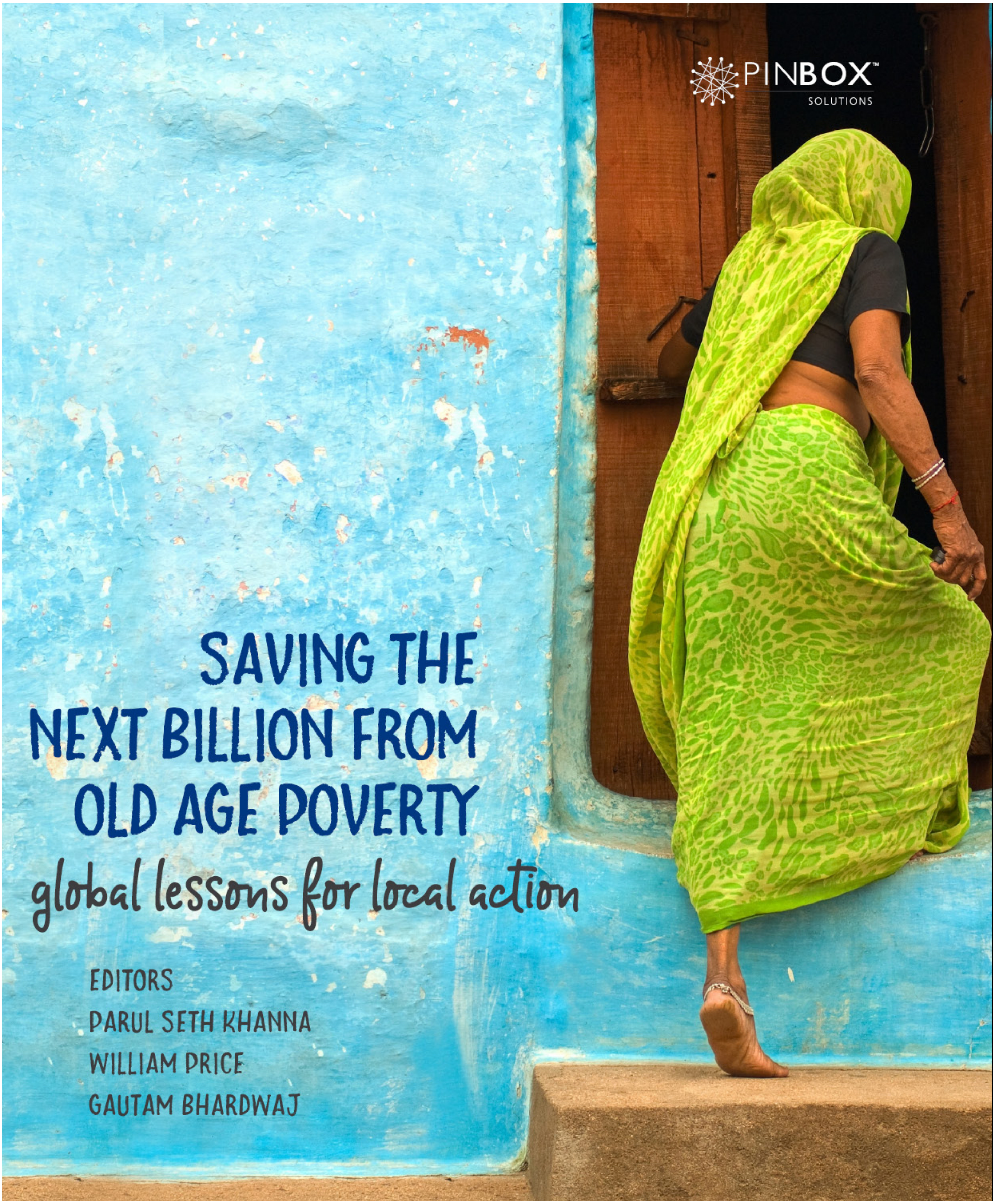

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# AN INCLUSIVE AND INTEGRATED PENSION MODEL FOR INFORMAL SECTOR WORKERS **IN RWANDA**

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# INTRODUCTION

This chapter sets out the challenges and advantages faced by Rwanda that has led it to develop a leading-edge pension coverage initiative. This will leverage developments in national ID, financial inclusion, and understanding of pension administration and governance to provide an option for workers that does not exist in most developing countries. The Government is seeking to build on the lessons of both the pension and financial inclusion literature in order to develop an infrastructure that may be able to tackle the profoundly important challenge of offering access to pension saving for a rapidly developing but still highly rural low-income economy. This chapter helps to bring together a number of themes present in the thematic chapters of this volume. It shows how the right combination of ID and IT can work with financial inclusion and payments' innovations to create the potential for a new generation style pension coverage program that has the potential to transform understanding of what can be achieved. This chapter sets out the socio-economic background of the country and then looks at developments in financial inclusion and pensions. It then sets out a new initiative to deliver digital pension inclusion.

# RWANDA OUTLOOK

Rwanda has made good progress over the last two decades since the enormous challenges faced in the aftermath of a genocide that destroyed the entire social and economic fabric of the country. Rwandans have benefited from rapid economic growth (average 8%), reduced poverty, reduced inequality, and increased access to services including health, education, access to financial services, insurance and pension penetration, and Information Communication and Technology (ICT).[1]

Rwanda has for a long time tried to integrate population issues into development programs through various efforts. Since 2000, the government has embarked on the implementation of multidimensional population policies that include several features such as: land management; improving health conditions of the population; universal access to healthcare including reproductive health and family planning services; and interventions aimed at improving the levels of education, equal rights for girls and boys as well as gender inclusion at all levels.

The Rwandan labour market also registered a positive trend since 2000. Though the majority of the population works in agriculture, the number of young people entering the labour market is continuously increasing. Rwanda plans to create 200,000 new off-farm jobs each year by 2020. This is why the national development strategies concentrate on generating long-term employment by improving vocational training, strengthening the private sector, and implementing targeted labour market interventions.

[1] The Republic of Rwanda, Economic Development and Poverty Reduction strategy 2013-2018, p. viii

Rwanda understands the role of the financial sector and inclusive access to finance to realize her socio-economic development goals. The overreaching goals are to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy, and reduce poverty.

## POPULATION STATISTICS

According to the population and housing census 2012, Rwanda recorded a total resident population of 10,515,973 people (composed of 5,064,868 males and 5,451,105 females). It indicated an increase of 29.6% in enumerated population from the third population and housing census of 2002 and recorded an average annual growth rate of 2.6%.[2]

Of the entire population aged 16 and above, 74% were economically active. There were 4,152,682 employed people, representing 71% of all residents aged 16 and above. The Rwandan labour market was predominated by agriculture (73%). A higher percentage of employed females was employed in agriculture (82%) compared to males (63%) and a higher percentage of employed persons in rural areas was that of farmers (83%) compared to those in urban areas (21%). Concerning employment status, the results showed that the majority of the employed population in Rwanda were self-employed in the agriculture sector (60%), followed by employees (18%) while self-employed out of agriculture represented 8% of the total employed population. The proportion of males who were employees was twice as high as the corresponding figure for females, while the proportion of women contributing to family work was more than double that of men.[3]

## LABOUR MARKETS

A major actor in the labour market is government through its regulatory framework and its social protection framework to ensure equity and protection for all, both employers, those in the labour force and in the potential labour force. Government also influences the labour market through its macro-economic, fiscal, and microeconomic policies that enhance the environment for employers to create jobs.

## OCCUPATIONS

The Rwandan labour market is predominated by agriculture. The Integrated Household Living Conditions Survey (EICV), 2012 showed that, 1,773,000 people were recorded as salaried or waged employees with 37% of them employed in farming activities. The majority of salaried/waged workers were daily workers (65%), followed by permanent workers (28%), and the remaining are temporary, casual and seasonal workers. A subsequent number of jobs carried out by salaried/waged workers are informal (87%). This means that their holders are not entitled to social security contributions or are not benefiting from paid annual leave or do not receive paid sick leave.[4]

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[2] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.9
[3] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.34
[4] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.34

### EDUCATION AND NON-FARM WORK

Educational attainment has a large impact on a worker's ability to move out of agriculture. The completion of primary school and the participation in secondary or vocational training is a watershed in moving into non-agricultural work. Interestingly, 90% of those who have never been to school work in agriculture as are over three quarters of those who reached primary grades 6 or 7. On moving to post-primary education, only half are in agriculture. The percentage continues to fall as the levels of education rise.

### RECENT JOB CHANGES

Around 240,000 people start a new job each year (excluding those responsible for family farms for whom we have no information). Workers have taken 1.45 million jobs in the last five years. The majority of new job takers are young, with the median age at 22 years. Those starting work on family farms are the youngest, and those starting a small enterprise are oldest, on average 28 years. New job holders in Kigali are older than their counterparts in other provinces. The majority of new work opportunities are on farms: it seems 45% of those taking jobs start work on family farms. Almost a quarter of jobs taken in the last five years are non-farm waged work, while 19% of jobs are in small enterprises. Newly started jobs were examined by the workers expenditure quintile, and compared with the quintiles for all job holders. The recently acquired jobs are held by people who are more prosperous than the national average. This slightly more affluent profile holds true for all job types[5].

## DEMOGRAPHIC STRUCTURE OF THE POPULATION

According to the 2012 census, 5,015,128 persons out of the total resident population of 10,515,973 were under 18. In the child population, 2,486,716 are male while a slightly larger number of 2,528,412 were female. The child population represented 48% of the total resident population. The population share of children is higher in rural areas (49%) than in urban areas (41%).

### EDUCATION LEVELS

As one of the Millennium Development Goals (MDGs) and reflected in the Rwandan Government's Vision 2020 and Economic Development and Poverty Reduction Strategy (EDPRS 2), universal access to primary education (UPE) — for boys and girls recorded a remarkable progress[6]. Findings from the fourth population and housing census 2012 revealed that, about 57% of the resident population aged three and above, had attended primary school, 12% had attended either post-primary or secondary school, and about 2% had tertiary education. While about 26% of the resident population had never attended school.

### GENDER AND AVERAGE AGE MORTALITY

Findings from the population and housing census of 2012 indicated that 52% of the population were woman and 48% men. On average, women were older than men: the

[5] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.115
[6] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.19

mean age for the female population was 23.5, while it was 21.9 for males with an average of 22.7. This difference was because male mortality was higher than female mortality. However, the population of Rwanda is young: half of the females are under 19 and half of the men under 18. Only 4% of the female population and 3% of the male population is over 65.[7]

## PROFILE AND STATUS OF **FINANCIAL INCLUSION**

89% of adults in Rwanda are financially included (including both formal and informal financial products/services, around 5.2 million individuals) and 11% of adults do not use any financial products or services to manage their financial lives. About 26% of adults in Rwanda are banked according to a FinScope 2016 report FinScope is a research tool used to provide a holistic understanding of how individuals generate income and how they manage their financial lives. It identifies the factors that drive financial behaviour and those that prevent individuals from using financial products and services. The growth of bank usage is driven by the number of bank branches and sub branches (177 and 187 in 2016 respectively), debit cards, loan from the bank, and high uptake of mobile banking (4,342 banking agents). In terms of banking product usage, 52% of bank clients used at least one banking product according to the report (increasing from 43% in 2012). Findings also showed a high level of "cross-selling" within the sector and as a result average banking products per client is 3.08, meaning that 92% of the banked population has three or more banking products, up from 2.36 in 2012.

### DIGITAL PAYMENTS

The Rwanda Integrated Payments Processing System (RIPPS) operated smoothly by maintaining an availability rate of 99%. Electronic payment as compared to broad money significantly increased over the last four years from 22% in 2012 to 66% in 2015, reflecting gradual progress towards a cashless economy. The introduction of agent banking, and the modernization of financial services such as mobile money, ATMs, and Mobile banking have all helped to drive financial inclusion in Rwanda. Now, 6.7 million adults use mobile money accounts.

### SHORT AND LONG TERM SAVING

Savings are the leading product type and one of the main drivers of financial inclusion for Rwanda. This is encouraging as savings enable adults to create wealth, pay for household furniture and equipment, and most importantly, can be used as collateral for accessing credit. According to the FinScope survey 2016, uptake of savings products has greatly improved. At present, 13% of adults save in banks (a decline is noted from 15% in 2008, to 14% in 2012); 45% of adults have a formal savings product from a non-bank (up from 25% in 2012) financial institution (this could be savings from Saving and Credit Cooperatives (SACCOs) and mobile money); 56% use other informal savings mechanisms

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[7] The Republic of Rwanda, Fourth Population and Housing Census 2012 (NISR), P.8

such as savings groups; 35% of adults claim to save at home or with someone in the household (up from 24% in 2012); and 14% of adults do not save.[8]

## HEALTH INSURANCE, LIFE, AND OTHER NON-LIFE INSURANCES

Currently, there are eight non-life insurers, four life insurers, two public medical insurers, fifteen insurance brokers, three hundred and sixty five insurance agents, and twelve loss adjusters. In general, the uptake of insurance in the Rwandan market is low. Only about 9% of adults have insurance products (around 0.5 million), showing an increase from 0.3 million in 2012. Product uptake is driven by medical insurance (excluding Mutuelle de Santé -- National Health Insurance) and the Rwanda Social Security Board. The main perceived barriers relate to the lack of consumer awareness and knowledge as well as suitable insurance products on the market.

## MUTUELLE DE SANTÉ

Mutuelle de Santé is part of the Government of Rwanda's social protection system introduced in 1999. The aim of Mutuelle de Santé was to enable members to access health care through all public and private non-profit health centres in Rwanda and to reduce the financial burden of health care particularly for the poorer groups of society. Membership is voluntary and open to all Rwandan residents for a modest annual payment. Households at the bottom two of the socio-economic or Ubudehe categories (i.e. the most vulnerable) are entitled to have the membership fee waived. FinScope 2016 findings indicated that 77% of adults were covered by Mutuelle de Santé, up from 71% in 2012.[9]

## STATUS OF MORTALITY TABLES

Rwanda has developed Mortality tables (May 2017), which are used in pricing and reserving life assurance products as well as for the management of pension liabilities. They are a key piece of insurance industry infrastructure which facilitates the pricing of life assurance and annuity contracts as well as more accurate reserving for future payments which may need to be made. This increases consumer confidence which could in turn stimulate product development to better meet the needs of policyholders; and aid credibility and growth in the sector.

## MOBILE PENETRATION

By March 2015, operators offering mobile telephone services included; MTN Rwanda Ltd, TIGO Rwanda Ltd, and AIRTEL Rwanda Ltd, and those offering fixed telephone services were Liquid Telecom Ltd and MTN Rwanda Ltd. As of March 2015, there were 7,913,986 active mobile subscribers (according to the Rwanda utility regulatory authority report) relative to a total population of 10.5 million.

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[8] The Republic of Rwanda, Finscope Rwanda 2016, P.50

[9] The Republic of Rwanda, Finscope Rwanda 2016, P.57

## EXISTING OUTREACH AND SERVICE DELIVERY INFRASTRUCTURE

Introduction and continued increase in the uptake of Umurenge SACCOs has been a success story in driving financial inclusion. There are 416 U-SACCO countrywide and 90% of Rwandans now live within a 5 km radius of Umurenge SACCO. The SACCO network has over 2.5 million adults as members with accounts.

Levels of financial inclusion in Rwanda (trend in service uptake by years between 2012 -2016)

- The percentage of banked adults increased from 23% in 2012 to 26% in 2016. This increase was mainly due to new banking channels entering the market resulting in increased outreach of existing banks.
- The percentage of adults, who are formally served, although not banked, increased from 33% in 2012 to 65% in 2016. This shift was mainly due to the mobile money uptake and continued increase in the uptake of Umurenge SACCOs.
- In 2016 only 11% (0.7 million, down from 1.3 million in 2012) were financially excluded and 89% (5.2 million) of Rwandan adults had or used financial products or mechanisms.
- The increase in formal inclusion was caused by an uptake of products offered by nonbank formal financial institutions (such as mobile money, Umurenge SACCOs, and insurance companies).

## PENETRATION AND ACCESS

In Rwanda, there are no significant infrastructural barriers to access financial service providers. On average adult Rwandans can access formal financial services on foot between 30-53 minutes. This is because of the introduction of Umurenge SACCO and modernization of payment especially mobile money development. However, as highlighted in Chapter 1 on India this can still be an important barrier to access and is something that should be progressively reduced through continued developments in financial inclusion.

The banking network development, especially the bank agency network, continues to increase access to financial services hence access to financial services increased significantly over the recent years.

- Banks increased to 17 in 2016 from 10 in 2010. (12 commercial banks, three microfinance, one Development Bank and one Cooperative Bank).
- The number of Micro-Finance Institutions (MFIs) increased from 125 in 2008 to 491 by December 2016, including 416 Umurenge SACCOs.
- The number of insurance companies has increased from nine (9) in 2010 to fifteen (15)
- The Non-Bank Financial institutions comprise mainly insurance companies and pension schemes. As on June 2016, the insurance sector was composed of 15 (13 private insurers; 2 public insurers) and 385 insurance agents.

- The Pension sector on the other hand was composed of one public pension scheme and 57 private pension schemes.
- According to Central Bank reports, there were 2.3 million bank accounts and 3 million Microfinance/SACCO accounts.

### VILLAGE SAVINGS AND CREDIT ASSOCIATIONS (VSLAS)

About 4.2 million adults (72%) use informal mechanisms to manage their finances. VSLAs emphasize savings mobilization through unregulated and rather informal groups that depend on member savings for their loan fund capital rather than external loans. This uptake is driven by informal savings credit groups. Accordingly, 3.3 million adults save through savings groups; 2.6 million borrow money from the savings groups; and 1.9 million adults used credit shop (took goods in advance from a shop and paid later for them).

### POSTAL NETWORK

On 6th April 1963 the Republic of Rwanda was admitted as a member of the Universal Postal Union. The Public telephone services in all post offices is working but not active since people prefer to use mobile phones rather than visit a post office to make a call.

## FINANCIAL MARKET **INDICATORS**

### HISTORICAL INFLATION LEVELS

Low and stable inflation rates have been achieved on account of sustained and well-coordinated monetary and fiscal policies, coupled with limited inflationary pressures from trading partners and easing international commodity prices, especially of oil. Inflation averaged to 2.5% in 2015 and 1.8% in 2014.

### RETURNS FROM GOVERNMENT BONDS

Since 2014, the Central Bank, in collaboration with the Ministry of Finance and Economic Planning, announced the quarterly issuance calendar of Government Treasury Bonds. In line with this program, 3 year, 5 year, 7 year and 10 year Treasury Bonds were successfully issued, with a 15 year bond issued in May 2016. All bonds were oversubscribed. This has helped to create the basic infrastructure of the capital market – but further developments will be needed to increase the range of assets into which investors can put their savings.

## CURRENT PENSION PROVISION AND **NEW POLICY REFORMS**

Rwanda is a relatively young country with nearly half of its population under the age of 15 years. The fourth population and housing census expects Rwanda's elderly population (60+) to double from the roughly 510,000 in 2012 to approximately 1,096,000 individuals by 2032. This is due to a combination of reducing fertility rates and improvements in life expectancy. This aging population creates a public policy challenge for the Government and Rwanda cannot afford the high fiscal and social cost of a universal, tax-funded old age benefit (a pension of even USD 1 per day to one million elderly in 2032 will cost RwF 292 billion per year USD 365 million).[10] The only sustainable policy option is for the government to establish a simple, secure, convenient, and affordable mechanism that enables citizens to accumulate savings for their old age.

Rwanda has one public pension scheme managed by Rwanda Social Security Board (RSSB) – known as the Rwanda Personal Pension Scheme and fifty-seven private pension schemes. The RSSB pension scheme is a mandatory Defined Benefit (DB) pension program and compulsory for all salaried workers (private and public) and active political representatives. It has contribution rates of 3% of gross salary, paid by the employer, and 3% by the employee, making 6% in total. The RSSB also has the option for individuals to enroll as voluntary members. This can be achieved by applying to join the scheme and paying the required contribution rate of 6% of salary. The RSSB pension scheme currently barely covers 10% of Rwanda's workforce – focusing largely on public and private sector salaried employees.

The excluded 90% of the workforce is neither covered by a pension scheme nor a long term savings scheme. This has significantly affected negatively the national savings rates required to increase private sector investment and reach double digit GDP growth.

This situation has two implications:

i. The 10% of the total workforce are salary earners, with a pension scheme under RSSB, but they lack a supplementary long term saving scheme to cater for other needs like acquiring a house or paying for education in order to guarantee a decent retirement.

ii. The excluded 90% of the workforce is not served at all – they lack both, a pension scheme and a long term saving scheme.

The Government of Rwanda has hence designed a new scheme to create inclusive and equitable saving options. It aims to provide every Rwandan citizen and all Rwandans living outside Rwanda with equal rights and opportunities to achieve a dignified retirement in a secure, affordable, convenient, and well-regulated environment.

The scheme is proposed to cater for four population segments: (i) public sector salaried employees; (ii) private sector salaried and self-employed business owners; (iii) people involved in the informal sectors (earning irregular and low income); and iv) children (below the age of 16 years) without a national ID who will access the scheme through a sub account opened by the parent/guardian.

A scheme based on individual accounts is feasible in Rwanda because several key pieces of the required implementation ecosystem already exist – (i) national ID for every citizen; (ii) high financial access rates; (iii) a functional network of cooperatives; (iv)over 70%

[10] Converted at an exchange rate of 800 Rwandan Francs to 1 US Dollar

mobile phone penetration including fast growing mobile payment services and; (v) strong mobilization via local Government administrative structures. These elements are all critical parts of the eco-system that can enable a new approach to delivering pension coverage – and mirror the content of many of the thematic chapters in this volume.

The proposed saving scheme is designed to be flexible vis-a-vis both savings levels and periodicity so as to allow all categories of subscribers to make pension contributions in line with their unpredictable cash-flows.

Members of the scheme shall be expected to keep savings in their assigned account for a minimum pre-defined number of years. Upon completion of the minimum period, a member may be authorized to withdraw part of his/her benefits as a pre-retirement package. The pre-retirement package may be invested in housing and education or/and any other investment (for those with sufficient savings under the RSSB mandatory scheme). However, it should be noted that the amount of the authorized pre-retirement package will be capped to a maximum percentage of the total individual savings to ensure that the beneficiary retains sufficient funds under the scheme to cater for his/her retirement days.

It is important to note that encouraging mass-scale savings for old age may be challenging. Concepts of retirement, pension and insurance will not resonate with most excluded citizens, considering that the majority face modest, unpredictable incomes. At the same time, only tax incentives would be ineffective in motivating population-wide participation since the targeted group is not paying taxes. As a solution, the Government of Rwanda has offered an attractive package of incentives based on certain eligibility conditions and varying social and economic classifications of the population (Ubudehe categories). It includes fiscal and non-fiscal incentives like matching Government co-contributions and free life insurance, coupled with extensive public awareness to achieve early, mass-scale coverage, and sustained savings discipline over time. Aggressive information sharing, education and awareness campaigns and communication initiatives will be delivered through several channels and using various tools like field officers, videos, benefit calculators, with support from all Government administrative and private structures.

The scheme will harness the existing institutional capacity for regulation, outreach, service delivery, micro-payments, funds management, and insurance benefits.

## MANAGEMENT AND ADMINISTRATION OF THE SCHEME

A System Administrator and Integrator is being established to manage the individual pension accounts. It will develop a central record-keeping system, integration and payments processing IT platform that will issue and manage portable, individual pension accounts, and record static and transactional data of each subscriber over multiple decades.

The trustee/board of directors of the scheme shall recruit independent fund managers (approved by the regulator) to carry out required investments.

### LEGAL, TAX, AND REGULATORY FRAMEWORK

The scheme will be managed as a voluntary universal long term savings scheme by all residents and citizens in Rwanda. The National Bank of Rwanda will be the regulator of the Scheme. It will ensure establishment and enforcement of appropriate regulatory, institutional, technology, and administrative frameworks to ensure long term viability of the scheme.

As a way to motivate sustained voluntary retirement contributions/savings, it is proposed that for the tax relief option the Government adopts an Exempt contribution-Exempt interest earned-Taxed benefits income tax structure for the scheme (EET), which is very common internationally. However, as highlighted above there will be matching contributions to encourage participation for those contributors who do not pay tax. As well as, ensuring incentives for all potential contributors, matching has the advantage of being simpler to understand – and ensures that a pension system is not regressive, since tax payers tend to be the higher income segment of a population.[11]

The most important challenges envisaged during implementation of the scheme are related to income such as low/insufficient income, insufficient balances after paying for expenses and affordability issues. In addition, insufficient consumers' awareness and knowledge is likely to slow down the uptake of the product. Whilst there is much still to do to launch and implement the new scheme, the design and structure should give it the best chance for success.

## CONCLUSION

Rwanda is a young country but one that will see rapid aging if its current level of development continues. It will start this transition without widespread coverage of pensions – either public or private. Current income levels do not offer the option of providing a universal 'social' pension – even if some element of that may be introduced in the future. So the country has to plan proactively to expand coverage significantly if people are to improve old-age savings now and for the future. The Government has developed a new scheme that aims to incorporate best practice in both financial inclusion and pension design – and hence unify two strands of practice that are too often kept separate. The aim is to leverage the insights of both areas of practice in order to create an infrastructure that can help provide access to pensions in ways that were previously unattainable.

[11] See Hinz, Richard, Robert Holzmann, David Tuesta, and Noriyuki Takayama, editors. 2013. Matching Contributions for Pensions: A Review of International Experience. Washington, DC: World Bank