TOWARDS AN INCLUSIVE PENSION SYSTEM: LESSONS FROM KENYA

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1. INTRODUCTION

Over the last two and a half decades, Kenya has undertaken significant reforms of its pension system. A new Retirement Benefits Act was enacted in 1997 and a comprehensive framework of regulations was implemented three years later, in 2000. The Retirement Benefits Authority ('the RBA') was established at the same time to regulate, supervise, and promote the retirement benefits sector in Kenya. These initial reforms, and incremental reforms since 2000, have resulted in greater protection of the benefits of members of retirement funds, improved governance of retirement funds in the country and an impressive growth of the Kenyan pensions industry and pension assets in absolute terms. Aggregate pension assets in the country have grown from around KShs 80 billion in 2000 to over KShs 1.6 trillion in 2023. The country currently boasts 30 pension fund administrators, 24 fund managers and 14 custodians.

Without any doubt, the pension reforms in Kenya initiated since 1997 have been a remarkable success story for the country and the envy of many other countries in Africa and beyond. However, when we also consider that the meaningful coverage of pensions in Kenya is still at less than 50% of the formal sector and less than 6% of all working Kenyans, and that the average pension for those on retirement plans replaces less than 34 percent of earnings, perhaps there is less of a reason to celebrate. Whereas pension assets have grown in absolute terms, pension assets as a percentage of GDP have remained stagnant at only around 12 percent for the last two decades.

There has been considerable debate in the country in recent years on addressing the key challenges of coverage and adequacy of retirement benefits whilst still ensuring the pension system remain affordable and sustainable. A new National Pension Policy is being considered to provide a holistic framework for old age social protection. Even as such holistic reform is considered, there have been piecemeal reforms to different parts of the pensions system.

A social pension program, known as Inua Jamii, was introduced in 2007 with the aim of providing regular cash transfers to vulnerable older people. Initially, the program was limited to two pilot districts, but has since expanded to cover the entire country. Major reforms of the state National Social Security Fund (NSSF) have been undertaken, including an outsourcing of management and custody of assets. A new National Social Security Fund Act was legislated in 2013 to provide for a higher level of mandatory contributions with a corresponding increase in the range and level of benefits with a partial opt out of mandatory contributions to alternative schemes permitted to enable the private sector pensions sector to continue to remain relevant and flourish. A new funded and contributions-based defined contribution (DC) scheme was established for public service employees with membership compulsory for public service employees aged below 45 and as an option for employees above this age. A pioneering initiative, the Mbao Pension Plan for the informal sector was launched in 2009 and since then several industry players have experimented with micro-pension schemes targeting the large informal sector workforce in the country with mixed success. In 2022, and within the first 100 days of coming into office, the new Government in Kenya launched the Financial Inclusion (Hustler) Fund which aims to promote both access to affordable credit as well as voluntary savings combined with fiscal incentives to save for the more than 15 million Kenyans in the informal sector. There are efforts to expand the pension system in Kenya to accommodate wider savings priorities, including housing.

Kenya has also made significant strides in financial inclusion in the past two decades. Financial inclusion in the country has increased from 26.7 percent in 2006 to 82.9 percent of the population having access to basic financial services (Finaccess Household Survey 2019). The country has skyrocketing mobile penetration rates with total mobile subscriptions exceeding the country's population. Kenya is also becoming a global hub of fintech innovation and some of these innovations have also spurred the increase in financial inclusion in the country. One of the most successful initiatives in Kenya is Mpesa, a pioneering mobile money platform launched in 2007 by Safaricom, a leading telecommunications company in Kenya. Mobile money in Kenya has been a transformational tool in enhancing financial inclusion for the unbanked and the poor.

As such, Kenya now stands as one of the few countries in Africa, and indeed globally, with such breadth and depth of experience for both formal sector and informal sector pensions. The lessons we have learned, and continue to learn, can be of critical importance to other countries, particularly to other developing nations.

In this paper, we shine a light on positive progress and ideas, transformational and incremental, highlighting challenges, lessons learnt and success stories, while demonstrating that with the right will, a collective resolve and unified sense of purpose, it is possible to achieve wider pension inclusion in Africa and globally.

This paper is structured as follows. The next section describes Kenya's population and employment structure and macro-economic data relevant to this discussion. Section 3 outlines the current pensions and old age protection systems in Kenya and some of the recent reforms undertaken and lessons learnt. Section 4 zooms into the initiatives to extend pensions coverage in Kenya, including the specific experience of Zamara, a financial services firm in the micro-pensions space and Kenya's Hustler (Financial Inclusion) Fund. In Section 5, we share some concluding thoughts.

2. KENYA'S POPULATION AND EMPLOYMENT STRUCTURE

Let's start by first understanding the demography of Kenya. The latest figures published by The World Bank show that Kenya has a population of around 54 million with a close to 50:50 male to female ratio. The population is projected to increase to 80.7 million by 2040. The median age of the population is 20.1 years. The population of Kenya is thus still young, but there are around 2.2 million citizens aged 60 and above and this population of the elderly will nearly triple to 6.6 million by 2040 and exceed 9 million by 2050. The dependency ratio (ratio of elderly to active labour force) is also expected to increase to 30 percent by 2050.. This will increase the fiscal pressures on Government of taking care of a growing elderly and non-working population.

There are around 28 million Kenyans in the working age category, 18.3 million of whom are working or employed as per the Kenya National Bureau of Statistics Economic Survey 2022. This suggests an unemployment rate of close to 35 percent. Whilst the youth dominate the Kenyan labour market, it is important to understand where they are employed. Of the 18.3 million working Kenyans, only 3.1 million (or 17%) are employed in the formal sector. Around 15.3 million Kenyans (83%) work in the informal sector and, more importantly, over 80 percent of jobs in the last decade are being created in the informal sector. The proportion of formal sector employees as a percentage of the total workforce has declined from 77.5 percent in 1988 to 17 percent in 2022.

Thus, akin to many other countries in Africa, a significant majority of workers in Kenya belong to the informal urban or agricultural sector with the relative size of the formal sector workforce declining significantly as a percentage of total employment over the last three decades. It is also important to note that females constitute 50.1 percent of the total population, but only about 29.4 percent of them have formal employment and earn on average 33 percent less than their male counterparts.

The informal sector in Kenya is very integral to the country. Whereas we talk about the contribution of the formal corporate sector to our economy, it is the vibrancy, energy, passion, hard work, creativity and entrepreneurship of the informal sector that is the true testimony to the resilience of the Kenyan economy. A mother selling tomatoes on the side of the road, artisans making furniture on a road junction in Nairobi, the boda boda (motorcycle taxi) rider ferrying people and goods, a group of young men running a car wash in an informal settlement, and even a recent college graduate supporting himself as a motorcycle taxi rider are all part of Kenya's vibrant informal economy. The non-agricultural informal sector workforce in Kenya is often referred to as the Juakali sector and plays a significant role in employment creation, production and income generation.

But almost 100 percent of these young, economically active artisans, mechanics, street vendors, taxi drivers, boda boda riders, small shopkeepers, MSME employees, fishermen, domestic help, farmers and other self-employed individuals are excluded from our formal pensions and insurance systems. They all face the grim prospect of living in extreme poverty when they are no longer able to work because of old age, disability, or ill health. Their families suffer when a bread winner unfortunately dies as there is no saving or protection to help them at a time when they are most vulnerable. Women are even more vulnerable to these lifecycle risks.

This vast informal sector is not very well understood by policymakers, although significant efforts across the political divide in Kenya are being made to reach out to this sector and find solutions to its many challenges.

2.1. Relevant macro-economic and poverty incidence data

According to The World Bank, Kenya's GDP was estimated at USD110.4 billion in 2021 with a per capita GDP at USD2,082.

Agriculture remains the mainstay of the economy contributing 23 percent of GDP (KNBS Economic Survey 2022). Overall poverty incidence is reported to have declined from 52.3 percent in 1997 to 36.1 percent in 2016. Most of the poverty decline is attributable to the progress observed in rural areas where poverty levels declined considerably from around 50 percent in 2006 to 38.8 percent in 2016, resulting in a decline in the overall number of rural poor from 14.3 million to 12.6 million persons.

Studies suggest that the incidence of poverty among the elderly in Kenya (and indeed in many countries in Africa), in households with elderly only, elderly with children, and elderly-headed households, is much higher than the average incidence of poverty .

The Kenyan data suggests that less than 50 percent of the formal sector has reasonable pension coverage and almost the entire informal sector comprising 83 percent of the workforce has no pension provision other than reliance on the Inua Jami stipend. More than 80 percent of the jobs are being created in the informal sector. The country faces a looming old age poverty crisis within the next 20 years unless urgent steps are taken to deal with this impending problem. The Covid-19 Pandemic has exposed the deep cracks in the social fabric of our country. Whereas Kenya was spared the worst of the health crisis from the pandemic, it was not spared the economic impact with the biggest impact being felt by the millions of Kenyans working in the informal sector.

The level of financial literacy in the population is a major challenge. A study by Financial Sector Deepening (FSD), highlights that 40 percent of the Kenyan population have no financial training and rely on their own self-knowledge, 35 percent rely on friends and relatives, 11 percent on the media, 7 percent on financial institutions and 3 percent on their investment groups (known as chamas). One cannot expect people to make sound financial decisions without a reasonable level of financial knowledge.

There is a huge vacuum in this area which needs collective effort on the part of all stakeholders.

In Kenya, there is a growing realisation of the benefits to the country of creating a healthy savings culture and mobilising long-term savings to help fund development initiatives, reduce our dependency on foreign capital, develop domestic capital markets, fuel economic growth and create jobs.

Finding solutions to the challenge of informal sector pensions inclusion and adequacy is a high priority for Kenya and ought to be for the continent of Africa.

3. KENYA'S PENSION AND SOCIAL SECURITY LANDSCAPE

Akin to many developing countries in Africa, Kenya's current pension system is characterised by poor overall levels of coverage and benefits adequacy, a small size of formal economy relative to the informal economy, low levels of disposable income, insufficient insurance against longevity and lifecycle risks, and competing priorities.

Nevertheless, there are important differences. Many African countries have dominant mandatory State-sponsored schemes with little or no private pension systems. Kenya, on the other hand, has had a smaller State scheme, the National Social Security Fund (NSSF), that has enabled a larger voluntary occupational and personal pension system. The level of financial sector and capital market development, stable macro-economic environment, and the existence of a regulatory framework better position Kenya for more fundamental and deeper reforms of the pension system. Compared to the experiences of the Latin American and Eastern Bloc countries, other than addressing the institutional weaknesses in the current pension system and the financial sustainability of the unfunded Public Service Pension Scheme ('PSPS'), there are fewer legacy issues to be dealt with. This ought to make it easier to implement broader reform of the pension system.

The results of the reform undertaken so far have been positive in remedying some of the governance, benefit security and investment management problems of the pre-reform period, particularly in the voluntary occupational pension sector. The requirement for external investment management has seen a positive impact on the country's financial markets. The pensions sector has played a key role in helping the Government to lengthen the maturity of its debt profile and retirement schemes through their fund managers have also become major players in the stock market. National savings as a percentage of GDP have increased and increased pension savings are thought to be one of the key contributors to this rise.

Based on the results of the reforms to date, there is now a better appreciation on the part of policymakers of the potential of a well-developed pension system to contribute to economic growth and development of the country's capital markets. Reform of the pension system is therefore acknowledged as one of the key policy measures to achieving the country's Vision 2030.

Pension sector reforms to date have provided a sound basis on which to consider a deeper and broader second phase of reform. The key objectives of next stage pension reforms have included assessing the feasibility of a basic universal social pension financed by the national budget, increasing the level of mandatory contributions to NSSF, leveraging participation by voluntary schemes for some elements of the increased mandatory contributions, and reforming the Public Sector Pension Scheme (PSPS).

Some progress has been made on this second phase of reforms and although it is still early days, the initial signs are positive. We explain some of the further reforms undertaken to date below as we describe the current old age protection and pension systems in Kenya.

3.1 Kenya's Current Multi-pillar Pension and Old-Age Protection System

The current pension and old age protection system in Kenya can be broken down into the following five pillars:

i. Zero Pillar - Older Persons Cash Transfer Program known as Inua Jamii, a social assistance program targeting the lifetime poor and informal sector and providing a basic stipend to vulnerable Kenyan citizens above the age of 70, funded from the budget;

ii. First Pillar – the mandatory National Social Security Fund (NSSF), which in Kenya operates on a defined contribution basis, generally targeting the formal sector workforce with compulsory Tier-I statutory contributions under the new NSSF Act, 2013 targeting a retirement benefit of 40 percent of the minimum wage;

iii. Second Pillar – Tier-II statutory contributions under the new NSSF Act, 2013 which by default, need to be made to the NSSF, but which employers may opt out of and instead pay to an occupational, multi-employer umbrella scheme or personal pension plan of their choice;

iv. Third Pillar – voluntary occupational, multi-employer umbrella and personal pension funded plans; and

v. Fourth Pillar – access to informal support, other social programs and other individual financial and non-financial assets such as home ownership and includes participation in voluntary investment groups (known as chamas) and cooperatives and savings societies that are hugely popular and prevalent in Kenya.

The country also operates a pension scheme for public service employees which has also undergone significant reform in the recent past.

We now outline below some of the key features of these pillars and insights that may be gained.

3.1.1. Zero Pillar - Older Persons Cash Transfer Program

In recent years, there has been a growing recognition that inclusive social protection systems are crucial for poverty reduction and for promoting the well-being of all citizens. This has led to increased attention to the role of social pensions, particularly in low- and middle-income countries. Kenya's experience in expanding access to social pensions provides valuable insights into how an inclusive pension system can be developed.

Kenya's social pension program, known as the Older Persons Cash Transfer Program (OPCT) or Inua Jamii, was introduced in 2007 with the aim of providing regular cash transfers to vulnerable older people. The program is targeted at low-income earners who are not eligible for pension benefits. Initially, the program was limited to two pilot districts, but has since been expanded to cover the entire country. Today, the OPCT is one of the larger social pension programs in Africa, with over 800,000 beneficiaries.

One of the key lessons from Kenya's experience is the importance of targeting the program to the most vulnerable. The OPCT is targeted at individuals aged 70 years and above who are identified as vulnerable based on a range of criteria, including poverty, disability, and lack of family support. By focusing on those who are most in need, the program has been able to provide a lifeline to those who would otherwise be left without any form of income support in their twilight years.

Another important lesson is the need for an efficient and effective payments system. In Kenya, OPCT transfers are made through mobile money which has helped to reduce the administrative costs of the program and ensure that payments are made directly to the beneficiaries without leakages. This has helped to minimize the risk of corruption and fraud, which can undermine the effectiveness of social protection programs.

A third lesson is the importance of community involvement in the design and implementation of social pensions programs. In Kenya, the OPCT was developed in consultation with communities and local organizations, which helped to ensure that the program was tailored to the specific needs of beneficiaries. Community involvement has also helped to build support for the program and to promote its sustainability.

Finally, Kenya's experience highlights the importance of political commitment to the development of an inclusive pension system. The Kenyan government has demonstrated a strong commitment to expanding access to social pensions, and this has been reflected in the significant expansion of the OPCT program over the past decade. Political commitment is critical for ensuring that social pensions are prioritized within national budgets and that they are sustainable over the long term.

In conclusion, Kenya's experience provides important lessons for other countries seeking to develop an inclusive social assistance program. Targeting the program to the most vulnerable, developing an efficient payment system, involving communities in the design and implementation of the program, and demonstrating political commitment are all key factors in ensuring the success of social pensions. By adopting these lessons, other countries can develop effective social protection systems that promote the well-being of all citizens.

3.1.2. Second Pillar – mandatory NSSF with participation by alternative schemes

The NSSF was established under an Act of Parliament in 1965 as a provident fund operating on a defined contribution basis. The NSSF in Kenya covers formal sector employees other than employees covered under the public service pension scheme. All employers are required to register with the NSSF. The total cumulated NSSF membership is estimated at over 7 million, but the active contributing membership is currently estimated at just over 2.6 million employees. Over 82,000 employers are registered with the NSSF.

As a provident fund, the NSSF provides only lump sum benefits payable upon retirement at or after age 50, or invalidity, or death, and on permanent emigration from Kenya. There has been a tendency for such lump sum benefits to be poorly applied or squandered, resulting in inadequate protection against poverty in old age.

Further, given the low monetary ceiling on contributions that applied under the previous NSSF, benefits have also been woefully inadequate. Statutory contributions to the previous NSSF were set at 10 percent of an employee's pay, half of which was paid by the employer and half by the employee. There was however a monetary ceiling on the maximum combined contribution to the NSSF. There have been only two adjustments to the statutory ceiling on contributions since the inception of the NSSF -- an increase from KShs 80 to KShs 160 per month in 1977, and from KShs 160 to KShs 400 (USD3.33) per month in 2001. Given such low contributions, the projected benefits on retirement after 30 years of contributions to the NSSF was way less than the average earnings in Kenya. Further, the high costs of administration, low investment returns and even lower returns credited to members also negatively impacted benefits.

Given these challenges, reform of the NSSF had been on the national agenda for many years with several Government papers talking about the need to convert the NSSF from a provident fund to a pension scheme with a more reasonable level of mandatory contributions. The urgency for reform was also prompted by the provisions of the new Constitution of Kenya promulgated in 2010 which, under Article 43, provided that every Kenyan had a right to social security.

As a result, in 2013, a new National Social Security Fund Act, 2013 ("NSSF Act 2013) was enacted. The NSSF Act 2013 repealed the previous NSSF Act and introduced a new Pension Fund to replace the previous Provident Fund, which was closed. Although the new NSSF Act became effective in 2013, its implementation was immediately challenged in the courts. However, the Court of Appeal on 3 February 2023 issued a Judgement that effectively reinstated the Act, although the ruling of the Court of Appeal has been challenged in the Supreme Court and a decision is awaited.

The NSSF Act 2013 increases the coverage, range and level of benefits provided by the NSSF, allows for contracting out by employers of making second tier contributions to the NSSF, and introduces measures to strengthen the corporate governance of the NSSF. The rates of contribution to the new Pension Fund are at 12 percent of Pensionable Earnings (with employees and employees contributing 6 percent each). Pensionable Earnings are defined in the Act as all emoluments payable to an employee other than fluctuating emoluments, but subject to a ceiling (called the Upper Earnings Limit in the Act). The Upper Earnings Limit is equal to four times the National Average Earnings ('NAE'). NAE are published by the Kenya National Bureau of Statistics in the Economic Survey each year. The Act provides for contributions to the Pension Fund to be phased in over a period of five years.

The Act provides for the bulk of the benefits to be paid in the form of a regular income (either annuity or phased withdrawal), thus addressing the challenge of lump sum benefits under the previous NSSF being poorly applied and not delivering effective retirement security. Further, the Act introduces a requirement for compulsory preservation of future mandatory contributions, thus reducing the previous leakage of retirement savings from Kenyans accessing a portion of their retirement benefits each time they changed jobs.

The NSSF Act 2013 provides for two tiers of contributions:

- Tier I Contributions - contributions in respect of Pensionable Earnings up to the average statutory minimum monthly wage (called the Lower Earnings Limit in the Act); and
- Tier II Contributions - contributions in respect of Pensionable Earnings between the Lower Earnings Limit and the Upper Earnings Limit.

Tier-I contributions must be made to the NSSF. The default position is for Tier-II contributions to also be made to the NSSF. An employer may however opt to pay Tier-II contributions in respect of its employees into a contracted-out scheme it participates in or opts to establish. The contracted-out scheme must meet a test of scheme quality, essentially requiring contributions to be not less than the mandatory contributions, and for benefits in respect of the mandatory contributions to be paid in the form provided for in the Act.

The NSSF Act 2013 also provides for the statutory contributions, investment income thereon and benefits to be tax exempt, essentially providing for a very generous exempt-exempt-exempt (EET) tax treatment of contributions, investment income and benefits respectively.

The Act also has important measures to strengthen the corporate governance of the NSSF, including controls on the maximum expenditure that the NSSF can incur and requirements for additional disclosures and reporting. Coupled with the already existing regulatory framework under the Retirement Benefits Act in Kenya, this should contribute to a higher level of security of retirement benefits for Kenyans.

In essence, through this new Act, some of the structural flaws in the design of the previous NSSF, particularly the very low monetary cap on contributions, are suitably addressed. Contributions at a more meaningful and reasonable level than the previous USD 3.33 per month become compulsory. Given the higher level of contributions and the requirement for compulsory preservation of statutory contributions, it is expected that the NSSF Act 2013 will significantly improve the overall benefit outcomes of the pension system in Kenya for the formal sector, particularly for those who were reliant only on the previous NSSF and did not have any supplementary pension provision. The requirement for the benefits to be taken in the form of a regular income rather than as lump sums will improve the long-term retirement security of Kenyans.

The ability to opt out enables private sector pension plans to participate in the second tier of contributions, thereby ensuring occupational schemes, umbrella funds and personal pension plans continue to remain relevant and indeed flourish, especially given that the contributions are compulsory.

The phasing-in of the higher mandatory contributions over a five-year period helps mitigate the cost of the higher contributions for employers and the impact on take-home pay of employees for employers who did not make any supplementary voluntary provision. For those employers who already make supplementary provision, the financial impact of the implementation of the Act is broadly neutral if they take advantage of the ‘opting-out’ provisions of the Act.

All in all, this reform is a step in the right direction and addresses the serious weakness of low benefit outcomes under the previous system. The reform is unique to Kenya and recognises the role that both the public and private sectors can play in pension provision and how they may dovetail effectively.

3.1.3. Third Pillar – voluntary occupational, multi-employer umbrella, and funded personal pension plans

The Third Pillar comprises occupational schemes set up by employers for the benefit of their staff, multi-employer umbrella retirement schemes which are increasing in popularity, and personal pension plans. Such schemes are voluntary and are established under a Trust.

These schemes are regulated by the Retirement Benefits Authority under the Retirement Benefits Act. There are no minimum requirements in relation to the levels of contributions by employers and staff. Nor are there any minimum requirements in relation to the types or levels of benefits other than legislative restrictions in relation to minimum retirement age, vesting, portability, preservation and accessibility of benefits. There are however extensive requirements in relation to the governance and management of such schemes, and for the protection of members' benefits stipulated in the Act and the Regulations framed under the Act.

Of the 80,000 plus employers registered with the NSSF, the number of employers who make supplemental pension provision over and above the NSSF is just over 3,000. Overall, occupational schemes, together with the Public Service Pension Scheme, cover less than 50 percent of the formal sector workforce.

The NSSF reform outlined above however makes saving for retirement compulsory with a choice of provider permitted for the second tier of statutory contributions as described above. As also explained above, the implementation of the NSSF Act, 2013 will require all employers previously not making supplementary pension provision to make a higher level of statutory contribution and select whether to participate in the NSSF for the full level of mandatory contributions or exercise the option to contract out of the second tier of statutory contributions and make them to an alternative arrangement, by either setting up their own scheme, or by participating in a multi-employer umbrella plan.

3.1.4. Pension Schemes for Public Service Employees and the Armed Forces

The Public Service Pension Scheme (PSPS) covers close to 500,000 civil servants, teachers and police and prison staff and over 250,000 pensioners. Separate arrangements apply for the armed forces and other military personnel. The PSPS has operated as a defined benefit, unfunded (pay-as-you-go) scheme since its inception in 1963. The scheme is non-contributory, other than contributions at 2 percent of salary by male employees towards widows' and orphans' benefits.

The PSPS provides a pension of 2.5 percent of final basic salary for each year of service on retirement from service at age 55. Unreduced pensions are payable on retirement at or after 50 with the parent Ministry's consent, or earlier on ill health retirement. The pension fraction targets a replacement rate of 75 percent of basic salary after thirty years of service (or an average of 50 percent of total remuneration for all categories of public service employees). A higher pension fraction applies for armed forces and military personnel. Retiring staff may opt to take up to 25 percent of their pension in the form of lump sum, with a generous, uniform commutation factor of 20:1 applying. Modest pension increases at 3 percent every two years have been introduced since 2005. Benefits vest after ten years of service and there is no portability of benefits and individuals who resign from service before retirement are not entitled to any benefits. Although not all remuneration is pensionable, the pension accrual fraction at 2.5 percent with generous commutation terms targets a reasonable initial pension although the lack of full indexation impacts the purchasing power of pensions with time. There is no portability of benefits or provisions for retaining deferred benefits restricting job mobility amongst public service employees.

From the Government's perspective, the significant unfunded pension liability, and the rapid increase in benefit expenditure, has been a major concern. Further, a key premise of the PSPS of salary sacrifice during a working career in return for a 'job for life' and a relatively more generous pension after retirement has been distorted by the pay reviews in the past two decades.

In 2020, in order to limit its pension expenditure and the extent of defined benefit obligations, the Government closed the current PSPS to future accrual of benefits for public service employees aged 45 and below, as also to all new entrants. A new defined contribution (DC) pension scheme for future accrual of benefits was established with contributions of 7.5 percent by employees and 15 percent by the Government – with the Government also meeting the cost of additional lump sum benefits on account of death in service. The Government contributions are actual and not notional. Overall, whereas the ongoing actuarial cost of pension accrual has reduced, the Government's total pension expenditure has increased because of the need to fund both contributions to the new DC scheme and pay benefits under the previous DB scheme.

3.1.5. Fourth Pillar – Informal support and other Social Programs

Kenya has a strong informal support system, which is a key factor in promoting the country's social and economic development. This informal support system consists of family and community-based networks, which provide social protection, financial assistance, and mutual aid to members of the community. The informal support system is complemented by cooperative movements and other social programs.

Cooperatives and SACCO societies provide a range of services, including savings and credit, housing, agricultural inputs, and other services. Today, there are over 8,000 cooperatives and SACCO societies in Kenya, with over 5 million members. They are regulated by the SACCO Societies Regulatory Authority (SASRA). Cooperatives and SACCO societies are credited with providing access to financial services to many people who otherwise would not have access to traditional banking services. These organizations also provide access to capital for small businesses, support local and regional development, and promote economic growth. They also play a key role in alleviating poverty in rural areas by providing access to agricultural inputs, housing, and other services.

Kenya's cooperative and SACCO movement has grown to become an important part of the Kenyan economy and is a good role model for Africa for extending financial inclusion and a good basis for aggregating demand for wider financial services including pensions.

3.2 Rethinking Pensions for Kenya

The pension system in Kenya and across Africa is largely borrowed from the developed world and has a singular focus on saving for retirement (old age). As part of the discourse on pension inclusion, there has been some debate in Kenya on whether we as Kenyans are engaged with long term savings or whether we should rethink, and if necessary, remodel our pension system so that it resonates better with Kenyans. As stakeholders in the pensions industry in Kenya and Africa, we must ask ourselves if remodeling our pension system, or repositioning it differently, can lead to better results. Would stretching our existing pensions framework to include expanded savings objectives better connect with our people?

Based on our experience of engaging with members of Kenyan pension funds largely working in the formal sector over the last 25 years, a key message that keeps coming across is that whereas saving for retirement is rated as important, it does not appear to be the most important savings need. Most Kenyans are struggling with other priorities that compete head on with retirement saving. These include buying a home, educating children, and paying for emergencies – and doing all of this with low levels of disposable income. Even if we have a good retirement system, this is of little consequence if individuals believe they have other, more pressing immediate and short-term priorities.

Let us consider housing. Financing home ownership is rated higher than retirement savings by most members we speak to. Owning a home can also be a critical retirement asset. Considering both pensions and housing simultaneously can lead to favourable outcomes. The Kenyan pension legislation was amended in 2009 to permit members of retirement funds to assign up to 60 percent of their retirement benefit as security for a mortgage loan. However, this facility was not taken up because mortgage providers did not adjust interest rates to reflect this additional security, citing that their pricing depended on the ability to pay and not necessarily on the additional pension-backed security. In 2020, the legislation was further amended to permit members of retirement funds to directly access 40 percent of their pension corpus to pay for an affordable home. This amendment was overturned by the courts for lack of sufficient public participation. Nevertheless, there is merit in rethinking pension-backed housing loans and making them work – whether this is through direct lending, assignable collateral, individual cash-backed mortgages, or tenant purchase schemes.

Another similar example is education. Demographically, the bigger challenge for Kenya is the youth and not the aged. The need to save for retirement pales in comparison to educating one's children and enabling and empowering the next generation. There is merit in considering whether the pension system should enable access or explicit funding for education to enhance overall family wealth.

We believe there is merit in expanding the pension system to enable individuals to save more holistically, and shift from one saving priority to the next to meet targets before and at retirement. In this way, we can create an enabling environment that helps individuals leverage their long terms savings in ways that address their tangible and immediate needs as well as retirement and income protection. We already have the building blocks in our current pension system to offer scalable and affordable solutions. Should we not explore the potential to use them?

This broader approach has already been attempted for housing and implemented also for post-retirement medical savings in Kenya. Perhaps the next step is to see how best to consider, accommodate and effectively implement additional needs into an expanded pensions system. This demands different thinking, but we believe this can help to meet the aspiration of Kenyans to be socially mobile, have social protection, and also be financially capable.

The reforms to each part of the pension system in Kenya described in this section mark meaningful steps to improve the adequacy of benefits for the formal sector workforce in Kenya as well as improving the governance and sustainability of the entire pension sector. To this extent, the reforms have contributed to greater inclusivity and equity in the pension system in Kenya. However, the reforms to date fall short of addressing the very fundamental aspect of coverage of the vast informal sector which we now turn to in the next section of this paper.

4. EXTENDING PENSION COVERAGE TO THE INFORMAL SECTOR

While there has been considerable reform of the pension system in Kenya, the elephant in the room remains – achieving coverage of the vast and growing informal sector workforce in Kenya, and the African continent more generally. To this end, there are some useful experiences and learnings from Kenya worth sharing.

But first let us understand the scale of the challenge and the size of the opportunity for Kenya.

4.1. The Scale of the Problem

As indicated in Section 2, like other countries in Africa, Kenya has a young population with a median age of only 20 years. However, by 2050, some 9.2 million Kenyans will be above the age of 60. At that point, a tax funded lifelong pension of even USD1 a day to these future elderly will cost ~USD 3.34 billion a year (pinBox Simulations). Tax revenues will be unable to cope with the gigantic fiscal and social cost of an even modest social pension. Without an effective and immediate policy and business response to pension exclusion, poverty among the future elderly in Kenya will become the dominant cause of increased poverty in the country.

4.2. The Gigantic Fiscal and Social Opportunity for Kenya

The only sustainable strategy against the imminent old age poverty crisis facing Kenya is for its currently young informal sector workforce to begin saving for their own retirement. If even half of Kenya's currently excluded workforce began saving even USD 1 a day for their old age, they could collectively generate ~USD 21 billion in new, stable, long-term savings within the next 5 years and ~USD 59 billion (or 60% of Kenya's current GDP), over the next decade (pinBox Simulations). In addition to enabling old age income security for contributors, these new long-term savings could help fuel economic growth, infrastructure development and employment in Kenya. Equally importantly, if a 20-year-old Kenyan citizen saves USD 1 a day in real terms for her old age, and earns a real return of 4 percent, she could achieve a 5 percent inflation-indexed pension of around USD 475 a month for 20 years in current money terms and therefore escape old age poverty.

This is certainly thus a problem worth solving.

4.3. The Mbao Pension Plan in Kenya

A pioneering initiative in Kenya, that is often cited as a micro-pension case study in Kenya and even globally, is the Mbao Pension Plan ("Mbao") established in 2009. Mbao was sponsored by the Kenya National Federation of Jua Kali Associations ("KNFJKA"), the umbrella body of the informal sector associations in Kenya, through a cooperative society, the Kenya National Jua Kali Cooperative Society, but received considerable support from the industry regulator, the RBA for both its initial establishment and in creating public awareness about the scheme. Mbao was registered with the RBA as a DC pension scheme permitting contributions as low as 20 Kenya shillings (USD 0.20) and allowing for full withdrawals after three years of membership. Registration and payment of contributions is via a USSD functionality, although paper registration has also been allowed leading to challenges with identity verification. The scheme had an initial good start supported by publicity by the regulator as well as efforts by the appointed service providers. Its membership shot to more than 100,000 at one stage. However, the initial excitement quickly eroded and the membership is now at around 70,000 or less, and the asset base has shrunk with nearly 80 percent of members opting for full withdrawals. The level of attrition of members is high and only around 6 percent of the members continue to contribute.

Some of the reasons cited for this slowdown include the slowdown in advertising and on-ground marketing, difficulties in accessing member balances, errors in member data, delays in the withdrawal process, lack of follow up by the scheme officers, manual systems making it difficult to achieve automatic and real time updates to member data, reconciliation of contributions, and a perception of lack of transparency.

4.4. The NSSF Haba Haba Plan

The NSSF introduced voluntary membership and contributions in 2006 and embarked on a marketing campaign to attract voluntary membership, particularly from the informal sector. The Haba Haba plan launched by NSSF in November 2019 enables individuals to save a minimum of KShs 25 a day, with the option of withdrawing 50 percent of their accumulated savings after consistently contributing for a minimum of 5 years. The success, or otherwise, of this campaign to date is difficult to establish from publicly available information. No data is publicly available to assess the size of membership, frequency and amount of voluntary contributions, and the cost of collecting and administering voluntary accounts relative to the contributions.

4.5. The Zamara "Fahari" Experience

Zamara is a diversified financial services business specializing in actuarial, pensions, medical and insurance solutions. Headquartered in Nairobi, Kenya, Zamara has a presence in seven countries in Africa and a Pan African ambition. Zamara has had a strong corporate pension and insurance client base in the countries it operates in, but as part of a review of its business strategy in 2017, opted to widen its priority market segments to include SME, micro-enterprises, retail and mass market pensions and insurance solutions. This change in strategy was driven partly by a change in ownership, but importantly by a recognition that the wider market segments could not be ignored if Zamara were to remain relevant, achieve significantly better levels of pensions and insurance penetration in Africa, and remain true to its higher purpose of creating a financially secure and prosperous society in Africa.

In Kenya, the success stories with mass-market retail credit products launched by Mpesa and Equity Bank, both of which successfully penetrated the informal sector, encouraged us. However, we were also conscious that promoting micro-pensions and micro-insurance among informal workers would be radically different from offering micro-credit.

Clearly, the 18 million informal sector workers in Kenya, and the over 600 million non-salaried workers across Africa face a much higher longevity risk than their salaried counterparts. Each of them also deserves to be protected against a range of risks -- of death, ill health, disability, injury, loss of tools, theft, drought and flood, through appropriate insurance solutions.

For a private company that has been in the corporate space the whole time, Zamara has devoted time to conceptualising and refining our thinking on extending and scaling pensions coverage to the informal sector and this is now a very key part of our strategy in each of the seven countries in Africa we operate in Africa and even as we extend our footprint to other countries in Africa.

We share some of Zamara's key learnings below.

4.5.1. Understanding Informal Workers

We recognised that there were several reasons for the mixed success of other similar initiatives, but the most important was not knowing the needs, constraints, and priorities of the informal sector workforce. At a very early stage, we realised that incomes, expenses, and savings capacities were only one aspect of the challenge. It was equally important to understand the complex social and cultural fabric underpinning the financial habits of Kenyans.

We therefore began our pension inclusion efforts with an intensive secondary and primary research effort. We engaged an entity with multi-country expertise in behavioural finance research and interventions design to help develop and field-test a simple product solution and digital process and interface using focussed group discussions with different occupational and demographic segments.

Our research clearly showed that there was a significant latent demand for saving solutions and that at least a third, if not more, of the informal sector workers in Kenya were capable of saving, provided they had easy and secure access to appropriate solutions. The research also showed that while the self-employed did not explicitly prioritise saving for old age, they were already saving through cooperative societies, informal savings schemes, table banking schemes and through women's groups.

Over the past years, the Zamara team has engaged with thousands of Kenyans in the informal sector. We are always struck by how entrepreneurial, hardworking, aspirational, and innovative they are, despite modest incomes and literacy levels, and how eager they are to improve their lives, to educate their children well, and to be financially secure. Importantly also, unorganised sector workers seem to be incredibly well organised. For example, the umbrella Jua Kali Federation, with whom Zamara partnered with in 2020, has a membership of over 200 Jua Kali Associations spread across the country, each focused on a specific occupational category, with an aggregate membership of over 12 million non-salaried workers.

An important realization also was that the informal sector is also hugely heterogenous, and the needs of individuals can vary across occupational and demographic segments.

Other than the low, irregular, and sometimes seasonal or daily incomes, and other obvious demand-side constraints that the self-employed face, we learnt the following key lessons while the Zamara team was designing, developing and deploying the Fahari Pension Plan. Some of these learnings may be relevant for other countries attempting similar initiatives.

a. Individuals in the informal sector can be difficult to reach, but are generally well organised in groups. There is a sense of ownership from peers. Outreach through organised groups such as micro-finance institutions, SACCOs, farmer cooperatives and occupations-based worker associations was probably the most cost-effective and efficient way to reach this otherwise diverse group of individuals.

b. Influencers and opinion leaders popular among the informal sector can play an important role in mobilising people and encouraging mass-market adoption of new products or solutions;

c. Low levels of financial and retirement literacy is an important barrier to mass-market adoption of a regulated micro-pension or insurance solution. The level of investment needed in creating nationwide awareness, and in promoting voluntary long-term savings by millions of informal sector workers is a mammoth task and requires a collaborative effort by multiple stakeholders – governments, regulators, financial services providers, donor agencies, informal sector groups and the media;

d. There is also a significant trust deficit in both financial products and providers as thousands of people have faced fraud by a myriad of pyramid schemes in recent years. Modest past experience with modern finance, and low trust in formal financial institutions creates a significant challenge in achieving voluntary participation in regulated pension, saving and insurance products. Working with field partners who are well known and trusted among the informal sector workforce is essential for success at scale;

e. It is vital to have a simple and easy to understand product and process framework and a user-friendly interface with minimal documentation formalities. A simple enrolment process with minimal friction and transparent access to information are key. For instance, we spent a significant amount of time perfecting a web-based self-service platform only to realise that our efforts would have been better spent on simplifying the USSD journey. A big learning curve for us was our misplaced initial view that the informal sector workers would have easy access to the internet and should be able to download and use an App to explore a product or service, but we were wrong. We found that almost 85 percent of the informal sector workers prefer to use a USSD code to access a product or service, even when they have access to a smart phone;

f. The informal sector prefers visual imagery, and hence communications involving peer interactions using flip charts and comics was more likely to succeed;

g. Most informal sector workers are not easily able to relate to terms like “pensions” or “retirement”. The fact that most workers are still in their 20s and have a “you-only-live-once” attitude to current consumption makes acceptance of a pension solution difficult to achieve at scale. In this situation, it is perhaps desirable to begin with saving for emergencies and short-term goals so as to cultivate a savings habit, and then gently shift the savings tenure to long-term savings for old age;

h. There is large unmet credit demand among informal workers, especially for emergencies and health shocks. Many of our subscribers demand an upfront credit solution, instead of a facility to borrow against savings. This is presumably because cooperatives and SACCOs in Kenya have traditionally offered savings solutions that permit a person to borrow a multiple of their savings value through the cooperatives. Clearly, the primary motivation in such products is easy credit access and not savings;

i. Informal sector workers are disproportionately exposed and vulnerable to a range of risks and income shocks and the adage “an informal sector worker is just one illness or income shock away from poverty” is unfortunately true. Access to insurance is essential for the underserved population to achieve lasting prosperity. Approximately 97 percent of Kenyans are not insured. According to FinAccess Kenya 2021, many people either do not appreciate the benefits of insurance, or do not know about insurance, or do not know where and how to buy insurance. Those that want to buy an insurance cover cannot afford the premiums. There are also cultural inhibitions and taboos to getting life insurance in Kenya and indeed in many other parts of Africa and Asia. There is thus merit in bundled solutions that combine savings with insurance as a way to mitigate risks;

j. It is essential that a micro-pension solution is adequately tested prior to rollout as bugs or errors in the field can result in a reputational risk and a loss of public confidence. It is therefore advisable for a digital micro-pension solution to be field-tested on a limited scale through pilots;

k. Even though this may not be an issue initially, we were very conscious and clear that any solution had to represent value for money for the individual subscriber. It was thus important to get the product pricing right taking account of all the items of likely expenditure, including provider fees and partner/agency incentives for distribution where applicable.

4.5.2. Product Design and Packaging

Efforts at designing and experimenting with different product ideas to find a perfect product fit that resonates well with the target segment is important. To this end, and taking into account the learnings listed above, we tested various product design features and piloted multiple end-user experiences.

In Kenya, we often refer to the “kadogo” (small) or economical products for lower income segments. This makes products more affordable without compromising the quality of the products and allows people to buy sachet-sized quantities – e.g. a small packet of maize flour, a tablespoon of cooking oil or salt, etc. We decided to adopt the same approach with pensions and insurance. Our aim was to offer the same quality of pension and insurance services with an identical level of high governance, efficacy, transparency, and fund management expertise, hitherto available to higher-income salaried workers, even for small-ticket or micro-pension products. This would make retirement savings and insurance more affordable for everyday citizens with modest incomes and savings capacities.

The Fahari Retirement Plan powered by Zamara is a fully digital and paperless micro-pension scheme based on portable individual accounts. Fahari is easily accessible to any Kenyan with a mobile phone. It is a defined contribution scheme registered with the Retirement Benefits Authority and is also registered as a tax-exempt retirement product with the tax department.

An informal sector worker located anywhere in Kenya can now digitally activate an integrated micro-pension and insurance account linked to her national ID in less than two minutes without elaborate documentation or KYC formalities. Thereafter, a member can save any amount at any time from anywhere, using any regulated payment instrument including a mobile wallet. The Fahari product is fully flexible and allows people to save in line with their own income flows and capacity, with zero penalties for missed contributions. A person can also set up an automated contributions indexation to ensure that the real value of contributions is not eroded with inflation over time. Subscribers have easy, transparent access to their account statements and contribution histories.

As over 12 million persons in Kenya are already using WhatsApp, we enabled a simple chat-based WhatsApp interface for account activation and anytime access to services using the pinBox-WhatsApp platform.

In line with existing regulations, and to gradually cultivate the habit of savings, Fahari provides liquidity on long-term savings. Interestingly, as members are confident of being able to easily access their savings at any time, the incidence of actual withdrawals has been very low, and the Scheme has achieved a persistency of roughly XX% since it was introduced. Importantly also, while the Scheme permits tiny contributions, Fahari has achieved average voluntary monthly savings of KShs YY since its launch. Based on feedback from existing and potential subscribers, Zamara aims to add more savings "buckets" within a consolidated Fahari account. This will allow members to save separately for different needs such as emergencies, health or children's education, without the need to dip into their retirement corpus.

Another key feature of the Fahari product and platform is its ability to embed and provide insurance riders. At this point, Fahari includes an embedded last rites Insurance cover, that pays out funeral expenses to the nominee if the subscriber passes away. Using a group insurance cover, Zamara has been able to achieve a low annual premium of between USD1 and USD4 for a cover of between USD250 to USD1,000 respectively. This automatic last expense insurance cover has received an enthusiastic response from micro-pension subscribers and has been an important driver for voluntary enrolments.

In the next phase, Zamara is looking to embed a micro-credit product for emergencies, along with health and other non-life insurance products into the Fahari Retirement Plan. Subject to necessary regulatory approvals, Fahari could then serve as an effective and simple lifecycle micro-financial services solution that allows members to simultaneously fulfil a range lifecycle needs and mitigate the financial impact of several unforeseen risks.

4.5.3. Specialised Digital Micro-pension Platform

It was clear that the existing mandatory pension arrangements or the traditional agent or tax-incentives led sales and distribution models in use for salaried workers would either be unaffordable or ineffective in targeting low-income self-employed individuals spread across the country. We needed a simple, easy, and low-cost digital distribution and service delivery model. We needed a secure and cost-efficient way to aggregate and manage small-ticket savings, collect tiny intermittent contributions, and provide anytime-anywhere access to information and services without forcing members to find physical service outlets.

It was also obvious that our existing, employer-based pension administration platform and processes were not suitable for dealing with self-employed individuals. Instead of attempting to build a new micro-pension administration platform from scratch, we simply partnered with pinBox Solutions, a Singapore-based pensionTech firm, that already had a field-tested, white-labelled micro-pension administration and delivery platform. Within a few weeks, pinBox customised its pensionTech platform in line with Fahari's product rules. pinBox used secure APIs to integrate its pensionTech platform with the existing digital financial inclusion ecosystem and Zamara partners including the Kenyan national ID agency, digital payment gateways and mobile payment platforms (such as Mpesa and Airtel Money), custody bank, insurer, and asset manager. This created a simple and low-cost single-window interface for account activation and services and enabled easy and convenient direct retail access to the well-regulated Fahari Retirement Plan from anywhere in Kenya. Our retail distribution partners such as cooperatives, micro-finance institutions and Jua Kali worker associations could use this platform to provide simple micro-pension and insurance solutions to their clients and members.

By using the specialised pinBox micro-pension administration platform, and by leveraging the existing digital finance ecosystem and outreach infrastructure, Zamara was able to create a well-governed national-level digital micro-pension and micro-insurance “marketplace” architecture and model that can now be used for delivering a range of affordable and secure financial solutions to excluded and vulnerable segments. This approach allows Zamara to better fulfil its social and business objectives with Fahari, and simultaneously achieve the following important outcomes.

a. Centrally issue and administer fully portable individual DC pension accounts mapped to each citizen’s National ID number;

b. Provide members easy, anytime-anywhere access to secure, convenient, and affordable services. Enable paperless account activation, digital micro-payments (using mobile wallets or other regulated payment instruments), seamless withdrawals of liquid savings, easy access to statements and account information, and a simple mechanism for complaints filing and resolution;

c. Provide high, uniform service quality while having full control in monitoring scheme information and MIS, data formats, turn-around-time (TATs) and service provider actions and compliance;

d. Enable secure and low-cost digital payments for contributions collection and benefit payouts. Subscribers are able to use any regulated payment instrument including mobile wallets to transfer their periodic savings directly into their own Fahari accounts without any risk of fraud or reconciliation errors;

e. Prompt voluntary savings persistency. Monitor the value and regularity of contributions by individual subscribers and automatically generate periodic statements, reminders and contribution demands to minimize dormant or orphaned accounts;

f. Achieve real-time process, TAT and SLA compliance monitoring and reporting. Undertake real-time electronic transactions reconciliation and processing with the scheme fund manager, insurance partners, retail service providers and payment service partners;

g. Obtain MIS using customised dashboards, with real-time and on-demand reports on various aspects of the scheme to enable ongoing implementation monitoring and evaluation;

h. Establish a national helpline for ongoing services and subscriber protection. The Fahari helpline serves as a simple and direct, two-way link between Zamara and individual subscribers for queries or complaints. The helpline also conducts periodic tele-surveys among subscribers to verify their knowledge of, and satisfaction with the Fahari scheme.

4.5.4. Marketing and Distribution

Financial literacy has an important bearing on both pension and financial inclusion and the ability of individuals to make informed choices and financial decisions. Zamara adopted a two-pronged approach to creating more generic awareness about the urgency and importance of saving for old age, and in publicising the Fahari Retirement Plan.

One the one hand, we spent considerable own resources on mainstream promotions and publicity using billboards, newspaper advertisements and mass-media campaigns including radio talk shows. We also worked closely with our partner, pinBox Solutions, to co-create field-tested retirement literacy and training tools to optimize voluntary coverage and savings persistency by informal sector workers across urban and rural locations in Kenya.

In parallel, we partnered with other leading financial institutions who were similarly aligned to financial inclusion. We also collaborated with several informal sector Jua Kali associations representing different occupational segments, as also with cooperative societies, SACCOs, women's groups and other community-based networks. These networks provide a convenient and efficient way to reach the informal sector workers allowing access of pension and financial solutions. For example, Zamara's partnership with the Kenya National Federation of Jua Kali Association, allowed us to engage the Jua Kali sector on financial and pension literacy matters with much greater ease.

More recently, we have begun engaging with several multilateral and bilateral development agencies on our financial literacy efforts. Some of these development agencies are now actively seeking to partner with Zamara and contribute to a targeted financial literacy and outreach effort to help expand awareness and prompt mass-scale voluntary retirement savings and insurance uptake.

We have also had some (limited) success with third-party distribution models that involved appointing bank and MNO agents to promote the Fahari Retirement Plan. These agent networks can play an important role in reaching and educating target subscribers, while providing us valuable market feedback and insights. Leveraging existing, third-party agent networks also reduces distribution costs as agents simply use their mobiles or tablets to cross-sell the micro-pension proposition to their existing clients and achieve additional fee income without any investments in new technology. In this regard, Zamara has recently partnered with a leading retail bank and trained and onboarded roughly 10,000 agents to cross-sell the Fahari Retirement Plan.

4.6 Kenya's Hustler (Financial Inclusion) Fund

The President of Kenya launched the Hustler (Financial Inclusion) Fund on 30 November 2022 as a key plank of the Government's policy efforts to provide easy access to affordable credit to the millions of Kenyans in the informal sector.

A key component of the Hustler Fund is a savings scheme that allows both short- and long-term savings. This is aimed at enabling individuals to simultaneously build a long-term retirement corpus while helping them to meet their shorter-term needs and goals.

As an innovative feature, five percent (5%) of each loan provided under the Hustler Fund is transferred to a savings account of the individual. Seventy percent of this amount is allocated to long-term retirement saving, while the remaining thirty percent flows to a liquid savings account. Individuals are permitted to voluntarily save additionally in this Scheme.

Importantly, individuals who save for their retirement under the Hustler (Financial Inclusion) Fund are also eligible for an attractive fiscal incentive where the government will co-contribute 50% of an individual's long-term savings, up to a ceiling of KShs 6000 per year. The Savings Scheme is subject to regulatory oversight by the Retirement Benefits Authority.

A savings scheme that is linked to both credit and fiscal incentives is a very strong and unique value proposition, especially in the Kenyan context with a large base of individuals with modest, sporadic incomes.

Although the Scheme is still young, the Hustler Fund has achieved remarkable early traction and is clearly a laudable milestone for the Government of Kenya and its aim to provide an enabling environment for broad-based financial inclusion. Within the first four months, over 17 million individuals voluntarily enrolled themselves under the Hustler (Financial Inclusion) Fund to instantly access both low-cost credit and to start building a savings portfolio. Based on the early overwhelming response, the government may reposition the Hustler (Financial Inclusion) Fund as a “savings led credit scheme” rather than a “credit led savings scheme”. Appropriate strategies are being put in place to actively promote both voluntary savings, and the fiscal incentives that the Government is committed to provide.

5. CONCLUSIONS

Today, several countries across Africa are beginning to explore innovative ideas and strategies for encouraging and enabling voluntary retirement savings by informal sector workers. This is especially critical given that more than 85 percent of Africa’s workforce are non-salaried and hence not eligible for pension benefits, and also since over 80 percent of all new jobs are being created in the informal sector.

Several countries are therefore looking to reform existing pension and social protection systems, with the motivations for reform ranging from increasing coverage, addressing fiscal pressures of unfunded or poorly funded national state and public service schemes, building long-term domestic savings, addressing governance and compliance challenges, and creating pension systems that more effectively meet the evolving needs of their citizens.

Kenya has implemented several reforms to its pensions system, particularly the introduction of a robust regulatory framework, reform of its national state scheme that enhances the adequacy of benefits for the formal sector workforce whilst preserving the vibrant voluntary private pensions system through a unique contracting out mechanism and reform of its unfunded public service scheme. More recently, the Government of Kenya has introduced new initiatives for financial inclusion by offering affordable credit and encouraging voluntary savings through a unique “Hustler” financial inclusion initiative. Kenya has rich experience in experimenting with various initiatives, both public and private, to extend pensions coverage to the informal sector. Some of the learnings from Kenya’s efforts on building more inclusive pension systems may be directly relevant and applicable to other nations in Africa.

As a continent, we will certainly face many obstacles and challenges in achieving more comprehensive pension coverage. This should not deter us from moving forward with urgency. It is patently clear that a dramatic effort and shift in thinking is required to achieve the outcomes we seek. We must collectively think more creatively about how to achieve our goal. Everyone on the continent stands to benefit if we get this right. And everyone could stand to lose if we delay or fail to tackle this challenge within the rapidly narrowing window of our demographic opportunity.