Uganda

About The Fourth
ECONOMIC UPDATE

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What is the Uganda Economic Update ?

The Uganda Economic Update (UEU) takes stock of the country's economy, by identifying challenges and proposing solutions to facilitate shared prosperity and eliminate extreme poverty. The UEU is published regularly by the World Bank on a six monthly basis. The fourth UEU under the title: "Reducing Old Age and Economic Vulnerabilities: Why Uganda should Improve its Pension System" was published in June 2014.

Why is the Uganda Economic Update important?

The UEU combines a country-specific analysis with the World Bank's global experience, to provide up-to-date information on the Ugandan economy, which may serve as significant input for policymakers, assisting them to formulate and implement policies to foster healthy, inclusive growth.

The economy is set to recover and grow at the historical average of 7% in the medium term, particularly if the planned investments materialize into improved infrastructure to generate investments.

What is the state of Uganda's Economy?

By the time of publishing the fourth UEU, the Ugandan economy had continued to be on a positive growth path amidst both positive and negative shocks. Prices had stayed stable and the cost of credit had started to decline, thereby providing a much needed boost to private investment and consumption, while foreign direct investment had remained robust.

The Government had continued to address the country's deficient physical infrastructure, although this was hampered by implementation problems. At the same time, the country had suffered from shocks including risk of cuts or reductions in development assistance, and the crisis in South Sudan, which had slowed trade and growth. Despite these setbacks, the economy is set to recover and to grow at the historical average of 7 percent in the medium term, particularly if the planned investments materialize into improved infrastructure to generate investments.

What other issues does this Update explore?

The fourth UEU focuses on pensions. This is because growth policies have to be complemented with social policies to eliminate extreme poverty and achieve shared prosperity.

Uganda is planning to build a comprehensive social protection policy, which includes setting up systems aimed at ending extreme poverty and reducing vulnerability of Ugandan citizens. A pension is a form of income to be paid regularly to a person after retiring from active employment. Building a more efficient pension system that serves Uganda's public at large, rather than just a few, will be a crucial component of the comprehensive social protection system. With only 2 percent of the population above 60 years of age, Uganda currently has a demographic window of opportunity. Building an effective pension system when the population is still young is easier than when it ages.

In many countries, pensions play a significant role in protecting the elderly against poverty and vulnerability, while also supporting other broader macroeconomic goals by developing financial markets and raising savings.

Why should we be concerned about pensions?

Having a pension affects a person's wellbeing as it provides a reasonable level of consumption and access to basic needs even after retirement. By saving part of the income during active employment, people are able to maintain a decent standard of living, even after retirement.

As this clearly affects the well-being of workers, the topic has received considerable attention from the general public and the media since government started reforming the sector. But the topic is very complex, and there is need for information and analysis to assist the general public to understand the importance and associated challenges.

What is Uganda's pension system like?

Uganda has a multi-tier pension system. The two most prominent parts are the public pension system covering the public sector employees, and the national social security fund that is supposed to cover workers employed by firms with more than five employees. Other pension schemes cover the armed forces and parliamentarians. There are also voluntary schemes offered by some employers to provide additional pension savings for their workers. Until recently in 2012, when the Uganda Retirement Benefits Regulatory Authority was established, the sector was unregulated.

What are the existing challenges to the current pension system?

The current public pension scheme is unfunded and does not provide timely access to the benefits by retired workers. Due to inadequate records, it also erroneously extends payments to so called ghost pensioners. At the same time the scheme is very generous and could become unsustainable in the future.

The main social security fund has also suffered from governance problems, whilst the private sector pension schemes have been unregulated.

What would make the pension system more effective?

The Government has initiated measures aimed at reforming the pension system. As in other countries that have developed effective pension systems, the Ugandan pension system should work towards achieving five attributes of a well-managed pension system. These are:

- **Coverage** – Ensuring that a significant proportion of the workers are saving for their retirement
- **Adequacy** – Ensuring that the pension savings are sufficient to meet retirees' basic needs
- **Sustainability** – Ensuring that the system delivers the promised benefits to the pensioners
- **Security** – Minimizing the risks that pension savings will be lost and misappropriated
- **Efficiency** – Ensuring that pension funds are managed properly to optimize returns

What are the constraints to achieving these objectives and how can they be addressed?

I. **There are governance related risks related to fraud and corruption.** If the proposed schemes for both public and private sector are not managed properly under strong, independent, regulated and transparent institutions, they will not provide an effective pension system for workers. To address this, the Uganda Retirement Benefits Regulatory Authority (URBRA) must be made functional and effective to regulate and supervise the sector.

II. **Costs could rise with many pension operators.** This has been a problem in many countries, and hence needs to be addressed with appropriate regulation and managed competition, such as through cost caps and low cost default funds.

The pension system still needs to cover over 75 percent of workers in the formal wage sector who are not yet contributing to pensions.

III. **Transition costs could increase fiscal spending on public pensions before it declines, as the public sector scheme is converted into a contributory system.** These transitional costs will occur since the Government will be paying the existing pensioners benefits while starting to contribute to the new public service pension fund. This cost would have to be properly planned for within the national budget.

IV. **Low level of development of the financial market may limit benefits from a liberalized pension system.** A concise financial sector development plan needs to be pursued hand in hand with the planned pension reform to widen and deepen the market, while providing additional financial instruments for investment of the pension funds.

V. **Informality of the labour markets and the high cost of universal pension systems may constrain extending coverage.** The pension system still needs to cover over 75 percent of workers in the formal wage sector who are not yet contributing to pensions. However, by 2010, 84 percent of the working population was employed in the non-wage, informal sector, particularly in agriculture. Therefore, innovative approaches such as the Mbao Scheme of Kenya, will be needed to extend coverage to the many people employed in the informal sector. On the other hand, universal pension systems that cover all elderly people need to be carefully planned as they are quite costly.

Factoids:

• Uganda's pension system is over 80 years old, having started in 1935, with the setting up of the public service pension scheme.	• Less than five percent of Uganda's working population are directly saving for their retirement.	• Less than two percent of the elderly people in Uganda are currently receiving a pension.	• Today, around 275,000 Ugandans will automatically qualify for a pension following their retirement under the country's public pension scheme.
• National Social Security Fund has 450,000 workers contributing to their pension.	• Overall, less than 10 percent of the working population is covered by any type of pension.	• 65 percent of the elderly are suffering from old-age related disabilities.	• Today, the National Social Security Fund covers only those employed in firms with at least 5 workers.
• Workers contribute 5 percent of their salary to the National Social Security Fund.	• Employers contribute 10 percent of the employee's salary for their worker's pension.	• Some employers have voluntarily set up pension schemes for their workers.	• Of the 15.2 million workers in Uganda, 2.5 million are employed in the formal sector.

Factoids:

• Of the 12.7 million workers in the non-wage sector, 10.5 million are employed in agriculture.	• Pension obligations for retired public servants amount to UGX 250 billion per annum, which is about 0.4 percent of GDP.	• Government has implemented a pilot non-contributory social pension scheme in 17 districts across the country.	• The Government's accrued liabilities to members of the public sector pension scheme, which measures the present value of the benefit promises made to date, amount to US$ 4.9 billion, or more than 23 percent of GDP.
• In South Africa, members of families of the recipients of pensions are 11 percent less likely to become poor.	• Today, less than five percent of Uganda's population is above 60 years of age, while 50 percent of Uganda's population is below 15 years of age.	• By 2050, about 6 million people will be above 60 years old, hence require a pension or some form of elderly support.	• A total of UGX 165 billion (US$ 66 million) was lost in the period from 2009 to 2012 as a result of the fraudulent enrolment of 3,000 ghost pensioners.
• National Social Security Fund has assets equivalent to a value of UGX 3 trillion under its management.	• National Social Security Fund financial assets represent at least 25 percent of the financial system's total assets and equivalent to approximately five percent of GDP.	• National Social Security Fund owns 80 percent of listed equities and approximately 25 percent of Government securities.	• For every one percent increase in annual charges, if applied over the full period for which a worker contributes to a pension scheme, the level of benefits is reduced by approximately 20 percent.

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