REPUBLIC OF RWANDA

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NATIONAL SOCIAL SECURITY POLICY

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Executive Summary

Sixty years after the universal declaration of human rights has consecrated social security as a fundamental human right, it is now universally admitted that no stable and sustainable development is possible without social peace, and no social peace is possible without social security for all. The role of social security is increasingly being recognized by governments and international financial organizations for its role in poverty alleviation, promotion of social justice, and economic growth.

Social security is here understood in its ILO definition as "The International Labour Organization (ILO) defines "social security" as "a set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or substantial reduction of income from work as a result of various contingencies like sickness, maternity, employment injury, unemployment, invalidity, old age, death and health care".

For many years, diverse social security programs have been developed in Rwanda. But although Rwanda already has the core elements of a comprehensive social security program in place, substantial gaps remain, mainly caused by the lack of general orientation based on one common vision, as well as the lack of coordination for actions towards complementary objectives. This justifies the urgent need for a national social security policy which will be the framework for such coordination and which will provide all necessary orientations.

The objective of this policy document is to analyze the current social security program in order to identify the gaps in different areas and to propose how to improve the program, with as central goal to provide for all Rwandan population adequate protection against the adverse consequences of various "life cycle" events and risks.

In order to attain the ideal situation of ***«Social security coverage for all»*** which is proposed as the new Rwanda's vision for social security, the GoR will make a firm commitment to develop all necessary programs and mechanisms aimed at universal social security coverage. This means that all Rwandans will be covered with maximum benefits possible for retirement and key pre- retirement benefits such as housing and education, for professional risks benefits, sickness benefits, maternity benefits, health care , and eventually unemployment benefits when social and economic conditions will allow this last branch to be implemented. The policy set specific coverage objectives for different branches of social

security, namely pension, occupational hazards, medical care and sickness leave, as well as maternity leave.

In order to achieve this, the policy proposes concrete and easy-to-implement actions aimed after having analyzed the most important issue in social security in Rwanda which are the following: little coverage, especially for retirement and professional risks schemes which are a privilege for precisely those who have the privilege to access employment in formal sector; insufficient benefits; long term financial imbalances; management of different schemes in scattered institutions.

The major actions to be implemented in line with this policy are the following:

- reinforcement of mandatory adhesion and/or development of incentives for self adhesion to voluntary schemes,
- streamlining the management of all schemes, and regular actuarial studies for necessary adjustments,
- sensitization campaign for active participation of the population through community based organizations,
- development of synergies between SACCOs, other MFI and social security schemes
- adapting and updating the legal and the regulatory framework related to each of these actions

With maximum commitment by all and total involvement of both central and local government, and with permanent social dialogue between government, employers and employees/self employers/members of cooperatives, there is no doubt that like was is the case for the very positive experience with the health mutual insurance, the objectives set in this policy will be attained

I. INTRODUCTION

I.1 Background

The universal declaration of human rights of 1948 stipulates in its article 22 that “Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.”

In its article 25, the declaration stipulates that “Everyone has the right to a standard of living adequate for the health and well-being of himself and of his family, including food, clothing, housing and medical care and necessary social services, and **the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond his control”.**

Sixty years after this declaration consecrating social security as a fundamental human right, it is now universally admitted that no stable and sustainable development is possible without social peace, and no social peace is possible without social security for all. The role of social security is increasingly being recognized by governments and international financial organizations for its role in poverty alleviation, promotion of social justice, and economic growth.

For many years, diverse social security programs have been developed in Rwanda. But although Rwanda already has the core elements of a comprehensive social security program in place, substantial gaps remain, mainly caused by the lack of general orientation based on one common vision, as well as the lack of coordination for actions towards complementary objectives. This justifies the urgent need for a national social security policy which will be the framework for such coordination and which will provide all necessary orientation.

The objective of this policy document is to analyze the current social security program in order to identify the gaps in different areas and to propose how to improve the program, with as central goal to provide for all Rwandan population adequate protection against the adverse consequences of various “life cycle” events and risks. Poor Rwandan households are particularly vulnerable to these risks, which can undermine social stability and economic well-being. This policy will provide a framework for narrowing those gaps and eliminating them over time as economic circumstances permit.

I.2 Purpose of Social Security Programs

Social security programs pool risks and the required resources to insure against the occurrence of such risks. More concretely, social security programs provide access to basic services, such as healthcare and financial support to widows, widowers, and their families in cases of a primary wage earner's premature death, as well as income security for the aged. Social security programs also can include various other similar types of insurance to provide income protection, for example, to those who become disabled or lose their jobs. The types of risks covered and the extent of the benefits provided reflect national policy choices and fiscal limitations.

Social security programs can foster social cohesion, help to prevent and alleviate the effects of poverty, and, if well-managed, re-instill trust and faith in governmental intervention. Additionally, social security programs often have significant economic benefits. For example, old-age pension provision, if funded, often entails the formation of institutional capital that may be invested in the economy, and by reducing the uncertainty and fear of calamity that haunts many individuals and households, the provision of social security can result in a more productive workforce.

I.3 Internationally Recognized Definition of "Social Security"

The International Labour Organization (ILO) defines "social security" as "a set of public measures that a society provides for its members to protect them against economic and social distress that would be caused by the absence or substantial reduction of income from work as a result of various contingencies like sickness, maternity, employment injury, unemployment, invalidity, old age, death and health care". Social protection is essentially the management of social risks especially to protect weak segments of the society.

It helps the beneficiaries to cope with problems associated with social risks by taking care of them and providing them with alternative sources of revenue.

In 1952, the ILO recommended that depending on the national context and on the prevailing socio-economic conditions, at least three of the nine following basic branches should be covered for all residents of each country, the ideal situation being that the nine branches defined as the social security minimum norm be covered .

Those are:

- ***Pension*** composed of three branches ***: Old-age benefit,*** covering survival beyond a defined age, normally no higher than 65 years; ***Invalidity benefit,*** covering the inability to engage in any gainful activity where such inability is likely to be permanent or persists after the period during which the beneficiary is entitled to benefit from temporary incapacity (employment injury benefit); and ***Survivors' benefit,*** covering the loss of support suffered by the widow or children as the result of the death of the breadwinner.
- ***Health insurance*** composed of two branches ***: Medical care,*** covering preventative care, and medical care resulting from pregnancy and, any morbid condition, whatever its cause; ***Sickness benefit,*** covering work incapacity resulting from a morbid condition and involving suspension of earnings;
- ***Occupational hazards benefits ,*** covering a morbid condition, incapacity for work, invalidity or a loss of faculty due to tow types of risks : ***work injury*** and ***occupational disease***;
- ***Family benefit,*** covering the maintenance of children under school-leaving age or under 15 years of age;
- ***Maternity benefit,*** covering the medical care required by pregnancy, confinement and their consequences and the resulting suspension of earnings;
- ***Unemployment benefit,*** covering suspension or loss of earnings due to inability to obtain suitable employment;

The minimum objectives for each contingency vary, but are expressed in terms of three variables:

- ***Coverage*** (minimum percentage of the population protected);
- ***Level of benefit*** (minimum level of benefits to be paid); and
- ***Conditions for, and period of, entitlement*** (fair rules for benefit access, which also prevent abuse of its availability).

I.4 Modalities of Government Intervention

There are a number of different ways in which the Government can ensure that the Rwandan population have access to social security benefits. The organizations established to provide for the provision of each component of social security may be governmental or private sector institutions, or some combination of the two. The Government may institute programs that require compulsory participation or provide tax and other incentives to induce voluntary participation, or simply provide access to well-regulated insurances that citizens may or may not choose to utilize.

Other strategies already underway in Rwanda also strengthen the national social security infrastructure. For example, national employment creation and economic promotion strategies aim to increase the rate of economic growth and create jobs. As the formal sector expands, social security coverage will expand as well, because the Rwandan program, with the exception of medical care, is tied to formal sector employment. Because the vast majority of the working population works in the informal sector (including agriculture), the Government, however, must take additional steps to cover this population. The implementation of health care insurance schemes in rural areas is the most successful effort to date to expand a type of social security to the informal sector.

I.5 Domestic Context

The National Social Security Policy addresses all aspects of social protection, but focuses most extensively on pensions and healthcare. It is consistent with and supports the long-run goals of Vision 2020, the National Poverty Reduction Policy (2001), and the corresponding policy statements previously adopted by the Rwandan Government, including the Government's Vision 2020 statement, National Investment Strategy (NIS, 2002), Economic Development and Poverty Reduction Strategy (EDPRS, September 2007), and National Employment Policy (NEP, December 2007). It also reflects values expressed in the Constitution of the Republic of Rwanda and the Universal Human Rights Declaration to which Rwanda has subscribed.

Actions taken by the Government in accordance with these policies have benefited the social security program. For example, improving conditions necessary for successful enterprise in Rwanda also creates jobs and expands the base of contributors to the National Social Security Fund (NSSF). Similarly, the development of the Rwandan financial sector – and its proper regulation – will provide a more efficient means for the allocation of capital. The benefits of this development will accrue to the NSSF, as well as to other investors and enterprises that seek capital. These developments also set the stage for the establishment of private sector pension schemes and life-event insurance products to supplement state-provided social security. Pension and risk management products, in turn, can increase buy-side demand for securities and other investment opportunities, and for financial services, such as professional asset management, recordkeeping, actuarial and custodial services.

I.6 International Context

I.6.1 ILO Standards

ILO Convention No. 102 provides a widely accepted normative framework for social security systems. The ILO has set as a goal for all countries the provision of "universal access" to social protections in order that (i) all residents have access to basic/essential health care benefits, where the State accepts the general responsibility for the adequacy of the delivery system and financing; (ii) all children, the elderly and the disabled enjoy income security at least at the poverty level, including through pensions for old age and disability.

The ILO objectives reflecting this goal have shifted over time in recognition of the needs and limitations of developing nations. The principle objectives include:

- Achieving universal access to basic benefits as quickly as possible to combat poverty;
- Reducing income insecurity to the extent compatible with economic performance;
- Reducing inequality of access to opportunities;
- Providing right benefits;
- Eliminating discrimination on the basis of nationality, ethnicity or gender; and
- Ensuring fiscal affordability, efficiency and sustainability.

I.6.2 Country Reform Trends

In addition to the evolving ILO standards, there are a number of international trends in the provision of social security. Many countries have replaced or supplemented state-sponsored defined benefit pensions with individual account programs. Many have improved the management of their social security reserves by implementing investment management policies and performance standards in accordance with international best practice.

These measures can improve the quality of investment decisions, insulate them from political pressures, and result in social security funds directing more institutional capital into the financial markets. A number of countries now provide supplemental means for individuals to save, invest and self-insure in order to "top up" state-provided benefits and provide avenues for the coverage to those individuals who the state programs do not cover.

These programs take the form of occupational schemes established by employers or contractual savings products sold to individuals by insurers and other financial institutions. Finally, some countries are implementing non-contributory pension schemes aimed at providing a basic level of universal coverage to the elderly.

I.6.3 Regional Context

In 1978, the Great Lakes Economic Community, of which Rwanda is a member, adopted the General Social Security Convention to provide social protection for migrant workers and their families by coordinating national legislations applicable to migrants, ensuring equality of treatment, establishing a methodology to sum up insurance periods, and guaranteeing the export of services from one State to another. Having joined the East African Community, Rwanda is also invited to harmonize its social security legislation with that of the East African community.

I.7 Major issues in social security programs in Rwanda

The most important issue in social security in Rwanda is its little coverage, especially for retirement and professional risks schemes which are a privilege for precisely those who have the privilege to access employment in formal sector. It is not acceptable to have more than 90% of the active population excluded from benefiting part of their fundamental rights. In addition to this, not only existing branches are reserved to a small portion of the population, but also many other branches are not yet covered in the programs. However the recent development in health insurance is a positive exception to this.

For existing branches, the benefits are not sufficient and there is serious concern that financial sustainability is not assured. Therefore important adjustments on major parameters will be needed in order to guarantee sufficient benefits financed by fair contributions. For pension schemes, the issue of insufficient benefits for many of the beneficiaries despite a generous formula must be addressed in particular, thus justifying the need to create additional pillars.

The financial imbalances in the schemes, and especially the way the pension program is organized under a " defined benefits" model in which contribution are meant to match the expenses (benefits and management fees) with a margin for reserves don't make social security an appropriate vehicle for long term savings mobilization to finance national investment. A provident fund managed under a "defined contribution" scheme is the ideal solution to address this issue.

The management of different schemes in scattered institutions is not an appropriate way to develop professionalism, effectiveness and efficiency for better services at minimum cost and maximum contribution to national socio-economic development. Streamlining the management of social security institutions will require maximum integration for better service delivery, synergy, and economies of scale for more efficiency.

II. RWANDA’S VISION FOR SOCIAL SECURITY

In line with the vision to make Rwanda a country of development and better life for all;

Considering the importance of protection of social risks as a major component of inclusive social-economic development;

The Government of Rwanda is committed to develop all necessary programs and mechanisms aimed at attaining the ideal situation of ***«Social security coverage for all»****, r*ooted in the universal declaration of human rights which consecrates social security among fundamental social rights.

Concretely universal social security coverage means that all Rwandans be covered with maximum benefits possible for retirement and key pre- retirement benefits such as housing and education, for professional risks benefits, sickness benefits, maternity benefits, health care, and eventually unemployment benefits when social and economic conditions will allow this last branch to be implemented.

III. SPECIFIC OBJECTIVES FOR THE YEAR 2020

The objectives set in this document define the coverage of social security expected by the year 2020 in terms of vertical (branches) and horizontal (population) coverage.

- **Pension branch:** every resident in Rwanda must have a pension cover either by a public pension scheme or by a private one

  Public pension: first pillar based on “defined benefits” scheme will remain mandatory for the whole formal sector with 100% coverage.

  Provident Fund composed of complementary pension scheme on a “ defined contribution “ model, and schemes for pre-retirement benefits namely housing and education, will be also mandatory for formal sector;

  Private pension: for the rest of the population adhesion to pension scheme will be also mandatory, with free choice to adhere either to a private pension scheme, or to the pension scheme managed by the public provident fund

- **Occupational hazards branch** will remain mandatory for formal sector with 100% coverage. It will be open to allow adhesion of all workers in organized groups of informal sector, especially cooperatives, with target to reach at least 70% coverage
- **Health care branch:** the vision of Rwanda is to achieve the goal of health for all through universal health insurance
- **Maternity and Sickness branches :** will be mandatory for all formal sector; similarly to occupational hazards, intensive sensitization programs and appropriate incentives will contribute to promote voluntarily adhesion of at least 70% for urban and rural informal through organized groups
- **Unemployment benefits:** This scheme will be introduced as soon as economic conditions will allow it.

IV. CURRENT STATUS OF THE SOCIAL SECURITY REGIME IN RWANDA

The Social Security management in Rwanda is fragmented with pension and occupational risks branches being administered by the Social Security Fund of Rwanda, and medical insurance being managed under three schemes, namely, RAMA, MMI and Mutuelles de Santé.

IV.1 Pension Branch

The pension branch of the NSSF provides insurance against the risks associated with old age, disability and death. It is primarily aimed at providing retired persons with an income on a basis proportionate to number of years worked and wages earned (and the level of employee and employer contributions to the program).

Coverage and Benefits

Pension coverage is generally limited to those individuals who are employees in the formal sector – approximately 7% of the working population of the country. Actual estimates indicate that only 5.6% of the working population (2.3% of the total population) is covered. 48,363 Rwandan pensioners were receiving old-age pensions as of 2006. The average monthly pension is 3,477 RwF (USD 63). Individuals are eligible for a monthly pension at the age of 55 if they have accumulated 15 years of service, or at age 65.

The amount of the pension paid is based on a formula that takes into account the level of wages earned and number of years of service in the formal sector.

Disability insurance coverage is provide to the same individuals. Disability pension is paid to those who have lost 50% or more of earning capacity, have at least 5 years' contribution history, and have actively contributed for 6 of the last 12 months prior to the onset of the disability. Disability is assessed periodically by a doctor approved or appointed by the NSSF. NSSF calculates the disability pension under the same benefit formula as old-age pension, except that the claimant is credited with only 6 months of coverage for each year that a claim is made before age 55.

For both types of pension, pensioners receive a minimum pension equal to 50% of the minimum wage (at the time payment level is determined). The monthly pension paid is adjusted for inflation only on an *ad hoc* basis by Presidential Decree, resulting in a substantial erosion of the real value of the pension over time. The last such increase was in 2002. After the pensioner dies, the surviving spouse (and children up to the age of 25 if still students) of a pensioner continues to receive the pension until his or her death.

Financing

The Pension Branch's benefits are primarily financed by employer and employee contributions. The contribution rate is 6% equally shared between employer and employee. Additional financing comes from penalties that are charged for late declaration and payment of contributions and the gains obtained from the NSSF's investment. Investment returns, however, have been below the inflation rate.

Governance and Management

The RSSF, which is in charge of the management of the pensions branch, reports to the Ministry of Finance and Economic Planning, which coordinates its activities with the Ministry of Social Affairs and Labour. It is intended that the National Bank supervise the NSSF's asset management activities. The RSSF is administrated by a Board of Directors, the composition of which is determined by a decree of the Prime Minister. The parliament enacted the draft law to reform NSSF governance. The NSSF recently took steps to improve the governance of its asset management function, establish a transparent investment policy and improve its capacities in this area. A recent actuarial valuation identified deficiencies in recordkeeping and information technologies and the contribution remittance process.

IV.2 Professional Risks Branch

The Professional Risks Branch protects households against the risk of income loss due to work accidents or work-related illnesses.

Coverage and Benefits

The Professional Risks Branch covers workers in the formal sector. Employed persons are covered regardless of the nature of their work or the extent of their exposure to hazardous working conditions.

A person with work injury or work-related diseases preventing him from working is entitled: (i) a cash benefit equal to 75% of the insured's average daily earnings that is payable until recovery or a determination of permanent disability, up to a maximum 180 days, and (ii) the reimbursement of medical and pharmaceutical fees.

If the insured person is totally and permanently disabled, he/she is entitled to 85% of his monthly wage. In 2006, a total of 23 million RwF (USD 418,000) in benefits was paid to 3,561 beneficiaries. The average benefit paid was 6,559 RwF (USD 117).

Financing

Employers pay a compulsory contribution of 2% of each employee's salary to the NSSF to finance Professional Risks Branch benefits. Although permitted under current law, there is currently no rate differentiation among various employers or economic sectors, which may present different levels of risk of worker injury and illness.

Employer contributions are allocated to an operational fund, a technical reserve and a security reserve that is invested by the NSSF. A 2003 actuarial study concluded that this branch is well-funded – and may be overfunded. It is likely that benefit claims will decrease over time as workplace safety, working environments, and health and living standards improve.

Governance and Management

Governance and management are the same as discussed above with respect to the Pensions Branch. There is the need to ascertain the extent of injury and the extent to which the injury (or disability) persists, although similar determinations are made for payment of disability benefits in the Pensions Branch.

IV.3 Maternity Benefits Protection

The Rwandan Labour Code provides for maternity-related benefits and protections for workers who are temporarily absence from work.

Coverage and benefits

The maternity benefits for workers provided under the Labour Code are consistent with the UN Convention on the Elimination of All Forms of Discrimination against Women and the ILO Maternity Protection Convention (ILO Convention no. 183). Specifically, a pregnant employee is entitled to a paid leave of 12 weeks, of which 2 are obligatory before the presumed date of delivery and 6 are obligatory after delivery. A woman on maternity leave can extend the leave by an additional 6 months following medical certification of her inability to resume work. During the maternity leave, a woman is entitled to receive 2/3 of her usual salary. A new draft Labour Code under consideration would make some changes to these rules, but largely leave them intact.

Financing

Employer pays maternity leave benefits a pay-as-you-go basis. The law states that the employer is required to fund maternity leave "until the setting up of a maternity branch."

IV.4 Medical Care Branch and Medical Insurances

The Rwandan medical care branch includes four distinct regimes for its public servants, the military, salaried (formal sector) employees, and the remaining population**.**

Coverage and Benefits

Public Servants and Military: Rwanda's medical insurance regime for public servants, which was established in 2001, protects its beneficiaries against the risks resulting from natural diseases, those which are caused by accidents and risks resulting from the pregnancy and childbirth and their consequences. It is managed by La Rwandaise d'Assurance Maladie (RAMA). Military personnel are covered by a health insurance regime known as "Military Medical Insurance" (MMI), which is managed within the Ministry of Defence.

Private Sector: Medical care for salaried employees in the private sector (formal sector) is ensured by their respective employers. Employers may choose to be affiliated with RAMA or contract with private insurance companies.

General Population: The general population, including those in rural areas and working in the informal sector, obtains medical care through mutual associations, a form of medical care and protection created by a the law nº 62/2007 of 30 December 2007. A mandatory payment policy was instituted in 1996 and, as a result, the number of community-based health insurance programs grew quickly – from 6 in 1998 to 403 mutual health insurance programs in 2007. 85% of the Rwandan population is now covered by these insurance programs in 2008. Insurance program members have access to all the services and medicines offered at the health centre and hospital levels, referred to as the minimum activity packet ("M.A.P.") and the complementary activity packet ("C.A.P."). Coverage excludes prostheses and the aesthetical surgery.

Financing

For public servants, the contribution rate is 15% of the basic salary of which 7.5% is paid by the employer and 7.5% by the employee. For military personnel, the contribution rate is 22.5% of gross salary, of which 17.5% is paid by the government and 5% by each military staff.

Mutual health care insurance programs are supported by household-based contributions. The head of the household usually pays a collective contribution for all dependents equal to 1.000 RwF per household member. The cost paid by the insured himself is fixed at 10% of the total cost of health treatment provided to him.

Governance and Management

La Rwandaise d'Assurance Maladie "RAMA" reports to the Ministries of Finance and Social Affairs and Labour. It is administrated by a Board of Directors composed of members chosen according to their competences. Neither employers nor employees are represented on the Board.

The mutual health insurance organisational structure follows the institutional framework established by decentralisation reforms and is comprised of committees at the District and Village levels and a management committee at the Sector level. Mutual health care insurance organisations enter into agreements with health service providers to provide health care to their members and then pay the providers in accordance with the agreements.

V. LESSONS FROM SUCCESSFUL STORIES

Some countries like Malaysia and Singapore have used their social security systems to achieve greater national socio-economic objectives. Singapore's Central Provident Fund (CPF) was set up in 1955, with the adoption of a very basic provident fund system which is fully funded fund.

It may be noted that when the Central Provident Fund of Singapore was established in 1955, the level of wages was also very low. The average wages for employees, own account workers, and family employees at that time were S$138, S$127 and S$37 (or US$97, US$89 and US$26) per month respectively. The initial rate of contribution was only 10% of the employee's wages, comprising 5% from the employer and 5% from the employee. With economic development and the increase in wages, the rate has been increased over the years to as high as 50%. The current rate is 34.5% for workers aged 50 and below. To encourage the employment of older workers, the CPF contribution rate was reduced for workers aged above 50 for example, with the current rate ranging from 28.5% for workers aged above 50 to 55 to 10% for those aged above 65.

Over the last 50 years or so, the CPF has played a very significant role in the social and economic development of Singapore, especially by (i) helping to build up an increasingly hardworking and productive workforce (ii) providing substantial retirement and pre-retirement benefits (more than 90% of Singapore's population own their homes) , as well as very effective medical insurance scheme ; (iii) serving as an important part of capital formation, with significant impact on economic growth and creation of jobs. Today, the total amount of CPF savings for its 3.099 million members is S$125,803.8 million (or about US$88,594 million). Every dollar of this sum is backed by foreign reserves, which gives its members and citizens tremendous comfort and confidence in the system it has adopted and modified to meet its unique requirements; (iv) increasing aggregate demand and helping to keep inflation low (for the period 1990–1999, and 2000–2006, the inflation rate for Singapore was 1.9% and 1.0% respectively).

VI. POLICY ORIENTATIONS

Branch by branch, this policy analyses issues and proposes recommendations for development in the areas of **social coverage** both in terms of population and in terms of branches; quality and level of **benefits** ; **financing** of different schemes and financial sustainability; **management** and **governance**; **regulation** and **supervision** ; **legal framework** and special **incentives**

VI.1 Social Security Coverage

Issue: Coverage is insufficient.

For **pension** and **occupational hazards**, only formal sector (+/- 6% of active population) is covered by the publicly managed scheme, while all other workers are excluded. It has so far been quite impossible to promote adhesion of informal sector with no stable income, no base for contribution, and no mechanism for collection of contributions.

Pension schemes proposed by insurance companies are quickly developing but are too new and too young to have yet a significant impact

For **health insurance**, Rwanda has one of the best coverage with all workers in formal sector covered either through public or through private schemes; the rest of the population is estimated to be covered at 85% by the community based health mutual insurances

However pensioners (obtaining benefits from NSSF) are not provided coverage under the insurance regime managed by RAMA and are required to rely on the mutual health care insurances, even though they were covered by RAMA during their working lives. Additionally, certain groups of the Rwandan population continue to face financial constraints in obtaining access to medical care, despite the existence of mutual health care insurances.

Maternity leave and **leave for sickness** are currently covered by the employers who continue to pay the salary of the concerned employees with no counterpart in production. The consequence is that in most cases employees are obliged to shorten their leave in order to not lose their jobs, and most of the employers in private sector will practice de facto discrimination against young women.

Unemployment protection scheme is inexistent for very understandable reasons

Policy Recommendation

Government will reinforce measures for total adhesion to pension schemes for all workers in formal sector, for self employed and for workers in informal sector in organized groups: mandatory adhesion to the First Pillar (defined benefit scheme), and Second Pillar (Provident Fund) for all workers in formal sector; mandatory adhesion with choice between Provident Fund and any legally authorized Private pension Scheme for Self-Employed and workers in organized groups;

Government will reinforce measures for total adhesion for Occupational Hazards; Maternity leave and Sickness leave for all workers in formal sector

Government will promote voluntarily adhesion to those schemes for salaried workers in organized groups by promoting the development of all kind of cooperatives especially Saccos, by providing attractive tax incentives, and by organizing intense education campaign and capacity building programs for the cooperatives; Government will make all required adjustment in legal framework

Appropriate tax incentives will be provided for the development of Private pension schemes

For voluntary schemes, intensive sensitization programs and appropriate incentives will promote adhesion of at least 70% for urban and rural informal sector, i.e. the portion of the population living above the poverty line

For health care, the Government will adopt soon and implement a new specific policy currently under preparation. This policy will propose all necessary measures to make universal coverage effective and financially sustainable. A non exhaustive list of measures to be considered in the policy will be:

- To establish a plan to achieve universal coverage and to integrate the pensioners within the “ RAMA scheme” which will be incorporated within RSSB
- To clarify and enforce Labour Code provisions relating to compulsory affiliation of all employees and the employers’ obligation to provide medical care to employees.
- To address price, service availability, and quality of service differentials between private sector medical insurance and mutual medical insurances.
- To identify financial resources to subsidize insurance premiums for those unable to make full payment.
- To the extent financially feasible expand coverage to HIV Aids
- To consider permitting limited access to critical medical services available in neighboring countries, to the extent fiscally feasible.

Government will conduct regularly intense campaigns of information to the general public about the Social Security Programs in order to increase the social security coverage. These education programs will include:

- the scope of the social security program and the important protections it affords,
- individual obligations, rights and entitlements and employer responsibilities under the program; and
- the limitations of programmatic protections and the need for individuals and families to consider securing supplementary means of social protection via familial and local support mechanisms, as well as private sector programs and products.

The Government will continue to improve education levels, financial literacy and access to financial services in order to strengthen the synergy between social security schemes and other financial institutions.

VI.2. Contributions, benefits and financial sustainability of existing systems

<u>Issues:</u>

The SSFR assesses the adequacy of the current financing of the pension branch through valuations conducted periodically by an independent, professional actuary. The 2003 actuarial report concluded that the contribution rate would need to be increased from 6% to between 8.0 and 9.5% during the 15-year period beginning in 2003 in order to maintain actuarial and fiscal equilibrium through 2018, and that a 17.7% contribution rate – 2.5 times greater than the current rate – would be required to pay all benefits and expenses over the next 50 years (to 2053).

The current situation of a generous benefit formula with a low contribution rate is sustained as long as Rwanda has a favourable demographic ratio but this situation is likely to be reversed as more workers will be retiring. Indeed, with the mandatory retirement age for civil servants put back to 65 years, the SSFR has been so far capable to fund benefits up to 60% (for those who contributed for 30 years) of the best last average salary (which means a replacement rate of almost 100% of net take home salary if contributions are based on gross salary), with a contribution rate of only 6%. This is sustainable only if the number of retired remains less than 1/10 of active workers, which is going to be reverted dramatically soon.

Even though the formula is generous, a low level of salaries combined with the lack of indexation mechanisms makes the purchasing power of the pensioners to be reduced day after day, and causes the SSFR to have a bad reputation of paying peanuts to its members.

Also the lack of ceiling in the solidarity mechanisms with large disparities in salaries causes an unacceptable situation of inequity where contributors with small salaries fund some big pensions for precisely those who used to be paid high salaries. Studies have indicated the necessity of putting a ceiling in the base of contribution on the defined benefits scheme, the portion above the ceiling being a base to contribute in complementary defined contribution scheme.

The whole system remains in the classic coverage of “social risks”, with no pre-retirement benefits offered despite an urgent need to develop a scheme for housing and education.

The occupational hazards branch has no special issue regarding its funding and benefits provided. Regular actuarial valuation will provide guidance on any needed adjustments in the future.

Current studies on health insurance policy will guide on policy recommendation for better benefits and corresponding funding mechanisms.

Policy recommendation:

In order to boost the savings mobilization, to supplement the current level of benefits while at the same time preventing the financial imbalances described above, to promote equity in the scheme, and to have effective mechanisms for housing and education savings plans, the Government shall create an additional "Provident Fund" Pillar (PFP) under " defined contributions " scheme; in addition to housing and education, the P.F may provide other pre-retirement benefits to be determined by law after due studies. This scheme will run parallel to the existing defined benefits scheme

The PFP will provide for separate individual accounts to be set up for each contributor into which the contributions of each contributor will be credited.

Like the already existing basic pension pillar, the new Provident Fund pillar will be mandatory for all salaried workers.
The Provident Fund pillar will be administered by the RSSB to be created.

The Government will determine the funding mechanisms of the Provident Fund based on actuarial study. The scheme will be funded especially by the portion of contribution above the ceiling in the defined benefit pillar, plus an additional contribution to be determined, and a matching contribution/subsidy by Government

The Government will consider subsidizing the scheme by a reduction in the PAYE rate as long as studies are convincing about the long term financial and socio- economic benefits, especially if the savings mobilized will boost investment, job creation and government revenues to compensate the subsidy

Government will also fix and regularly adjust benefits for both the defined benefits pillar and the Provident Fund (complementary pension, withdrawals for housing and education) as determined by actuarial studies

Government will conduct regular studies to adjust the level of contributions in health insurance managed by RSSB, to match the corresponding benefits and to ensure long term sustainability; Government will also determine the mode and source of funding of contributions in Mutuelles de Santé and will be guided by the principle of self-sustainability, national solidarity as well as solidarity within the communities, equity, and Government intervention only to fill the gap when all other sources are exhausted

Rwanda social security system shall be evaluated with a periodicity of maximum 5 years to assess its long term sustainability.

The Government shall ensure that all contributions are collected, properly managed and maintained, and promptly paid out when required;

The Government shall be the guarantor for the contributions paid into the system and the benefits to be paid out to contributors;

The Government shall put in place an investment strategy to ensure that the funds are well invested and a fair rate of interest is paid to workers. The Government shall protect the real value of savings over the long term;

The Government shall exercise discipline and ensure that the savings with RSSB are managed in a professional way. Best practices and respect of prudential norms will be regularly audited by the Institution in charge of Non Bank Financial Institution regulation, currently the Central bank of Rwanda.

VI.3 Management and Governance

Issue: scattered and inefficient management of schemes

Social security system is scattered, costly and not coordinated. There are a number of weaknesses that should be addressed, including improvements in information technologies, contribution remittance methods, investment management, and enforcement. There is also a need to increase communication and consultation with social partners, including organisations of employees and employers, as well as the general public.

Policy recommendation

- The Government shall merge CSR and RAMA (eventually MMI and the Mutuelles de Santé) under one national umbrella body: the Rwanda Social Security Board (RSSB)
- The Government shall ensure the appointment of independent-minded and competent members to the Board; the Government shall ensure that the operations of the RSSB are functioning smoothly and efficiently with fiduciary responsibility, transparency and accountability;
- The Government shall ensure representation of employers, employees, and any other necessary participation in the management of RSSB

- The Government shall make sure that RSSB keeps low administrative costs, accurate records and appropriate IT systems;

- The Government shall make sure that RSSB provides a fair treatment of participating members. RSSB shall (i) provide members with sufficient and easy-to-understand information about the scope of the social security programs, the responsibilities of employers, employees, the RSSB and all other relevant governmental actors and social partners; (ii) institute sound, transparent procedures for making application for social security benefits and the adjudication of benefit claims; and (iii) establish a statistical data collection (and analysis thereof) regarding members, beneficiaries, benefits paid or denied, and the collection and management of contributions;

- The Government shall institute capacity-building programs for the staffs of each branch;

- The Government shall institute regular data collection, audits and analysis to assess governance, internal controls, staff performance, and overall effectiveness of programs;

- The RSSB shall have the obligation to issue regular reports and regular communications to all stakeholders especially regarding the individual accounts and the investment of the savings.

VI.4 Regulation and supervision

Issue: Social security system is not smoothly regulated and properly supervised

Policy recommendation

Under the overall supervision and policy making responsibility by the Minister in charge of Finance

i) In its capacity as institution in charge of regulating and supervising Non Bank Financial Institutions, BNR will have the role of establishing regulations and supervision with regards to financial management aspects of social security institutions, especially for professional and prudential management of investment, as well as general efficient management.

ii) For health related matters, establishing regulations and supervision will be the role of entities appointed by the ministry in charge of health.

iii) For labor related matters (pension, professional risks, maternity and sickness), establishing regulations and supervision will be the role of entities appointed by the ministry in charge of labor.

VI.5 Fiscal incentives

Issue: Social security contributions and investments are not exempted from taxes

In many countries, both advanced and developing, contributions to the social security fund are tax exempt. Currently the contributions made by employees to the social security fund under the "pay-as-you-go" system attract income tax. Imposing taxes to contributions can't encourage promotion of voluntary long-term savings and purchase of private sector insurances via occupational pension schemes and contractual savings products.

Policy recommendation

The Government will grant exemptions for contribution, or benefits or return on investments in social security schemes based on specific studies to be regularly updated, without duplicating advantages or conflicting with fiscal policy.

VI.6 Legislation

Issue:

There are no coherent legal texts with appropriate hierarchies which define the basic social security framework of the social security system of the country.

Some legal provisions relating to labor and social security have not yet been ratified. Provisions in the current legislation are not strengthened, in particular, those relating to the collection and recovery of contributions.

There are no provisions necessary for the establishment of the provident fund "pillar" and the withdrawal of savings for pre-retirement benefits or private pension funds.

Policy recommendation

The whole set of policy recommendations will be supported by a legal reform through an organic law guided by the following provisions:

- social Security is governed by an organic law, which is the legal framework for all laws and regulations related to this sector;
- each branch of Social security is governed by its specific law;
- each law will determine how management modalities are governed :by law, by presidential order or by ministerial order;
- for the pension branch of social security, a multi Pillar pension regime is created and is composed of the three following pillars: (i).a defined benefits scheme, mandatory for all workers with a formal contract with an employer. This scheme is managed by RSSB; (ii).a defined contribution scheme, part of a Provident Fund which provides also pre-retirement benefits as defined by the law. Adhesion to this pillar is also mandatory for all workers with a formal contract with an employer. This scheme is managed by RSSB; (iii) a third pillar concerning complementary savings for retirement managed by the RSSB Provident Fund or by Qualified Private Pension Funds
- self employed and workers in organized groups must adhere to at least one scheme of the third pillar
- RSSB is governed by a specific organic law
- adhesion to a legally authorized health insurance scheme is mandatory for all residents in Rwanda : adhesion to RSSB health insurance scheme is mandatory for all civil servants; adhesion to MMI is mandatory for all army staff ; all other residents can chose any legally authorized scheme managed by private insurance companies, or Mutual health insurance
- schemes providing Occupational Hazards benefits, Maternity leave benefits; Sickness leave benefits, are managed by RSSB and mandatory for all workers with a formal contract; they are open to workers in organized groups such as cooperatives
- registration of employees and employers, collection of contributions, and payment of benefits in mandatory scheme are governed by the laws governing respective managing institutions : RSSB, MMI, mutual insurance, life insurance companies
- members of cooperatives are allowed to adhere to RSSB schemes as a group, with same rights and obligations as other workers
- funding mechanisms, contribution rates and benefits for all mandatory schemes are determined by law; they are regularly adjusted as per actuarial studies to be conducted with a periodicity of minimum five years
- contributions and benefits provided by the pension third pillar, both by the Provident Fund and the Private entities, are liberalized within the limits of the regulation by BNR

- the Government is the guarantor for the contributions paid into the system managed by RSSB and the benefits to be paid out to contributors ;
- the Government shall protect the real value of savings over the long term;
- the BoD of RSSB is composed of representatives of the Government , employers, and employees; members are appointed by Presidential Order following recommendation by competent authorities representing different group
- under the overall coordination by the Minister in charge of Finance, regulations and supervision of Social security institutions with regards to financial management aspects is under the responsibility of Institution in charge of regulating NBFI; regulations and supervision related to medical issues ands to labor issues are ensured respectively by the Ministry in charge of Health for medical schemes, and by the Ministry in charge of Labor for labor related schemes (pension, professional risks, maternity and sickness leave)
- in particular, best practices and respect of prudential norms in financial management of RSSB will be regularly audited by the institution in charge of Non Bank Financial Institution regulation.
- tax exemption of social security contributions, benefits and investments are governed by laws related to respective branches with objective to promote savings mobilization, but in line with fiscal policy

VII. CONCLUSION

Parallel to efforts aimed at attaining the MDGs and the Vision 2020 objectives, it is crucial for Rwanda to develop a social security system which is inclusive, which is efficiently managed, and which contributes significantly to savings mobilization.

This policy defines guidance and highlights priority actions to be implemented in order to make “social security for all “a reality.

Basing on the very positive recent experience in the development of mutual health insurance schemes, there is no doubt that objectives of this policy will be attained if following actions are well coordinated:

- reinforcement of mandatory adhesion and/or development of incentives for self adhesion to voluntary schemes,
- streamlining the management of all schemes, and regular actuarial studies for necessary adjustments,
- sensitization campaign for active participation of the population through community based organizations,
- development of synergies between SACCOs, other MFI and social security schemes
- adapting and updating the legal and the regulatory framework related to each of these actions

This will require maximum coordination of following forces and synergy:

- political commitment to this policy and total involvement of both central and local government,
- permanent social dialogue between government, employers and employees/self employers/members of cooperatives,