, Not really a significant factor (NRSF) = 2, Somewhat a significant factor (SWSF) = 3, A significant factor (SF) = 4, and Highly significant factor (HSF) = 5

Source: Estimation from field Data, 2023

Table 4.3 presents the Weighted Relative Mean (WRM) and Descriptive Evaluation Score (DES) of factors that positively influence the participation of informal sector self-employed workers in the SSNIT Tier-1 scheme in Nungua and Sunyani. These factors could encourage workers to enrol and remain engaged with the scheme.

4.1 Accessible and Easily Understandable Information about the Scheme

The WRM of 3.53 and DES rating of SF indicate that accessible and comprehensible information is a key positive factor encouraging participation. The WRM of 3.69, with a DES rating of SF, highlights that Nungua respondents find clear, understandable information particularly important for increasing participation. The WRM of 3.37 and the DES of SF suggest that although this factor is positive, it has a slightly lesser impact in Sunyani than in Nungua. The analysis shows that information clarity is essential in motivating self-employed workers to engage with the scheme. While both regions recognise its importance, Nungua participants benefit more from clear communication.

4.2 Positive Perception of the Scheme's Benefits and Advantages

A WRM of 3.64 and a DES rating of SF reveal that participants' positive perception of the benefits and advantages offered by the SSNIT Tier-1 scheme plays a crucial role in encouraging enrollment. The incentives indicate that Nungua respondents view the scheme's benefits favourably, reinforcing the need for improved communication about what the scheme offers. A WRM of 3.60, with a DES of SF, shows a slightly lower but still significant positive perception of the scheme's benefits in Sunyani. This factor suggests a strong belief that the scheme's

advantages can significantly increase participation. The results emphasise the importance of clearly communicating the benefits to both regions.

4.3 Assurance of Financial Security in Retirement

The WRM of 3.81 with a DES of SF highlights that the assurance of financial security in retirement is a highly motivating factor. The WRM of 3.91 and a DES rating of SF suggest that Nungua respondents see the promise of economic security as a powerful influence on their willingness to participate. The WRM of 3.71 indicates that while Sunyani workers also value the scheme's security promises, it is slightly less pronounced than in Nungua. This factor illustrates that the core purpose of pension schemes is to provide financial security in retirement, a key motivator for participation. The higher WRM in Nungua suggests that a greater emphasis on security could encourage participation in both regions.

4.4 Trust in the Reliability and Transparency of the Scheme

With a WRM of 3.72 and DES of SF, trust in the reliability and transparency of the SSNIT Tier-1 scheme is identified as a significant factor positively influencing participation. The WRM of 3.81 in Nungua, with a DES of SF, indicates that workers in this region highly value trust in the scheme's transparency and effectiveness. The WRM of 3.63 suggests a slightly lower confidence level in Sunyani, but it remains a significant factor in encouraging participation. Trust in the pension system is critical to participation, and the findings suggest that ensuring transparency and reliability is especially important for Nungua participants. It is a factor that should be strengthened through improved governance and communication.

4.4.1 Availability of Flexible Contribution Options

The WRM of 3.72 with a DES rating of SF shows that informal sector workers highly value flexible contribution options. A WRM of 3.67 suggests that workers in Nungua find flexible contributions to be a moderately strong motivator for participation. The WRM of 3.77 in Sunyani indicates that flexible contribution options are considered even more critical in this region, reinforcing the need for adaptable systems that align with the financial realities of self-employed workers. Flexibility in contribution schedules and amounts could be a key strategy for increasing participation, especially for workers with irregular income patterns. The higher WRM in Sunyani underscores the significance of this factor.

4.4.2 Incentives or Rewards for Consistent Participation

The WRM of 3.61 and DES of SF reveal that the availability of incentives for consistent participation is seen as a positive influence. The WRM of 3.68 with a DES rating of SF indicates that Nungua respondents are mainly motivated by rewards and incentives. The WRM of 3.55 suggests that this factor is still significant in Sunyani, although slightly less impactful than in Nungua—incentives and rewards for consistent participation help to reinforce positive behaviours, particularly in informal sector workers. Encouraging regular contributions through rewards may boost engagement with the SSNIT Tier-1 scheme.

4.4.3 Peer Influence and Recommendation from Other Self-Employed Workers

The WRM of 3.76 and DES of SF indicate that peer influence is decisive in motivating participation. The WRM of 3.76, with a DES of SF, suggests that peer influence is a strong motivator for workers in Nungua to participate. A WRM of 3.77 with a DES of SF shows that Sunyani participants also value recommendations from peers, with the factor showing a slightly higher impact than in Nungua. Peer influence is an important social factor that drives engagement, particularly in the informal sector, where word of mouth and community trust are crucial. The results emphasise the role of social networks in promoting participation in the pension scheme.

The analysis of the factors positively influencing participation in the SSNIT Tier-1 scheme shows that key motivators include accessible information, a positive perception of benefits, financial security in retirement, trust in the scheme, flexible contribution options, incentives,

and peer influence. While these factors are essential across Nungua and Sunyani, slight regional variations exist. In particular, Nungua respondents tend to value financial security and trust in the scheme more strongly, while Sunyani respondents place more emphasis on flexible contributions. These findings suggest that tailored strategies for both regions, incorporating these key motivators, can help enhance participation in the SSNIT Tier-1 scheme.

4.5 Qualitative Data Analysis

The qualitative data were collected through **semi-structured interviews** and **focus group discussions (FGDs)** involving 30 participants. The interviews and FGDs provided in-depth insights into the experiences, perceptions, and challenges of informal sector workers regarding SSNIT participation.

4.5.1 Themes from Interviews and FGDs

Several key themes emerged from the qualitative analysis, which are summarised below:

- **Lack of Information:** Many respondents indicated that while they had heard of SSNIT, they lacked clear and detailed information about how the Tier-1 scheme operates, its benefits, and the registration process. This theme aligns with the quantitative findings that highlighted low familiarity with the specifics of the Tier-1 scheme.
- **Financial Insecurity:** Several participants emphasised the **irregularity of income** and the **low earnings** in the informal sector as significant barriers to participation. Given their fluctuating income levels, they expressed concerns about the ability to commit to regular contributions.
- **Trust Issues:** There was widespread mistrust towards SSNIT, with many participants expressing concerns about the mismanagement of funds and the perceived inefficiency of the pension system. Some workers felt the pension scheme was not designed with the informal sector in mind, so it was not a reliable option for their future financial security.
- **Desire for Flexibility:** Respondents suggested that a **more flexible contribution mechanism** tailored to their irregular income patterns would encourage them to join the scheme. Many participants proposed that SSNIT should introduce an income-sensitive payment system that allows them to contribute when they can, without fear of penalties for irregular payments.

4.5.2 Perceptions of SSNIT's Role

While there were concerns about trust and financial constraints, there was also recognition of the importance of a pension system for future security. Many participants acknowledged the need for a formal pension system. Still, they believed that the current SSNIT Tier-1 scheme does not adequately cater to the unique needs of informal sector workers.

4.6 Summary of Key Findings

The analysis of both the quantitative and qualitative data reveals several critical insights:

- **Awareness:** While many informal sector workers know SSNIT, many lack a deep understanding of the Tier-1 scheme, particularly its benefits and registration processes.
- **Barriers:** The primary barriers to participation are **financial constraints**, **lack of trust** in SSNIT, and **administrative challenges**. These factors must be addressed to improve participation rates among informal sector workers.
- **Flexible Contributions:** There is a strong demand for more **flexible contribution mechanisms** to accommodate the informal sector's irregular income patterns of self-employed workers.

- **Trust and Transparency:** Improving the transparency and management of the SSNIT system will be essential for building trust and increasing participation.

5.0 CONCLUSION

This study has examined the factors that positively influence the participation of informal sector self-employed workers in Ghana's SSNIT Tier-1 pension scheme. The findings highlight that financial security in retirement, trust in the scheme, flexible contribution options, and peer influence are key motivators for participation. However, significant barriers such as economic constraints, lack of awareness, administrative challenges, and trust issues continue to limit enrollment among self-employed workers in the informal sector.

To improve participation rates, policymakers and SSNIT administrators must enhance public awareness, simplify the registration and contribution processes, and introduce flexible contribution plans that align with the irregular income patterns of informal workers. Addressing trust issues through increased transparency and efficient fund management will encourage more workers to enrol.

Ultimately, integrating informal sector workers into the formal pension system is essential for ensuring their long-term financial security and reducing economic vulnerability in Ghana. By addressing these challenges and implementing targeted interventions, the SSNIT Tier-1 scheme can become a more accessible and attractive option for self-employed workers, leading to broader social protection coverage and improved economic stability.

The article has presented the analysis and results of the data collected from informal sector workers in Nungua and Sunyani. The findings highlight the significant barriers that prevent these workers from participating in the SSNIT Tier-1 scheme, including financial constraints, lack of trust, and administrative challenges. The results also underscore the importance of improving awareness and introducing more flexible contribution systems to enhance participation. The next chapter will discuss these findings in the literature and provide recommendations for enhancing SSNIT participation among informal sector workers in Ghana.

References

1. Aryeetey, E., Baah-Boateng, W., & Kpessa, M. W. (2017). *Extending pension coverage to the informal sector in Ghana: Prospects and challenges*. *International Social Security Review*, 70(2), 55–75.
2. Baah-Boateng, W. (2016). *The youth unemployment challenge in Africa: What are the employment options?* The Brookings Institution.
3. Dorkenoo, M. & Asante, K. (2021). *Administrative barriers to pension participation among informal sector workers in Ghana*. *Journal of Social Policy and Economics*, 15(3), 89–102.
4. International Labour Organization (ILO). (2018). *Women and men in the informal economy: A statistical picture (3rd ed.)*. International Labour Office.
5. International Labour Organization (ILO). (2020). *Social protection for informal workers in sub-Saharan Africa: An overview of strategies and challenges*. International Labour Office.
6. Kpessa, M. W. (2011). *A comparative analysis of pension reforms and challenges in Ghana, Botswana, and Nigeria*. *International Journal of Social Welfare*, 20(3), 246–256.
7. National Pensions Regulatory Authority (NPRA). (2020). *Annual Report on Pension Schemes in Ghana*. Accra, Ghana: NPRA.
8. National Pensions Regulatory Authority (NPRA). (2021). *Expanding pension coverage in Ghana's informal sector: Policy recommendations*. Accra, Ghana: NPRA.

9. Obeng, C. & Adu, K. (2020). *Trust and participation in social security schemes: Evidence from Ghana's informal sector*. African Journal of Economic Policy, 27(1), 112–132.
10. Osei-Boateng, C. & Ampratwum, E. (2019). *The informal economy in Ghana: A tool for development or marginalisation?* Friedrich Ebert Stiftung.