UGANDA PUBLIC - PRIVATE PARTNERSHIP

FOR GOD AND MY COUNTRY

THE REPUBLIC OF UGANDA

CICS Policy Brief 06/02: Reforming the Pension Sector and Improving Social Security in Uganda.

Social security recognizes that there are social factors that threaten the security of individuals and which therefore demand a social response. Article 25 of the Universal Declaration of Human Rights states that;

Every person has "the right to security in the event of unemployment, sickness, disability, widowhood, old age or other lack of livelihood in circumstances beyond their control."

For most Ugandans the current Social Security arrangement does not allow for this. This article attempts to enlist some of the interventions required to improve Social Security and reform the Pension Sector in Uganda.

Uganda is faced with a challenge of a burdensome Social Security system, which is limited in scope and coverage. Social Security is a key pillar, among the three pillars of deprivation and retirement income - the other two pillars being one's own savings and the private pension obtained from one's employer.

However, the majority of workers in Uganda are not obliged by the existing law (NSSF Act 1985) to mobilise such savings either through compulsory contributions or voluntary savings. The problem is particularly prevalent among women, part-time workers, the self employed, low-income earners, and workers in small enterprises of less than five permanent employees. In addition, wage inequality has been increasing across the urban-rural divide, and within the urban and peri-urban areas, explaining why fewer people are able each year, to save any significant amount of their income to cater for their retirement or during times when they no longer earn adequate incomes. An increasing proportion of their income is instead spent on current consumption, which in part explains the low level of domestic savings.

In a country like Uganda where per capita income averages only about $300, Social Security provision increasingly becomes the only significant pillar of retirement income. In view of this therefore, workers should be given a chance to take greater responsibility for their financial well-being in later life by saving more in *private pension schemes*.

The existing system, which is limited to one key player, the NSSF has created some dissatisfaction. In addition, there are apparently no provisions within the existing legal framework to create portable benefits that follow workers from job to job, neither are there provisions for cost-of-living adjustments that would protect pension rights from the erosion caused by inflation.

Key issues of concern for the Private Sector as regards Pension Reform include

a) Ensuring liberalisation of the pension industry and creating competition
b) Revising the current legislation to expand social security coverage in Uganda
c) Streamlining the regulatory framework for the pension industry
d) Using pension funds to stimulate financial markets. This money can be used to invest in Fund schemes, stocks, bonds both local and off shore so that those saving under the scheme can benefit from the dividends
e) Ensuring efficiency in management and investment of pension funds
f) Providing incentives for savings mobilization
g) Increasing awareness and sensitisation on social security reforms
h) Structuring of mandatory and voluntary savings
i) Establishment of a national social security number (NSSN)

The Regulatory Framework for a reformed Pension Industry

In order that contributors' expectations become a reality, there must be an established regulator, which ideally should be independent of the pension funds themselves. This will work to minimise conflict of interest. One of the means of deepening the financial sector is to enhance mobilisation of long term funds by reforming the pension industry. Given the sensitivity of the pension sector, careful sequencing of reforms and minimizing risks is an absolute necessity. In this regard, the reform process will start with establishing a comprehensive legal and regulatory framework for the pensions sector.

Cabinet in February 2008 approved the general framework for pension regulation and supervision. A bill is currently being drafted to facilitate the establishment of a fully functioning regulatory authority by December 2008. The Regulatory Authority shall be funded from two sources:
(i) Contributions through Budgetary processes and,
(ii) Entities to be regulated. Individual pension funds or Schemes or other entities to be regulated and supervised by the Regulator shall be required to contribute a prescribed percentage (perhaps one percent) of their liabilities to the Pensions Fund to be managed by the Regulator.

Reforming the pension sector is critical for competitiveness and growth and as it provides one of the key avenues of increasing access to long term finance through increased savings mobilization.