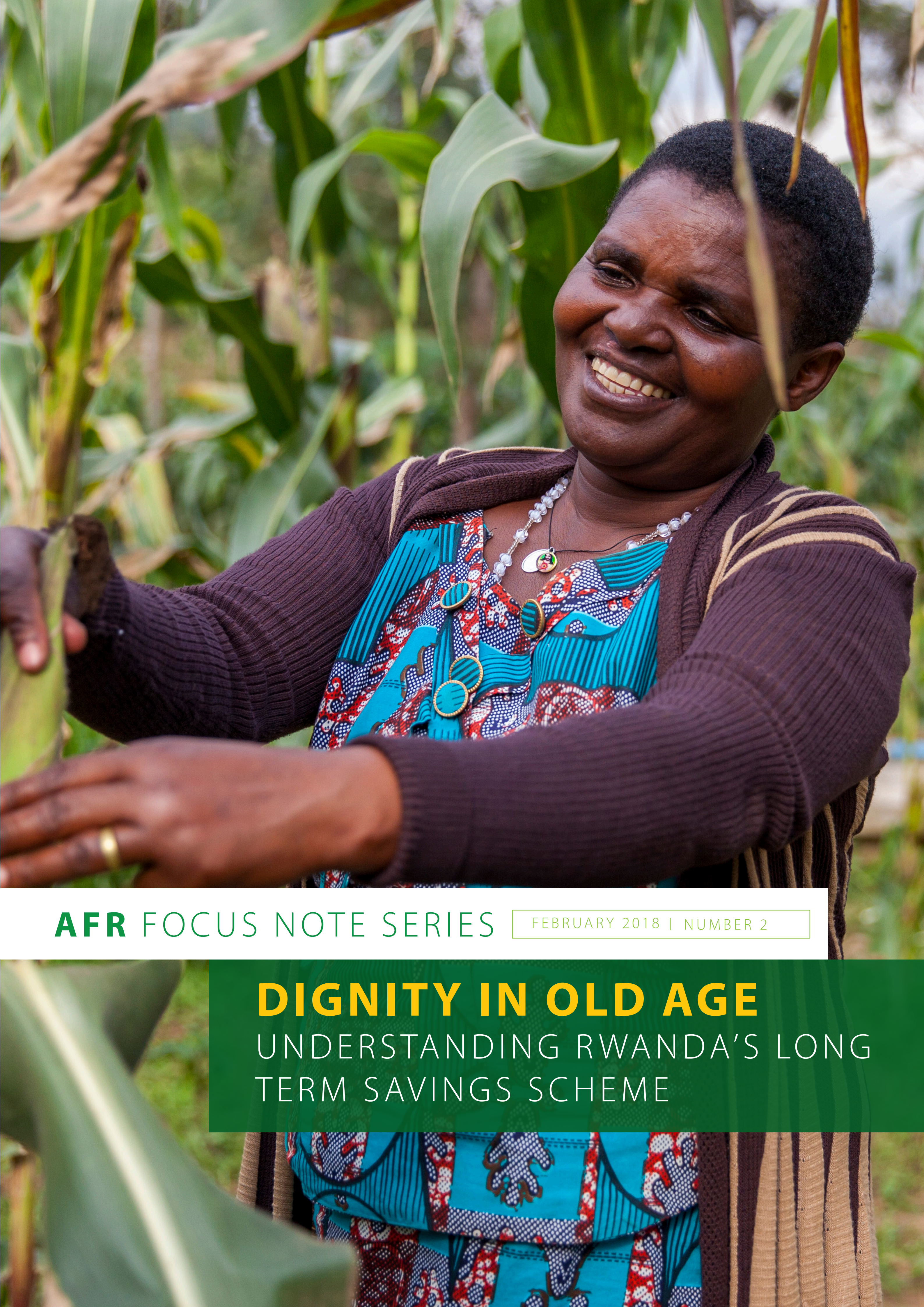

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DIGNITY IN OLD AGE

UNDERSTANDING RWANDA'S LONG TERM SAVINGS SCHEME

By establishing a secure, convenient and affordable pension scheme the Government of Rwanda could effectively mitigate the longevity risk of the majority of its present young citizens.

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Introduction

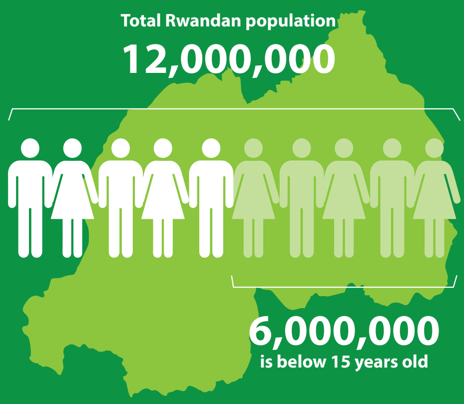
Rwanda is a young country. Nearly half of its current population of around 12 million are less than 15 years old while three in every four Rwandans are aged less than 30 years. However, the population of the elderly is growing much faster than the general population and is expected to double from 510,000 in 2012 to 1,100,000 individuals (or around 7% of the population) by 2030 due to a combination of reducing fertility rates and improvements in life expectancy.

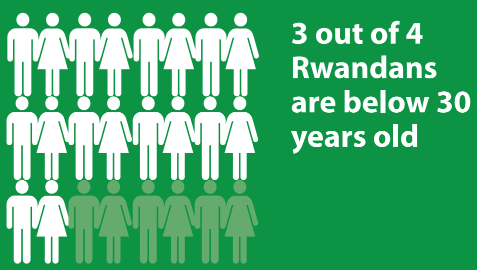
As is the case also in several other nations across Africa and South Asia, the traditional reliance of the elderly in Rwanda on children and extended families for income support in old age is being rapidly eroded by labor mobility and economic hardship. As a result, the majority of Rwandan citizens will be increasingly constrained to rely on their own retirement savings or on fiscal transfers to sustain themselves over nearly two decades when they become too old to work.

Formal retirement saving arrangements in Rwanda are however restricted to the barely 0.5 million salaried private and public sector workers who form less than 6 percent of the workforce. The remaining majority workforce including those in the agricultural sector, as also workers in small and micro enterprises, daily wage earners, domestic help, self-employed professionals and other informal sector non-salaried workers more generally are excluded from formal pension arrangements and hence face a significant risk of outliving their savings. Women are especially vulnerable to old age poverty as they enjoy a higher life expectancy than men but often face lower incomes in comparable occupations, a shorter working life and frequent income interruptions on account of childbirth and other family responsibilities. As DG Eric Rwigamba correctly points out, *"For a majority of the excluded citizens therefore, and equally for the Government of Rwanda, a vital issue is the management of the longevity risk with the cessation of earnings in old age".*

Extending the mandatory, employer-led pension programme administered by the Rwanda Social Security Board (RSSB) to non-salaried citizens is not a feasible option as most Rwandan citizens are self employed and may be unable to commit prescribed monthly pension contributions in the face of modest, intermittent incomes.

The ability of excluded citizens in Rwanda to set aside meaningful savings for their old age is further constrained by low access and coverage of life and non-life insurance solutions that could provide financial relief against a range of insurable risks. As a result of low insurance penetration, most citizens are constrained to use a combination of past savings and emergency credit to meet the cost of lifecycle risks and emergencies that could otherwise be met at a much lower cost through regulated insurance products. Hence, a lion's share of household savings is usually kept in cash or parked in liquid short-term saving arrangements.





A largely young workforce presents the Government of Rwanda with both a challenge and an opportunity. Without an urgent and effective policy response to broad-based pension and insurance exclusion, poverty among the future elderly may emerge as a dominant cause for increased poverty in Rwanda and could cause significant social and fiscal stress. For example, an old age pension of even US$1 per day paid over a lifetime to the roughly 1 million elderly starting 2030 could impose a fiscal cost of US$365 million per year or nearly US$ 7.3 billion in aggregate, cumulative terms. Expenditure on fiscal transfers for social protection will be at the cost of critical public investments in health, education and infrastructure.

On the other hand, collaborative and well coordinated interventions aimed at comprehensive pension inclusion could have an equally significant, positive impact on the ability of everyday citizens to lead a financially secure and dignified retirement. For example, if a 20-year old Rwandan citizen begins saving even US$10 per month in real terms, and her savings achieve a real return of 4% (net of inflation), she could achieve a 5 percent inflation indexed pension of US$200 per month for 20 years at 2018 prices. Similarly, if even 2 million Rwandan citizens enrolled for a pension programme over the next 5 years and saved $10 a month, the government could mobilise long-term savings of roughly US$900 million by year 5 and over US$3 billion by year 10 – even if coverage did not grow beyond the 2 million cumulative subscribers by year five.

According to Waringa Kibe, Country Director of AFR, *"By establishing a secure, convenient and affordable pension programme based on individual contributions, and by encouraging mass-scale voluntary thrift and self-help, the Government could effectively mitigate the longevity risk of the majority of its present young citizens. In doing so, Rwanda would also benefit from a large pool of stable, long-term household savings that could in turn fuel economic growth and infrastructure development".*

DG Eric Rwigamba points out that *"Over the years, AFR has proactively supported the Government's socio-economic development and empowerment agenda and has contributed significantly to the establishment of a broad-based financial inclusion infrastructure. Rwandan citizens across the country are today able to easily access financial savings, credit, insurance and remittance payment services through a range of regulated institutions such as banks, SACCOs, VSLAs and mobile money service providers. In parallel, Rwanda has already established a robust digital national ID infrastructure that has enabled targeted delivery of government benefits and services to citizens without the traditional attendant risk of leakages. In parallel, Rwanda's Central Bank (BNR) is actively encouraging banks to integrate their mobile banking operations with mobile money service providers to further enhance digital financial inclusion for the unbanked. As a result of joint efforts by the Government, BNR and AFR, the various critical pieces of the ecosystem infrastructure needed to achieve comprehensive digital pension inclusion already exist in Rwanda".*

Against this background of a large pension coverage gap and a robust financial inclusion infrastructure, the Government, with AFR's support, commissioned a rigorous study to assess the feasibility of introducing a new, contributions-based pension programme for its citizens. More recently, AFR appointed pinBox Solutions, a global social enterprise committed to digital micro-pension inclusion, to help design the product and process architecture for an inclusive, national-level micro-pension programme for Rwanda.

Based on broad-based feedback from intensive stakeholder consultations over 2015 and 2016, and national-level research commission by AFR to assess and profile the latent demand for retirement saving products among citizens, the Government has decided to introduce a new, fully funded, universal pension scheme for all Rwandan citizens. This scheme is being implemented under a new Long Term Saving Scheme (LTSS) Law approved by the Parliament. Through the LTSS, the Government aims to provide each Rwandan citizen an equal right and opportunity to accumulate micro-savings for his or her own old age in order to achieve a financially secure and dignified retirement. By design, the LTSS is leveraging existing digital financial inclusion infrastructure to provide convenient access to high quality investment governance to citizens with low and irregular incomes, limited experience with formal finance and low financial literacy.

The digital LTSS account is connected to the citizens' national ID.

The LTSS is based on the concept of 'auto enrollment' – involving pre-opened, unique individual pension accounts mapped to each citizen's national ID. A citizen will use her NID to voluntarily 'activate' her personal digital pension account without elaborate Know Your Customer (KYC) requirements or cumbersome documentation. This digital LTSS account will stay with the subscriber for the rest of her life, regardless of where she lives or works – including spells of unemployment, self-employment, changes in jobs or location. Subscribers will be free to make contributions into their LTSS accounts as per their unique savings capability and cash-flow.

According to Jean Bosco Iyacu, AFR Director of Programmes and the person who heads this Public Private Partnership (PPP) project at AFR, "*Given that Rwanda has a young population, the vision of AFR has been to see the population of Rwanda, especially the millions of citizens located in the agriculture sector in remote locations, saving for retirement as a way to achieve a dignified old age. Leveraging existing financial inclusion infrastructure for single-window delivery of the LTSS and associated services to citizens will inspire greater public confidence (as citizens will interface with the pension system through well known and trusted service providers), lower the time-to-market for the scheme, mitigate operational risks and minimize capital costs of delivering the LTSS to citizens".*

LTSS subscribers will not be "tied" to any one service provider – they will be able to choose from a nation-wide network of service providers (SACCOs, cooperatives, MFIs, banks, post offices, mobile money or bank agent outlets), to activate their LTSS accounts, make periodic contributions, receive information and account statements, file for and receive claims and

benefits, and obtain resolution of complaints. Subscribers will also be able to directly undertake a number of informational and financial transactions related to their pension accounts using a computer or mobile phone. When an LTSS subscriber reaches age 55, a part of the accumulated savings in the person's LTSS account shall be paid back as a lump sum while the remaining savings shall be paid back as an indexed monthly pension to smoothen consumption over the subscriber's remaining lifetime.

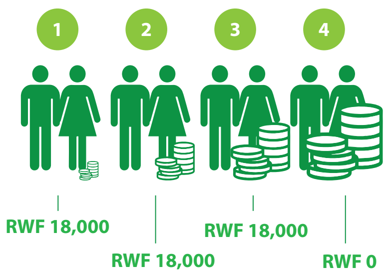
As far as possible, the collection of periodic pension contributions shall be automated through a standing instruction (SI) mandate provided by each individual subscriber on her bank or mobile money wallet at the time of account activation. Subscribers who do not have a bank account or mobile money wallet will be able to pay their periodic LTSS contributions in cash at conveniently located designated outlets. This will be akin to periodic payment of utility bills. Contributions to the scheme will be indexed to account for inflation and wage increases over time. This will ensure that the real value of pension contributions does not erode over time.

The pension administrator appointed by the Government will use a central IT platform to regularly monitor dormant accounts (inactive contributors) and orphaned accounts (unclaimed benefits) to ensure that subscribers, and their nominees, are not inadvertently denied benefits to which they are legally entitled by reason of administrative oversight or inaction. A web and telephone based complaints filing and resolution mechanism that is simple, transparent, time-bound and efficient from the perspective of both subscribers and intermediaries against whom complaints may be lodged, is being established for LTSS.

Despite the simple, affordable and universally accessible LTSS mechanism being established by the government, concepts such as retirement, pension and insurance may not resonate easily among a majority of the self-employed, non-salaried workforce. Globally, governments provide tax incentives to encourage voluntary retirement savings. However, tax incentives will not work in Rwanda as most citizens are below the tax threshold by virtue of their incomes. Left to themselves therefore, many citizens, and especially the younger population, may choose to not activate their LTSS accounts as current consumption will appear more attractive to them. In this situation, and in lieu of tax benefits, the Government has decided to provide a special, means-tested fiscal incentives package under LTSS to encourage thrift and self-help by excluded workers. This fiscal incentives package includes a matching contribution of up to RWF 18,000 per year (determined by the Ubudehe or income category of each subscriber) along with a life insurance cover of RWF 1,000,000 and a funeral insurance cover of RWF 250,000. This special fiscal benefits package will be available for the first 3 years of the programme and will aim at achieving early, mass-scale voluntary enrollments (especially by younger workers), top-up pension contributions (especially of the more vulnerable, lower income segments) and encourage persistent retirement savings behavior over time.

THE FISCAL INCENTIVE PACKAGE

Annual government contribution according to income category:



+

Life insurance cover

RWF 1,000,000

+

Funeral insurance

RWF 250,000

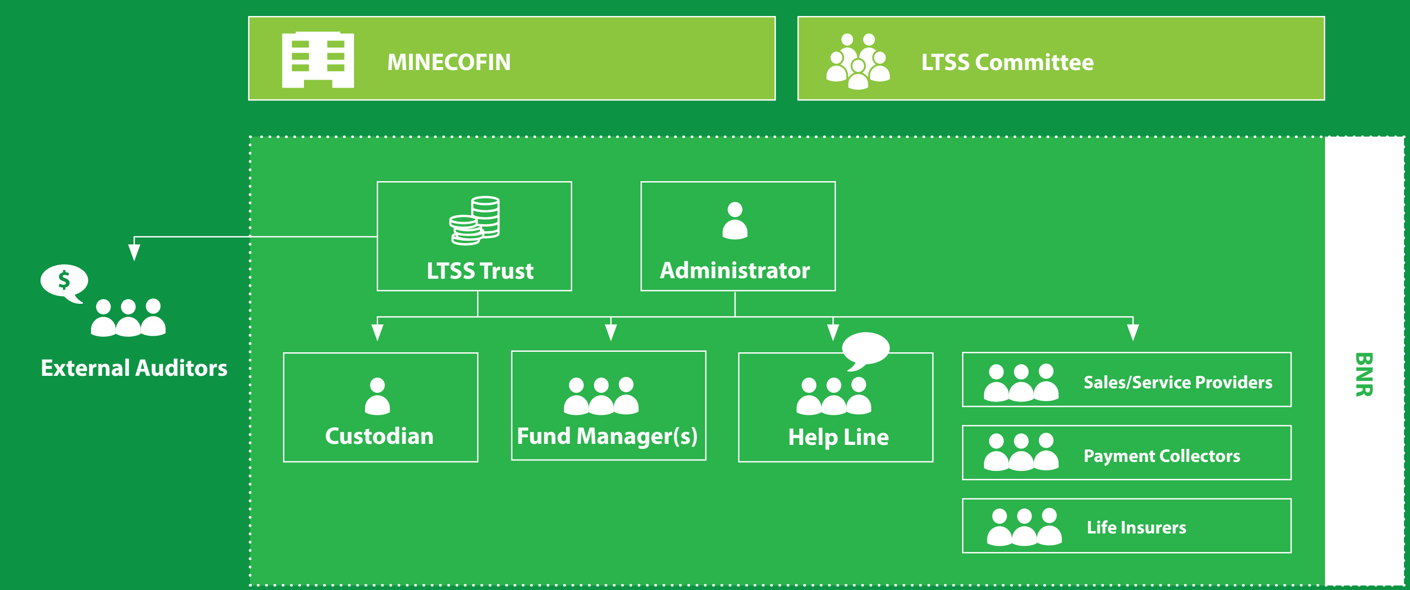
By including a free life and funeral cost insurance, the Government aims to also assist in building mass scale awareness about the role and importance of insurance and help cultivate a mass-market for life and non-life insurance products among the hitherto uninsured population.

In 2016, with support from AFR, the MINECOFIN has established a special Project Management and Implementation Unit (PMU) comprising of a 9-member team from pinBox Solutions and 15 national domain experts. The PMU team is already working closely with the MINECOFIN and with other key line ministries and departments, national and global NGOs, community networks and financial inclusion stakeholders in the planning and implementation of the LTSS. The programme will be rolled out in a phase manner in early 2018 to field-test the product and process architecture, retirement literacy tools and strategies and the enrolment and service delivery infrastructure. Learnings from this "pilot" in 2 districts will be factored into the final implementation plan for the national launch of the LTSS in late 2018.

As Jean Bosco Iyacu from AFR correctly points out, *"The unique strength of the LTSS approach is that it is based on a strong public-private-partnership foundation. This approach combines the policy goals of the Government with rigorous regulatory oversight by BNR and nation-wide access to high quality information and services to citizens through existing government and private outreach infrastructure. In this way, the LTSS has all the makings of a successful policy intervention that will have far reaching fiscal and social policy outcomes".*

The government expects broad-based participation in the LTSS to reduce potential future budgetary pressures by increasing self-provision, contribute to economic growth and infrastructure development by increasing aggregate long-term household savings, provide greater depth and liquidity to financial markets, and facilitate labor mobility through fully vested portable pension accounts.

LTSS Governance Framework



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