Rwf 23.2 billion[1] saved into informal sector pension scheme – Extending pension coverage to the informal sector in Rwanda

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Abstract / Summary

Rwanda is a young country with nearly half of its population under the age of 15 years and three in every 4 Rwandans aged less than 30 years. However, its elderly population (60+) is growing much faster than the general population and is expected to double from 511,738[3] in 2012 to nearly 1,100,000 individuals (or around 7% of the projected population) in the next 15 years due reducing fertility rates and improvements in life expectancy.

Approximately 10% of Rwanda's workforce, largely public and private sector salaried employees, are covered by the mandatory, defined benefit (DB) pension program administered by the Rwanda Social Security Board (RSSB). The remaining 90% of the working population are excluded from formal pension and social security arrangements. The majority of them are less than 35 years old and roughly 80% of them are farmers.

As in most other developing countries, the traditional reliance of the elderly in Rwanda on children and extended families for old-age income support is rapidly being eroded by labour mobility and economic hardship. As a result, and also due to a huge pension and social security coverage gap, a majority of Rwandans are increasingly constrained to rely on their own lifetime savings to sustain themselves in their old age. However, with rapid improvements in life expectancy, most citizens will need to accumulate enough savings while they are young to last them for nearly 20 years beyond their working years. This may be a significant challenge given that most excluded informal sector workers face modest, irregular incomes and may be able to afford only modest pension savings. However, modern finance can play an important role in converting even modest, intermittent savings into a meaningful annuity.

Against this backdrop, and in line with its stated priorities for financial inclusion, poverty alleviation, comprehensive social security coverage as well as financial sector development, the Government of Rwanda (GoR) has launched a fully funded Long-Term Saving Scheme (LTSS), called "EjoHeza" during the 16th National Dialogue - Umushyikirano - in December 2018. It is a defined contribution scheme, established on a voluntary basis by opening a savings account with a scheme administrator – Rwanda Social Security Board (RSSB). The scheme targets both permanent and temporary employees and covers both formal and informal sector employees - those working in the formal sector currently are typically not covered well (in many cases not at all) by the existing mandatory pension scheme. The EjoHeza scheme is designed taking into account the distinct characteristics of the informal sector such as lack of an established employer-employee arrangement, irregular and relatively low earnings, need for access to savings before retirement and ease of paying contributions.

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[1] As on 31st December 2021 (Source: Central Bank of Rwanda)

[2] Ayandev has 15+ years of design and implementation experience in pension, life, health and agriculture insurance scheme(s) across Afro - Asia region. He has led several World Bank, ADB and donor funded projects and advised governments, regulators, associations and insurers on social security schemes, regulations and strategies for building mass markets. He has worked extensively in areas of product development, relationship management and facilitating tie-ups with partners and donors to provide insurance and pension solutions to the low-income households. Ayandev has served as the Strategic Advisor - Financial Sector Development Directorate in the Ministry of Finance and Economic Planning, Government of Rwanda.

[3] Republic of Rwanda, NISR, Fourth Population and Housing Census 2012, Thematic Report, Socio-Economic Status of Older people, January 2014

The objective of EjoHeza is to bridge the existing pension coverage gap and ensure that all Rwandans have access to an affordable pension scheme and be able to save and secure a dignified retirement life. There are also a number of secondary policy goals that the EjoHeza design seeks to satisfy. These include the following:

- **reducing fiscal obligations -** The EjoHeza may help reduce potential future budgetary pressure on the government by increasing the self-provision of pension and reducing the fiscal strain on social safety net programs, while not replacing them;
- **increasing access to and participation in the financial sector -** The EjoHeza may introduce unbanked individuals and those unfamiliar with formal investment products to the workings of the capital markets, financial institutions, and financial products;
- **deepening, and providing a source of stable capital to, the financial markets -** The EjoHeza may contribute to economic growth by increasing aggregate long- term savings and thus provide greater depth and liquidity in Rwandan financial markets and stimulate the development of financial institutions

"EjoHeza" is based on national-ID linked, digital individual accounts. It is a voluntary defined contribution scheme. The scheme allows for flexibility in level and frequency of contributions, and leverages the digital infrastructure that Rwanda has in place. People can save as much as they want in the desired frequency. EjoHeza also harnesses digital technology in registration and contribution collection. Contributors' savings are kept in individual accounts and grow through investments in various avenues undertaken by RSSB. Government provides matching contributions for the poor and vulnerable so that they can also participate in the scheme. Those who are eligible for matching contributions are identified through the mechanism established under the safety net system. EjoHeza works closely with communities and informal sector associations to promote participation and savings. The GoR has used the existing institutional capacity for funds management, payments, nationwide distribution/ access and insurance as a way to achieve system stability, reduce the time-to-market for the pension program, lower operational risks and also achieve lower costs for intermediaries in delivering the pension scheme to citizens.

EjoHeza allows for partial access to funds – up to 40 percent of the savings over four (4) million RWF. Individuals can access these savings before the retirement age to address short to medium term liquidity needs during work life. EjoHeza therefore balances the long-term savings scheme goal with liquidity needs of informal sector, by necessitating a minimum of four (4) million RWF before withdrawals can be made. This balance is important as informal sector typically will have liquidity needs in the short term. However, it is important to note, that this partial access to savings has to be structured around carefully crafted rules for an efficient administration or else transaction costs of processing withdrawals can be high. The partial access to funds is restricted to financing education and housing expenses, as these were found to be among the main challenges of the informal sector in Rwanda.

One of the biggest aims of setting up the scheme was to realize an equitable, secure, stable long-term savings scheme for the informal sector workers who are the majority of the workforce (90%) in Rwanda. Considerable progress has been made since the launch of the scheme. As on 31st December 2021 over 1.42 million members have saved in excess of RWF 23.2 billion under EjoHeza LTSS. Majority of the membership and overall accumulated balances is from the informal sector which is very much aligned to the broader policy and scheme objectives. Some of the key determinants / enablers in achieving significant scale in the first three years of the scheme are as follows;

- **Unique model and non-linear cost structure -** EjoHeza is a centrally administered pension/ saving program linked to national IDs and digital individual accounts. Any citizen can use a simple feature phone and a USSD facility to easily open a portable pension account. In short, an individual will be able to voluntarily activate this digital account using simple mobile phone/ computer within a few minutes and without elaborate KYC or documentation requirements.

- **Awareness and mobilization** – a multi-pronged mobilization approach that included village level community meetings, radio programs and the involvement of local leaders in educating people about the informal sector pension scheme through community meetings such as "Umuganda[4]" played an important part in the overall sensitization process;

- **Fiscal incentive package** (includes co-contribution and insurance) are based on the principles of equity (where a fiscal benefit is equally available to all citizens of Rwanda), as well as transparent and objective targeting and eligibility criteria; in addition to incentives aimed at achieving early, mass-scale voluntary enrolments it will encourage persistent retirement savings behaviour over time;

- EjoHeza performance is part of **Imhigo** (also known as performance contracts, signed between the President, local governments, and line ministries to achieve community targets) - EjoHeza Scheme was included in the Government officials' indicators as part of performance management for all Government officials from national level to the district level; this created ownership and enabled the scheme to receive vibrant support from the senior Government officials at the lowest administrative level;

- Government invested in the design and setting up the **Central Administration IT platform** – it was designed in-house which helped to achieve the key policy objectives of the universal pension scheme i.e., seamless account portability, individual choice, targeted fiscal incentives, optimum benefits, low transactions costs, high governance standards and automated process compliance etc.

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[4] Umuganda is a national holiday in Rwanda taking place on the last Saturday of every month for mandatory nationwide community work from 08:00 to 11:00. Participation in Umuganda is required by law, and failure to participate can result in a fine.

Initiatives to expand pension coverage to informal sector workers in Rwanda

Rwanda is a young country with nearly half of its population under the age of 15 years and three in every 4 Rwandans aged less than 30 years. However, its elderly population (60+) is growing much faster than the general population and is expected to double from 511,738[5] in 2012 to nearly 1,100,000 individuals (or around 7% of the projected population) in the next 15 years due reducing fertility rates and improvements in life expectancy.

Approximately 10% of Rwanda's workforce, largely public and private sector salaried employees, are covered by the mandatory, defined benefit (DB) pension program administered by the Rwanda Social Security Board (RSSB). The remaining 90% of the working population are excluded from formal pension and social security arrangements. The majority of them are less than 35 years old and roughly 80% of them are farmers.

As in most other developing countries, the traditional reliance of the elderly in Rwanda on children and extended families for old-age income support is rapidly being eroded by labour mobility and economic hardship. As a result, and also due to a huge pension and social security coverage gap, a majority of Rwandans are increasingly constrained to rely on their own lifetime savings to sustain themselves in their old age. However, with rapid improvements in life expectancy, most citizens will need to accumulate enough savings while they are young to last them for nearly 20 years beyond their working years. This may be a significant challenge given that most excluded informal sector workers face modest, irregular incomes and may be able to afford only modest pension savings.

Not only overall saving rate is low, but also most of savings are short to medium term - Modern finance can play an important role in converting even modest, intermittent savings into a meaningful annuity. However, most informal sector workers have limited access to and experience with long term financial savings. The ability of excluded citizens to set aside meaningful long-term savings for old age is further constrained by insignificant utilization of life and non-life insurance products that could provide financial relief against a range of insurable risks. As a result of extremely low insurance penetration, a lion's share of household savings is usually kept in cash or other liquid short – term informal saving arrangements in order to meet the cost of emergencies that could otherwise be met at a much lower cost through insurance products. Clearly, without an urgent and effective policy response to broad-based pension and insurance exclusion, poverty among the elderly may emerge as a dominant cause for increased poverty in Rwanda.

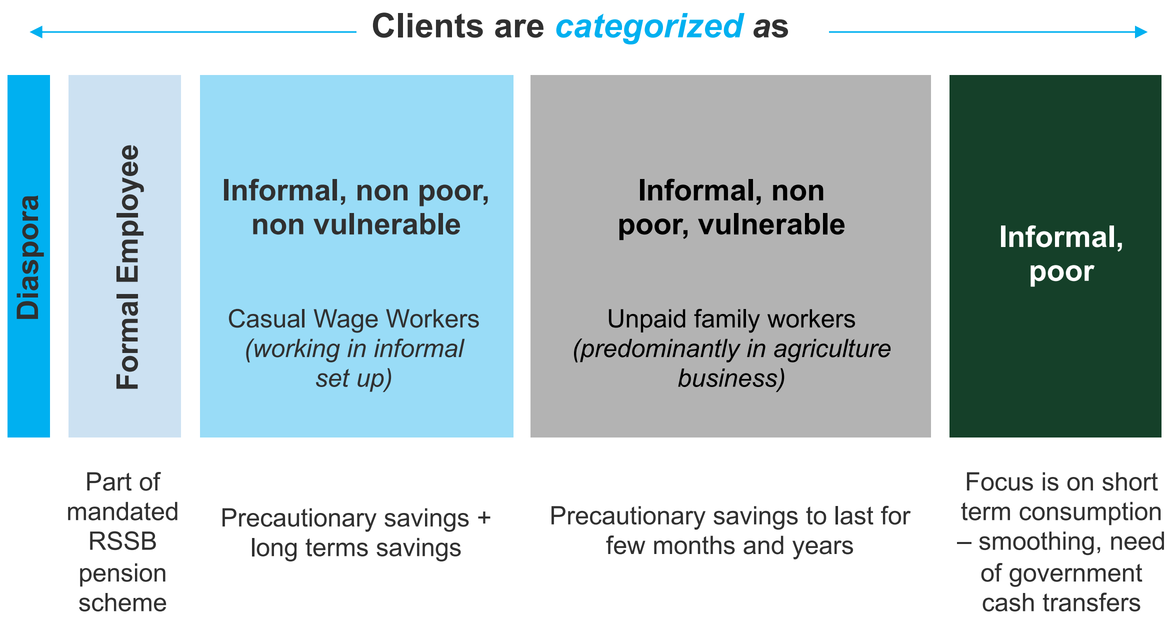
On the flip side, 90% excluded workforce presents a huge latent market for private pensions and insurance markets. The potential aggregate long-term savings from this population could also help generate a significant corpus for economic and infrastructure development. This latent demand should therefore be of business interest to banks, fund managers, insurers, SACCOs, MFIs, cooperatives, MNOs and other institutions who could play a key role in creating a mass market for retirement savings and in delivering pension and insurance products to excluded workers.

Setting up a sustainable and scalable pension program would entail the establishment of an appropriate regulatory, institutional and administrative framework through which individual citizens will be able to accumulate long-term micro-savings for their old age in a secure, convenient, affordable and well regulated environment. The Government expects that broad-based participation in a well-

[5] Republic of Rwanda, NISR, Fourth Population and Housing Census 2012, Thematic Report, Socio-Economic Status of Older people, January 2014

functioning pensions market, supported by an efficiently priced insurance market, will 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 labour mobility through fully vested portable pension accounts.

Against this backdrop, and in line with its stated priorities for financial inclusion, poverty alleviation, comprehensive social security coverage as well as financial sector development, the Government of Rwanda (GoR) has launched a fully funded Long-Term Saving Scheme (LTSS), called "EjoHeza" during the 16th National Dialogue - Umushyikirano - in December 2018. It is a defined contribution scheme, established on a voluntary basis by opening a savings account with a scheme administrator – Rwanda Social Security Board (RSSB). The scheme targets both permanent and temporary employees and covers both formal and informal sector employees - those working in the formal sector currently are typically not covered well (in many cases not at all) by the existing mandatory pension scheme. The EjoHeza scheme is designed taking into account the distinct characteristics of the informal sector such as lack of an established employer-employee arrangement, irregular and relatively low earnings, need for access to savings before retirement and ease of paying contributions.



"EjoHeza" is based on national-ID linked, digital individual accounts. It provides attractive fiscal incentives including matching co-contributions and free term insurance cover for the first three years to motivate voluntary participation and persistency. The objective of the scheme is to bridge the existing pension coverage gap and ensure that all Rwandans have access to affordable pension plan and be able to secure a dignified retirement. The objectives will be achieved with the following characteristics:

a. Self-sufficient and sustainable;
b. Universally accessible, especially to the informal sector workers on a voluntary basis;
c. Affordable, efficient and available throughout the country;
d. Equitable, pro-labour and pro-poor; and
e. Well-regulated in an appropriate enabling environment

By providing long-term saving opportunities, EjoHeza LTSS seeks to improve the income security of the elderly. There are also a number of secondary policy goals that the EjoHeza design seeks to satisfy. These include the following:

- reducing fiscal obligations - The EjoHeza LTSS may help reduce potential future budgetary pressures on the government by increasing the self-provision of pension and reducing the fiscal strain on social safety net programs, while not replacing them.
- increasing access to and participation in the financial sector - The EjoHeza LTSS may introduce unbanked individuals and those unfamiliar with formal investment products to the workings of the capital markets, financial institutions, and financial products.
- deepening, and providing a source of stable capital to, the financial markets - The EjoHeza LTSS may contribute to economic growth by increasing aggregate long- term savings and thus provide greater depth and liquidity in Rwandan financial markets and stimulate the development of financial institutions.

The initial design in terms of benefits / fiscal incentives and overall implementation framework/ interventions are guided by the following priorities:

- to achieve early, inclusive, and mass-scale voluntary enrolments in the EjoHeza LTSS scheme, cutting across occupations, geography, and incomes and especially among the vulnerable low-income informal sector workers in Rwanda;
- to achieve a stable, secure, and efficient grassroots-level transactional and administrative environment under which modest, periodic old-age savings of the individual members are collected and transferred to RSSB and regulated fund managers;
- to deliver identical rights and choices and easy access to standard high - quality services to every citizen and especially to the poor; and
- to encourage adequate contribution levels and sustained savings discipline amongst the EjoHeza LTSS subscribers.

The characteristics of informal sector workers

Most studies on the informal sector find that the informal sector workforce differs from the formal sector workforce. Because of the distinct characteristics of the informal sector, formal sector pension schemes cannot respond to the needs of the informal sector. Even in countries in which the rate of informality is low, the coverage of the self-employed, self-employed farmers, agricultural workers, and other groups has been a challenge. The attempts of many governments worldwide to cover the self - employed by introducing presumptive income tranches to calculate contributions and pensions as if the workers were under a wage employment contract (with themselves as the employer) have not been successful. Understanding the characteristics of the informal sector is therefore important in designing pension schemes that will respond to the needs of these groups. Government of Rwanda with the support of Access to Finance Rwanda (currently funded by FCDO, USAID, MasterCard Foundation, and SIDA) hired a consulting firm to conduct feasibility study on pension scheme for the informal sector and determine the demand and supply side constraints/ challenges. Rwanda counts over 75% of workers in informal sector, this means that three in four are employed informally either in formal or informal sector.

The informal sector is heterogeneous - The characteristics of informal sector workers are diverse. The sector employs a wide range of individuals, ranging from wage earners and the self-employed to domestic workers, although self-employment is a predominant characteristic. Small farmers, street vendors, small traders, porters, casual laborers, and artisans are all part of the informal sector.

Informal sector workers experience very varied income flows — ranging for daily wages (small shop owner; motto drivers) to weekly earnings to monthly incomes (domestic help) to seasonal incomes (farmers). Not all workers in the informal sector are poor. Indeed, some informal sector workers are able to save.

Informal sector workers may not have regular incomes or savings - The informal sector is typically characterized by lower incomes relative to the formal sector. Moreover, earnings among the self-employed, who account for a majority of the actors in the informal sector, are typically irregular and often unpredictable, meaning that financial planning is a challenge. The wage- employed in the informal sector typically have low incomes, and their employment is irregular, meaning that their incomes are also irregular. Thus, seasonal workers in the agricultural sector who are employed during a certain part of the year must rely, during the rest of the year, on the earnings thus gained. The same is true of farmers and their families who rely on the cultivation of their own land to generate income. They experience poor cash flow during the growing season and relatively large incomes following the harvest.

Informal workers are more susceptible to short-term shocks and frequent migration across jobs and locations - participants in the informal sector are more vulnerable to shocks because of their generally lower incomes, lack of social protection, and limited savings available for coping. Health-related problems such as occasional, chronic, or terminal illness, unexpected disability, or death may have a significant impact on the lives of informal sector households, leading to reduced food expenditures or the obligation to tap into savings if these are available. In the absence of access to formal social protection, formal financial institutions, and savings and physical assets that can be used as collateral, participants in the informal sector may not be able to implement common coping strategies. As a result, informal sector participants may turn to informal sources, including friends, relatives, or moneylenders. The lack of access to financing and credit leads to loans at higher interest rates, compromising future incomes with irreversible consequences. Self-employed workers face frequent migration and changes in jobs and locations and hence, will need easy access and a simple, secure and low cost way to open a pension account, directly transfer periodic savings to regulated pension funds and conveniently obtain information and services without any risk of fraud or errors.

Individuals in the informal sector are difficult to reach - Informality is both an urban and rural phenomenon. In rural areas, most employment is in agriculture, which is characterized by informality. People in the agricultural sector may also be involved in non-agricultural activities to complement their earnings. In rural areas, outreach is a major challenge for service and social safety net providers. In the urban informal sector, while formal services are close to workers, outreach may still be complicated because individuals may not have stable jobs, may change jobs and locations frequently, and may lack appropriate documentation.

Informal sector workers are organized - A large number of informal sector workers are members of worker associations. While such institutions vary across countries, they are typically organized around particular trades or activities to protect the rights of informal sector workers, provide training to members to improve their productivity, and help in finding financing, typically from microfinance institutions (MFIs). Rwanda Cooperative Agency has invested more in cooperative movement which led to increase in number of cooperatives and it was revealed cooperatives are vital role in social economic development of the country, whereby cooperatives have increased from 919 cooperatives (2005) to 10,103 (April 2020) with more than 5.2 million members. The agriculture sector covers 52% of registered cooperatives, services 17%, industrial sector 9% and 22% is allocated to other sectors including mining, trading, housing, etc.

Low public confidence and experience with formal finance - A majority of the informal sector workforce have negligible experience with formal finance and will likely have low knowledge of, and confidence in mainstream pension and insurance providers. The administrative arrangements and operating architecture of the digital pension scheme should therefore allow easy scheme access through credible and well-trusted aggregators, community-based organizations and NGOs. The Administrator of the pension scheme will therefore need to develop standard communication, training and financial literacy tools and to launch a targeted promotions, publicity and retirement literacy campaign to popularize the proposed digital micro-pension program and to reiterate the important of thrift and self-help for a secure and dignified old age.

Scheme rules and benefits

Any Rwandan citizen with a national ID issued by NIDA and any foreigner residing in Rwanda has the right to voluntarily open an Ejo Heza account. Members of the RSSB Pension Scheme or other voluntary schemes can also subscribe as a member to the long term savings scheme to save additionally for their old age. It is intended to provide individuals outside the formal sector with an easy, low-cost mechanism to voluntarily accumulate and invest savings intended to provide a pension. Although the government's main policy focus in developing the scheme is to provide those uncovered by other extant pension schemes with a way to accumulate pension savings, the scheme is open to any Rwanda citizen including diaspora, who chooses to open an EjoHeza LTSS account either online or through a designated outreach partner. In other words, the target clients for the EjoHeza LTSS Scheme would range from mass market and mass affluent all the way to the high net worth. It is aimed at any clients wishing to save for old age in a pension scheme that may not start until reaching age 55.

Product Summary: Ejo Heza Scheme – Long Term Saving Scheme (LTSS)

- Established 2017, with RSSB as the Administrator
- Enrolment for all Rwandans, and foreigners in Rwanda (+underage). Contributions are voluntary in a savings account linked to National ID, and depend on their capacity and frequency of earning
- National ID linked with matching co-contribution
- The amount for the pension will depend personal saving and the investment returns
- Government co-contribution and life insurance are based on eligibility conditions

Categories	Subscribers' Eligibility minimum amount/year	Government co-contribution ceiling (3 years)	Life insurance cash benefit to the family in case of death	Insurance Funeral expense cover
Category 1 & 2	RwF 15,000	RwF 18,000	RwF 1,000,000	RwF 250,000
Category 3	RwF 18,000	RwF 18,000	RwF 1,000,000	RwF 250,000
Category 4	RwF 72,000	-	RwF 1,000,000	RwF 250,000

- Users can access up to 40% of the savings for housing, education or to serve as collateral for loans, and 25% for liquidity

Beneficiaries of long- term savings scheme accounts:

- a self-employed person working in the informal sector wishing to make long-term savings;
- a worker operating in the informal sector wishing to make long-term savings;
- a salaried person wishing to make long-term savings regardless of his/her status as member of any other social security scheme;
- a person whose active membership has ceased in a social security scheme but still receiving an amount of money under the laws regulating that scheme, and transfers such money to a long-term savings account;
- a child below the age of sixteen (16) years who is a beneficiary of a long-term savings scheme account opened by his/her parent or guardian

Benefits due to the member are provided under any of the following conditions:

- at the age of at least fifty- five (55) years;
- his/her death;
- disability which leads to his/her loss of membership;
- definitive departure from the territory of Rwanda for a non-national;
- personal choice of a member to withdraw a percentage of his/her savings for acquiring a home or paying for education;
- personal choice of a member to use a percentage of his/her savings as a loan security;
- any other case that may be determined by the regulator

Concepts such as retirement, pension and insurance may not resonate easily among a majority of the self-employed, non-salaried workforce. Left to themselves therefore, most citizens, and especially the younger population, may choose to not activate their pension accounts as current consumption will appear more attractive to most. In this situation, fiscal incentives/ benefits will aim at achieving early, mass-scale voluntary enrolments (especially by younger workers), top-up pension contributions (especially of the more vulnerable, lower income segments) and encourage persistent retirement savings behaviour over time. Using fiscal incentives and a well-coordinated national retirement literacy effort, the Government aimed to motivate younger workers and especially those aged less than 25 years to join the program. Specific conditions for availing the benefits are illustrated below. The Ministerial Order determining Government fiscal incentives (in terms of co-contribution and insurance) for the Long Term Saving Scheme and the administration of those benefits are as given below:

Government Co-Contribution - The Government's contribution in the long - term savings scheme in favour of a member is granted as follows:

- a member who is in the first or second category of Ubudehe[6] and has saved at least fifteen thousand (15,000) Rwandan francs has the right to a Government contribution equal to one hundred percent (100%) of his or her savings;
- 2° a member who is in the third category of Ubudehe and has saved at least eighteen thousand (18,000) Rwandan francs has right to a Government contribution equal to fifty percent (50%) of his or her savings.

[6] Ubudehe is a social stratification programme depending on income among households. Currently, Rwandans have been classified under four categories with the first category designated for the poorest people in society while the fourth category is for the wealthiest members of society.

However, the Government's contribution to long term savings scheme which is granted once can never exceed eighteen thousand (18,000) Rwandan francs. The Government's contribution to long term savings scheme is granted as many times as the member meets the eligibility conditions in periods of twelve (12) months in the period of eligibility to Government contribution. An account for the long-term savings scheme opened for a child under sixteen (16) years automatically opens his or her eligibility to the Government contribution according to the category of Ubudehe of the person in charge of the child.

The conditions for eligibility of a member for Government's contribution to the long-term savings scheme are as follows:

- to have an identity card issued by the national institution in charge of population registration;
- have paid the minimum contribution to the long- term savings scheme as mentioned above
- have contributed to the long-term savings scheme not later than the first thirty-six (36) months following the date of launch of the long-term savings scheme (as the incentive is initially planned for first thirty six months)

The Government contribution is paid to the eligible member's account within three (3) months following the recording of members who meet requirements.

Life Insurance for a member – The Government takes out life insurance for a member who has saved in a period not exceeding twelve (12) consecutive months rolling from the first anniversary date, as follows:

- a member who is in the first or second category of Ubudehe and has saved at least fifteen thousand (15,000) Rwandan francs;
- a member who is in the third category of Ubudehe and has saved at least eighteen thousand (18,000) Rwandan francs;
- a member who is in fourth category of Ubudehe and has saved at least seventy-two thousand (72,000) Rwandan francs.

The conditions for one to be eligible for life insurance benefit subscribed by the Government must fulfil the following conditions

- be at least sixteen (16) years old;
- hold the identity card issued by the national institution in charge population registration.

Based on life insurance policy of a member, the insurer grants to legatees or heirs of the member benefits as follows:

- one million (1,000,000) Rwandan francs, as death allowance;
- two hundred fifty thousand (250,000) Rwandan francs, as funeral expenses

The Government-guaranteed life insurance benefits are granted to the legatees or to the heirs of the member through a bank or electronic payment account within seven (7) days of receipt of required documents of legatees or heirs by the administrator.

a. **Modalities of granting benefits to a member aged at least fifty-five (55) years** - Where the amount saved by a member aged at least fifty - five (55) years and related interest amount to or have exceeded four million (4,000,000) Rwandan francs, the member is entitled to an allowance equal to twenty-five percent (25%) of the total amount. The remaining amount is paid monthly over a period of twenty (20) years. The monthly allowance is indexed to inflation. Where the amount saved by a member aged at least fifty-five (55) years and related interest are less than four million (4,000,000) Rwandan francs, the member may opt for a lump-sum allowance equal to the full accumulated savings plus interest or instalment payments of his or her choice.

b. **Modalities of granting benefits to a member with disability or illness** - A member who becomes permanently disabled or suffers from a terminal illness before or at the age of fifty-five (55) years may opt for a lump - sum allowance of the full accumulated savings and related interest or instalment payments of his or her choice. A member aged fifty-five (55) years and above who becomes permanently disabled or suffers from a terminal illness may choose to get a lump-sum allowance equal to the full accumulated savings and interest. The permanent disability or the terminal illness are certified by a qualified medical doctor.

c. **Modalities of granting benefits as loan guarantee** - A member is allowed to give forty percent (40%) of his or her savings and related interests as a loan security, provided that the remaining amount is not less than four million (4,000,000) Rwandan Francs.

d. **Modalities of granting benefits to a member for housing or education** - A member is entitled to a lump-sum allowance equivalent to forty percent (40%) of his or her accumulated savings and related interest for housing or education, provided that the remaining amount is not less than four million (4,000,000) Rwandan Francs. The lump-sum allowance for housing or education is allocated once in five (5) years and cannot be granted alongside the loan security mentioned above.

Once activated, a personal pension account will remain in force for the lifetime of the subscriber. This will apply whether the subscriber maintains a regular contributions pattern or not. All contributions (including government or employer co-contributions) into an individual subscriber's pension account shall vest in the subscriber in perpetuity immediately such contributions or co-contributions are credited to the subscriber's pension account. The scheme will seek to deliver an optimum retirement income to citizens and will therefore prescribe a minimum desirable contribution level for persons in each Ubudehe category. Each subscriber will however be free to choose the amount and frequency of her contributions and the pension scheme shall be flexible vis-a-vis both savings value and periodicity so as to allow each salaried and non-salaried informal sector subscriber to make contributions in line with her/his own income and cash-flows. Subscribers will be able to change their contribution commitments over time.

Scheme Architecture

The Government of Rwanda has used the existing institutional capacity for funds management, payments, nationwide distribution/ access and insurance as a way to achieve system stability, reduce the time-to-market for the pension program, lower operational risks and also achieve lower costs for intermediaries in delivering the pension scheme to citizens.

- **Administrator** - The Administrator of the long-term savings scheme is Rwanda Social Security Board (RSSB). This institution was established after the merger of Social Security Fund of Rwanda (SSFR) with Rwanda Health Insurance Fund (RAMA). The mandate of the institution is to administer social security in the country. The branches currently managed include; pension, occupational risks, health insurance and community based health insurance.

The benefits offered under the different branches are; old age, invalidity, survivorship, work injuries and work related diseases and health insurance benefits. RSSB as a financial institution is supervised by the National Bank of Rwanda according to the banking law N°55/2007 of 30/11/2007 where as its activities are overseen by the Ministry of Finance and Economic Planning (MINECOFIN).

- Responsibilities of the administrator – The administrator has the following responsibilities:
    - to direct, manage and control on a daily basis, administrative operations in accordance with relevant laws;
    - to ensure proper keeping of records related to the operations of the long-term savings scheme and information related to members;
    - to provide timely and accurate information to members in accordance with the provisions of this Law;
    - to put in place an electronic system for the management of the long-term savings scheme;
    - to submit quarterly and annual report to the Regulator;
    - to provide benefits to members;
    - to develop an investment programme of the long-term savings;
    - to establish modalities for the performance of the following activities related to the long-term savings scheme:
        - financial internal audit;
        - external auditor's duties;
        - duties of an actuary;
        - compliance with the existing planning

The Administrator has established a national HelpLine that serves as a convenient port for fielding subscriber complaints and information requests. The HelpLine also deliver periodic reminders on outstanding contributions and help verify field compliance, subscriber knowledge about the scheme at enrolment and the quality of services by pension program intermediaries. In this way, the HelpLine helps to improve subscriber confidence and savings outcome over time.

- **Investment / Fund Manager -** The Rwanda National Investment Trust Ltd (RNIT Ltd) is the current Investment / Fund Manager. The Rwanda National Investment Trust Ltd (RNIT Ltd) has been incorporated as an investment management company on 1st August 2013 and has been licensed by CMA on 7th July 2015. As a company whose 100 % shares are owned by the Government, RNIT Ltd has been established through a cabinet paper, to promote and manage funds including unit trusts with a view to encourage savings for investment in the capital market.

- Responsibilities of the investment manager – The investment manager has the following responsibilities:
    - to direct, manage and control investment programme operations in accordance with relevant laws;
    - to invest the assets in accordance with the long-term savings scheme investment programme;
    - to submit to the Regulator a quarterly and annual report on the long-term savings scheme investment;

Funds of the long-term savings scheme cannot be invested in the immovable assets or securities of the investment manager, administrator, custodian, or in a company of which they are majority shareholders. The long-term savings scheme performance is monitored every three (3) months by the Regulator against performance benchmarks specified in the investment programme.

- **Custodian** – KCB Bank Rwanda has been appointed as the custodian since inception of the scheme.

- Responsibilities of the custodian - The custodian has the following responsibilities:
    - to keep and control funds and any other items as may be determined by the contract with the administrator;
    - to receive and record members contributions collected within the timeframes specified by the custody agreement;
    - to transfer funds for investment to the investment manager upon request by the administrator;
    - to submit to the administrator and the Regulator a quarterly/ annual activity report;

- **Intermediaries/ facilitators** - Commercial banks, Umurenge SACCOs, cooperatives, mobile money and banking agents, NGOs, micro-finance institutions and other regulated entities that are capable of securely connecting electronically with the Administrator through the Internet are registered as Facilitators. Facilitators provide a range of services to subscribers including cross-selling the scheme to their existing clients, assisting their clients and citizens more generally with activating scheme accounts, collecting and transferring periodic contributions, effecting changes related to nominees and pension fund managers, registering complaints, providing periodic and on-demand account information and statements, providing information on fund performance, as well as collecting, verifying, digitizing and transferring insurance claim documents to the insurers. Subscribers are free to use any Facilitator for various transactions if they wish on the basis of convenience of location, lower charges or better services.

By harnessing existing institutional capacity, the government is able to avoid incurring high capital costs of implementing the pension scheme.

Early impact and key determinants for effectiveness of the scheme

One of the biggest aims of setting up the scheme was to realize an equitable, secure, stable long-term savings scheme for the informal sector workers who are the majority of the workforce (90%) in Rwanda. Considerable progress has been made since the launch of the scheme. As on 31st December 2021 over 1.42 million members have saved in excess of RWF 23.2 billion under EjoHeza LTSS. Majority of the membership and overall accumulated balances is from the informal sector which is very much aligned to the broader policy and scheme objectives. Some of the key determinants / enablers in achieving significant scale in the first three years of the scheme are as follows;

- **Unique model and non-linear cost structure -** EjoHeza is a centrally administered pension/ saving program linked to national IDs and digital individual accounts. Any citizen can use a simple feature phone and a USSD facility to easily open a portable pension account. In short, an individual will be able to voluntarily activate this digital account using simple mobile phone/ computer within a few minutes and without elaborate KYC or documentation requirements. This uniquely designed model drastically reduces both initial capital and operating costs of the scheme and in turn helps lower risk, fees and charges for the subscribers. The model ensures the fixed cost is non-linear i.e. cost won't increase significantly with the increase in new subscribers / mobilisation of fund.

- **Awareness and mobilization** – a multi-pronged mobilization approach that included village level community meetings, radio programs and the involvement of local leaders in educating people about the informal sector pension scheme through community meetings such as "Umuganda[7]" played an important part in the overall sensitization process;

- **linkages between grassroots stakeholders, intermediaries and national actors** – community - based organisations are often characterised by a strong sense of solidarity and value pension as a means of contributing to the welfare of their members. Community - based organisations have a tradition of supporting members in times of crisis. Community-based organisations play a central role in the social or professional life of their members. This provides them with a high visibility. They are also often perceived as trustworthy, although this trust may not necessarily extend to financial services. Grassroots stakeholders particularly VSLAs (Village Savings and Loan Association / Saving Groups) and Cooperatives have mainly interacted with the local leaders at cell and district level to create mass - awareness and promote the long term saving scheme amongst members at local and community level.

- **Fiscal incentive package** (includes co-contribution and insurance) are based on the principles of equity (where a fiscal benefit is equally available to all citizens of Rwanda), as well as transparent and objective targeting and eligibility criteria; in addition to incentives aimed at achieving early, mass-scale voluntary enrolments it will encourage persistent retirement savings behaviour over time;

- EjoHezap erformance is part of **Imhigo** (also known as performance contracts, signed between the President, local governments, and line ministries to achieve community targets) - EjoHeza Scheme was included in the Government officials' indicators as part of performance management for all Government officials from national level to the district level; this created ownership and enabled the scheme to receive vibrant support from the senior Government officials at the lowest administrative level;

- Government invested in the design and setting up the **Central Administration IT platform** – it was designed in-house which helped to achieve the key policy objectives of the universal pension scheme i.e., seamless account portability, individual choice, targeted fiscal incentives, optimum benefits, low transactions costs, high governance standards and automated process compliance etc. The key functionalities of the IT platform are as given below:

    - central issuance and administration of portable individual accounts – issue and manage unique, portable, integrated individual pension and insurance accounts mapped to each citizen's national ID number;
    - easy and secure access to information and services – enable easy account opening, payments collection and reconciliation, insurance and withdrawal claims processing, access to statements and account information, and complaints filing on smart-phones, feature phones (using USSD) or a computer;

[7] Umuganda is a national holiday in Rwanda taking place on the last Saturday of every month for mandatory nationwide community work from 08:00 to 11:00. Participation in Umuganda is required by law, and failure to participate can result in a fine.

  - high, uniform service quality - control and monitor information, data formats, turn-around-time (TATs) and service provider actions and compliance;
  - secure digital contributions, benefits payments and insurance pay-outs;
  - targeted delivery of fiscal incentives – eligible subscribers will receive government co- contributions and any other fiscal incentives directly into their micro-pension accounts without errors, leakages or loss in value; allow the administrator to restrict benefits based on prescribed eligibility criteria (minimum contribution values, occupations, age, gender, etc.);
  - monitoring and computing of fees and service charges – accurately calculate applicable service provider fees and charges; Transparently report fees and charges to the Trust, subscribers and the administrator;
  - MIS to drive persistency – monitor the value and regularity of contributions by individual subscribers; Automatically generate periodic statements, reminders and contribution demands to minimize dormant or orphaned accounts:
  - real-time process, TATs and SLA compliance monitoring and reporting

Finally, harnessing the pension architecture for other key policy objectives, namely;

- It is feasible for the Government to harness the institutional architecture and outreach of the personal pension program to provide additional saving product options to citizens for housing and for expenditure on higher education for their children. Interestingly, both housing and education are equally important public policy goals for the Government also due to their huge potential impact on building human and physical capital and hence on economic growth more generally;
- To a certain extent, the liquidity feature proposed in the pension scheme (where pension subscribers are permitted to mark a lien on certain percentage of their retirement savings for a loan) may be used by households either as a down payment for a house or for funding higher education expenses for their children. However, it may be desirable for households to not prematurely consume retirement savings due to the disproportionately large impact of pre-retirement withdrawals on terminal accumulations;
- Individuals who are already covered by the RSSB pension scheme may be permitted to use their full terminal accumulations in their pension account to either procure a house or to partly or fully pay off an outstanding home mortgage. It may be feasible also for such individuals to use their contributions into their personal pension account to pay periodic instalments for a home mortgage;
- RSSB (the scheme administrator) may consider harnessing the pension scheme architecture for collecting annual premiums from citizens towards the Community Based Health Insurance program, Mutuelles de Sante. Expanding utilisation of the pension scheme architecture could also cause a significant reduction in transaction costs and make the architecture more viable for field-level service providers.

Broad principles in designing universal pension scheme for the informal sector

While many of these principles apply to all pension schemes, they are particularly important in building trust and encouraging people to contribute in the case of voluntary long term savings / pension schemes.

- **administrative costs need to be minimized through reliance on technology -** costs are an important aspect of any pension system, with even small fees and charges able to erode accumulated pension assets considerably over the long - term. Designing low cost systems is particularly important for informal sector workers who are likely to have smaller pension balances due to lower incomes (and therefore contributions) and often interrupted and uncertain working patterns. The main element of the institutional design of a voluntary pension scheme for the informal sector workers should be the use of technology in collection; record keeping, investments and client servicing. A specialized, centralized administrative platform can effectively manage microlevel contributions and provide services and more readily available information to its members. Custodian and fund management services can also be aggregated under a central system to reduce costs. Central administration may add to the sustainability and robustness of the scheme and benefit from the credibility of a public sector provider. The Government of Rwanda chose to use RSSB (the existing administrator for the formal pension and universal health insurance scheme) and develop central administration platform capable of issuing and managing unique, portable individual pension and insurance accounts, enable digital finance ecosystem integration, convenient and affordable single window access and service delivery. The technology platform developed by the administrator can be further integrated using secured APIs with the existing digital finance, payments, national ID infrastructure and aggregators/ facilitators.

- **identify low cost channels / aggregators / facilitators** that can reach clients in large numbers **-** it is equally important to utilize the existing infrastructure from a broad range of sector and financials sector players to reach the maximum number of clients effectively and efficiently (in terms of cost of acquisition and / or cost of servicing per client). Targeting the informal sector is no easy task. Such workers are a disparate group, often from rural areas, with unstructured working arrangement – precisely the reasons for formal pension provisioning not reaching them. Using everyday contact points, such as post offices, SACCOs, credit unions, Micro Finance Institutions and banks as partners may be one option to register new members and provide ongoing field level information and services related to the scheme. A part of the one **-** time fee for financial literacy and account activation may be subsidized and paid by the Government while the remaining fee would be paid by individual subscribers. Community-based organizations include cooperatives, NGOs, trade unions and faith-based organisations (e.g. churches) are often characterised by a strong sense of solidarity and value pension as a means of contributing to the welfare of their members. Citizens that are less digitally literate will be provided information, knowledge, assistance with account activation and ongoing services by credible aggregators and field partners. In the context of the Rwandan scheme banks, Airtel, Irembo, MobiCash, and MTN, were recruited to help register LTSS members and collect funds. The agents and branches of service providers, including AirtelTigo, BK, BPR, MobiCash, and MTN, were trained to register and collect savings.

- **use a distribution and communication system that is familiar and comfortable to the customers -** raising awareness, building confidence, and propagating a proper understanding of a pension scheme help informal sector workers make appropriate, informed decisions about participation and encourage them to save for old age. Potential participants in a scheme would want to know the rules of the scheme, their various options for participation, the channels for making contributions, the modalities for the payment of the pension benefit, the age of pension eligibility, and so on. Communicating these details in a transparent way helps build trust in the scheme and scheme administrators. This is particularly important in encouraging informal sector workers to save for retirement through a pension scheme. It is important to adopt a segmented / targeted approach tailored to specific occupational segments to better relate to the retirement savings product and prompt them to pay closer attention to the concepts and benefits. Associations of informal sector workers (like union, cooperatives; federations) are able to communicate and convene their members much easily as compared to traditional mainstream financial institutions. Involvement of the associations may actually encourage informal sector members to participate in the scheme. Similarly, with high mobile penetration in many of the countries MNOs (Mobile Network Operators) can assist in outreach and communication through the use of short message services highlighting the importance of old age savings and benefits one can avail under the scheme. Before the launch of the Rwandan scheme the district, cell and village leaders were trained to lead in mobilizing participation supported by district coordinators at the Rwanda Social Security Board. Subscribers enrolled under the Rwandan scheme receive a periodic LTSS (Long Term Saving Scheme) bill via SMS or email. The subscriber is free to pay his/her bill in a single transaction or over multiple transactions within the billing period subject to a minimum contribution of RWF 500 per transaction. An unpaid pension bill or any residual/ unpaid value against a bill in a billing cycle is automatically carried forward to the next billing cycle and reflected in the subsequent bill. This eases contributions by those with irregular income flows and also give each subscriber a chance to make up missed contributions. Contributions that remain unpaid are cancelled at the end of every financial year and not carried forward to the next financial year. No penalty is levied on subscribers for unpaid or delayed contributions.

- **the savings of informal sector workers should be professionally managed to optimize returns and to minimize asset management costs** – the investment function is expected to be outsourced to external professional asset/ fund managers. The key activity of the investment units / fund managers would be investment of the resources received in accordance with investment guidelines dictated by legislation. The investment units would need constantly to evolve their capabilities to ensure that returns are maximized while risks are minimized, given the pension scheme's needs at maturity for short - and long - term savings and the maintenance of low asset management costs. Schemes must offer a default investment option, which has to include a lifecycle investment pattern (requiring less risky investment from 5 years before retirement). It is also important to examine the governance structure of an informal sector pension scheme, including the structure of the board of directors or other body that will take investment decisions. In the context of Rwanda all pension contributions flow to an EjoHeza LTSS pooling account in the custodian bank for reconciliation. Only reconciled savings are invested. LTSS savings are invested according to specified investment guidelines by a professional fund manager regulated by the National Bank of Rwanda (BNR). LTSS savings are unitized, and the custodian computes and declares a daily net asset value of the LTSS portfolio. Subscribers are able to verify the current value of their savings easily.

- target and incentivise those who are capable of extra savings - in order to encourage more people in the informal sector to join the structured pension system, it may be useful to target those who are capable of extra saving. The design of the scheme should at least aim to (1) be innovative in providing incentives for people to participate and pay contributions, including subsidies; (2) provide flexibility in the payment of contributions that will depend on the amounts and regularity of incomes among the participants; (3) use innovative technology to facilitate the payment of contributions; and (4) build up the confidence of contributors that they will receive their pensions when they reach the age of eligibility. Globally, persistent pension contributions are driven either by automated mandatory salary deductions or by tax incentives, or both. In this context, an informal sector pension scheme need to rely largely on broad-based retirement literacy, easy and convenient access to a simple and attractive product solution, coupled with conditional fiscal incentives to motivate early voluntary uptake and sustained savings discipline by informal sector workers. Tax incentives should also be carefully designed, with mechanisms such as tax credits and matching contributions considered to ensure that incentives successfully reach the informal sector.

Conclusions

Existing formal sector pension schemes do not respond to the distinct needs of the diverse informal sector. Formal sector pension schemes tend to be designed based on formal employee - employer relationships, which are atypical in the informal sector. They also require regular monthly contributions, which are not suitable for informal sector workers who are usually characterized by irregular incomes. Participation in formal sector pension schemes may not even be affordable for informal sector workers. Recognizing some of these challenges, governments need to design pension solutions that respond to the distinct needs of the informal sector. There is no one-size-fits-all program design that can be implemented across the informal sector.

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