

POLICY BRIEF

PENSION REFORM – *Update*

Introduction/Background

Reforming and expanding the pension sector is one of the key tenets of the private sector because it is a potential engine of economic growth. For example, pension funds would be a major source of long-term development finance and an alternative to the high interest short-term credit offered by commercial banks. These funds would be channeled through, Development banks that provide long-term financing and equity for industrial development, strategic businesses like power generation and the expansion of medium sized enterprises to enhance the resources of the country; Housing banks for the development of modern housing estates and the related long-term mortgage schemes; Capital markets as a way of raising capital for investment saving and in the development of a vibrant Stock Exchange.

However, the annual budget statements for the last 12 years have promised to reform the pension sector to no avail. In 2003, the government even set up the Social Security Sector Transition Group (STG) to consult with stakeholders on viable reforms for the pensions industry in Uganda. This STG completed consultations and submitted a report to government in December 2004. Following on, a cabinet memo on pension reform was also prepared during the first quarter of 2005 and to-date this memo is still with the Ministry of Finance, Planning and Economic Development (MoFPED). In addition, there is no legal framework in place or even a regulatory body to cater for the reform of the pension sector.

The Private Sector in October, 2006 met with H.E. the President of Uganda to discuss the issues affecting the growth of the sector. Restructuring the pension sector was one of the concerns that were raised at the meeting and below are the deliberations reached;

- Ensure liberalization of the pension sector and break the NSSF monopoly.
- Widen the net of pension subscribers to include the informal sector and public servants in order to limit the burden born by the formal sector particularly those registered with NSSF.
- Optimise investments to yield a good rate of return to the savings going into NSSF.
- Re-direct pension funds towards income generating activities as a way of stimulating further savings.

Current Status of the Reform Process

- The Minister of Finance, Planning and Economic Development (MoFPED) has tabled the paper on pension reform to Cabinet for approval.
- H.E. the President has directed that the pension sector reform process should be resolved by December 31, 2006.
- Fast tracking of this process will be done by the MoFPED in collaboration with State House, PSFU, Ministry of Public Service and the Ministry of Gender, Labour and Social Development.