Mbao Pension Plan
A case of the Retirement Benefits Authority

Retirement Benefits Authority
Kenya
Mbao Pension Plan

Summary

For a long time, the informal sector in the country had remained unreached. With only 15 per cent of the total workforce covered by a registered retirement plan, the Retirement Benefits Authority (RBA) had to come up with initiatives to reach out to the informal sector.

The RBA and the National Federation of Jua Kali Associations therefore collaborated to establish a suitable retirement benefits scheme that would cater for people in the informal sector. The “Mbao” Pension Plan was set up and was officially launched on 28 June 2011, for the Medium and Small Micro Enterprises (MSMEs) Sector and to help members of different Jua Kali Associations to save regularly to provide a long-term and reliable income when they retire from their jobs or business. The name “Mbao” refers to the amount – 20 Kenyan Shillings (KES) – which is the minimum daily contribution that members can make. Members can join and pay KES100 as a registration fee and then commit to saving at least KES20 a day, KES100 a week or KES500 a month.

CRITERIA 1:

What was the issue/problem/challenge addressed by your good practice? Please provide a short description.

The structure of the retirement benefits sector comprises four distinct categories of schemes:

- The mandatory scheme – National Social Security Fund (NSSF).
- The Occupational Retirement Benefits Schemes which are employment based and are voluntarily established by employers for the benefit of their employees.
- The Individual Retirement Benefits Schemes which are established by corporate institutions, usually insurance companies (only one individual scheme currently existing is not insurance based). These schemes are open to the general public and are convenient channels for retirement benefits savings for those in employment but whose employers have not established occupational schemes.
- The civil service pension scheme, which has been in existence since colonial times, which provides retirement benefits for all civil servants employed by the government.

Despite having these schemes in place, coverage has for a long time been a challenge in the retirement benefits sector. Only 15 per cent of the formal workforce is covered by retirement schemes. Low coverage can be attributed to the voluntary nature of setting up schemes, the fast growing informal sector, and high poverty rates which means that savings are not a priority for most workers. The RBA therefore has been at the forefront in recommending policies that would ensure coverage is extended to the informal sector. The Mbao Pension Scheme has provided a vehicle that the people in the Jua Kali sector (informal sector) can use to save for retirement. The uptake has been amazing, and we are currently working on setting up another scheme, which will target another association in the informal sector.
CRITERIA 2:

What were the main objectives and the expected outcomes?

The main objectives of setting up the scheme were to:

- extend coverage of retirement benefits to Jua Kali workers;
- create a National Retirement Benefits Scheme for Jua Kali workers;
- educate, train and sensitize members of the scheme on matters regarding retirement benefits;
- promote the Jua Kali National Scheme amongst Jua Kali workers;
- research and compile statistics regarding the scheme.

CRITERIA 3:

What is the innovative approach/strategy followed to achieve the objectives?

One of the mandates of the RBA is to facilitate the development of the retirement benefits sector. With a low coverage of only 15 per cent of the total working force, the informal sector has been one of the key areas that needed development.

The establishment of the Mbao pension plan started following a successful corporate social investment initiative “Operation Ear Drop Kenya Hearing Conservation Programme” with the Kamukunji Jua Kali Association based in Nairobi. The RBA teamed up with ear, nose and throat (ENT) specialists to provide free ear checkups for artisans. It is during this initiative that the RBA sensitized the workers to the importance of saving for retirement.

Several meetings were organized to discuss the modalities of setting up the scheme, which was piloted in the Nairobi area before extension to other parts of the country. Champions were selected in all 47 counties in the country and were trained to steer the process and to facilitate the registration of members. The scheme is run professionally, with an administrator, custodian and a fund manager.

CRITERIA 4:

Have the resources and inputs been used in an optimal way to achieve the set objectives and the expected outcomes? Please specify what internal or external evaluations of the practice have taken place and what impact/results have been identified/achieved so far.

The take up of the Mbao Pension plan is tremendous with many workers registering for it; as at 31 July 2011 the scheme had 42,000 members. We are expecting this number to grow significantly over the next year. Like all other registered schemes, the Mbao Pension Plan is expected to meet the costs of running the scheme which will be a minimal percentage from the contributions and interest accrued. To ensure an efficient way of making payments, members are allowed to send money using the money transfer services offered by the two
leading mobile networks in Kenya, Safaricom and Airtel. Members can therefore make their payments through M-PESA and Airtel money transfer services. The transaction fee charged by the network service providers is KES25 per transaction for M-Pesa transfers while Airtel charges 10 per cent of the value of the amount transferred subject to a maximum of KES25 per transaction.

**CRITERIA 5:**

**What lessons have been learned? To what extent would your good practice be appropriate for replication by other social security institutions? Please explain briefly.**

The scheme took a long time before being established (9 months). There were several challenges faced, considering that it was a new product in the market. The initial funding also contributed to the delay. At the onset, there was slow membership take-up and slow remittance of contributions. When the scheme was launched in June 2011, most members sent their contributions through the mobile transfer system creating a problem for the accuracy of data received from the mobile transfer. This has since created another problem for the accuracy of data received.

The administrators have their head office in Nairobi, which is the capital city, while the Jua Kali association members are spread over the 47 counties in the country. A lot still needs to be done on advertisement and education concerning how members can register. Indeed, the Mbao pension scheme can be replicated by other social security institutions and is an excellent way of reaching out to people in the informal sector.

Currently, the RBA is working on setting up a similar pension scheme to target the “Matatu” (taxi) operators through the Matatu Owners Association (MOA). This is the common mode of transportation in Kenya. The RBA shall ensure a smooth implementation of the scheme and will come up with strategies based on the lessons learned from the Mbao pension plan, to come up with a better scheme.