WORLD BANK GROUP

THE PROMISE OF EJO HEZA

A Brighter Future for All Rwandans

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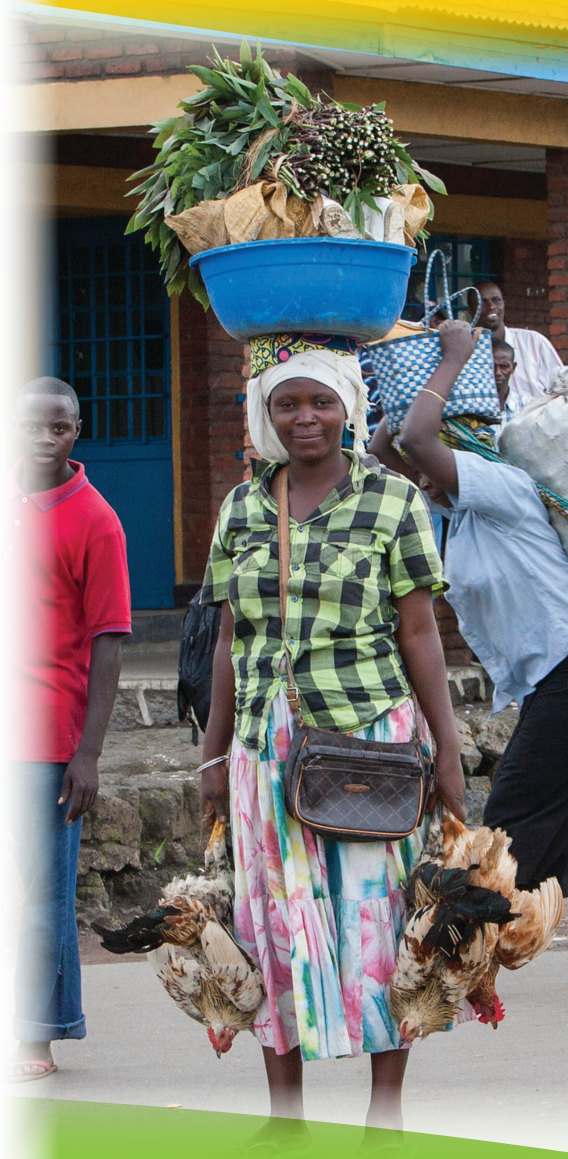
Executive Summary

The low pension coverage, notably within the informal sector/self-employed/part-time workers, has motivated countries across Africa, Asia, and Latin America to operationalize voluntary schemes. The voluntary schemes globally differ in design, incentives, who they target, and withdrawal rules, but the objective for all is to offer a scheme that meets the needs of those traditionally excluded from formal sector schemes. Among such schemes, Rwanda's Ejo Heza Long-Term Saving Scheme is emerging as a leader given its rapid coverage growth, notwithstanding the impact that COVID-19 had on its mobilization strategy. The only other voluntary scheme that has achieved success in coverage at the same scale is China's RURS scheme (at 38 percent of working age population), and it offers a generous subsidy to the poor and vulnerable groups to encourage saving in the scheme (Jain and Palacios 2021).

Over 80 percent of Rwanda's labor force works in the agricultural sector, is self-employed, or works informally in the economy as drivers, hawkers, artisans, and so forth, and therefore is not mandated to be covered under the Rwanda Social Security Board (RSSB). This leaves these workers and their dependents exposed to the risks of poverty during old age. Rwanda's formal sector pension scheme covers only 8 percent of the labor force. The high proportion of workers in the informal sector combined with changing demographics (i.e., falling fertility and rising life expectancy contributing to rapid aging) poses challenges. In recognition of these challenges, Ejo Heza was introduced in 2018 under Law N° 29/2017. It was designed as a voluntary defined contribution scheme, with short-term withdrawals under specific contribution levels are reached , and targeted incentives to cater to the characteristics of informal sector workers. Administered by the RSSB, the Ejo Heza savings scheme has registered a remarkable increase in coverage since its implementation in 2019. The fast growth in Ejo Heza's coverage has meant that any analysis based on the date must be caveated. This report includes data from 2019, 2020, 2021, and 2022. The latest numbers would likely have changed by the report's release. The report's primary aim is not to provide the most recent numbers on Ejo Heza, which is a moving target. Instead, it aims to comment on the trends and highlight the success factors and recommendations to improve the scheme.

As of December 2022, the scheme has registered 2.9 million individuals, or 22 percent of the Rwandan population, or 37 percent of the working age population, many of whom are from low-income households. The number of active savers in Ejo Heza was 2.4 million as of December 2022. Data as of 2021 shows that about 49 percent of the subscribers in Ejo Heza are females, while females account for only 32 percent of total contributors in the RSSB formal sector scheme. Informal sector workers comprised 87 percent of savers, while 12 percent were from the formal sector.



Ejo Heza, a local term that translates to 'a better future,' not only holds the promise of income security at older ages but can also be a much-needed source for domestic resource mobilization in the country. A boost to the domestic savings rate would propel Rwanda's growth and allow the country to scale up investments in the medium to long run. The assets under management as of January 2023 stood at USD 42 million, and as Ejo Heza coverage expands, the pool of savings will also grow. The scheme can grow to be one of the largest institutional funds in the country and could be a source for domestic resource mobilization. This would require robust governance arrangements and sound investment policies in place so that the fund is well-managed and provides fair returns to the members who save with the scheme.

The ecosystem, delivery arrangements and political commitment are some of the main factors for success. The ecosystem of Ejo Heza, based on a strong central digital platform interoperable with the national government ID and the social safety net databases, is a stable foundation for Ejo Heza and contributes to its success. The ease of contribution, flexibility in product design, and short-term incentives make this scheme better cater to the needs of the uncovered population. Lastly and most importantly, the political will, clarity in policy direction, and ownership across different levels of government make this a scheme that informal sector workers trust.

Despite its success, there are concerns to be addressed and room for improvement. Notable among the challenges is a need to focus on improving savings adequacy and managing expectations. A back-of-the-envelope calculation suggests that an annual contribution of RF 45,000 for at least 25 years will be needed to generate a fund balance that can produce pensions equivalent to the poverty line for 240 months. Current average savings range between RWF 9000 - 12,000, indicating a need for a strong focus on improving adequacy. If saving levels fail to increase, there is a risk of unmet expectations and low pensions when people retire. Similar reputational risks have arisen in mandatory DC pension schemes, not because of design faults but due to low or irregular contributions from the members. Ensuring persistence in savings and doing so cost-effectively is also an area to focus on. Unless individuals save for a long duration, the benefits they can receive will not be adequate. Investment returns can play a significant role in ensuring the growth of the individuals' fund balance, but with a low contribution density, there are limits to the growth possible through prudent investments alone.

While the cooperatives, as an aggregator, have proven to be a prominent feature behind Ejo Heza's success, the scheme should also focus its efforts to target informal sector workers with regular incomes. These include household enterprises, micro and small enterprises and SMES particularly those in urban areas. In doing so urban aggregators will need to be identified (maybe banks/telcos/MFIs) and innovative methods to target MSMEs, and household enterprises will be explored. Overall savings in Ejo Heza are beneficial from the micro and macro perspective. The gains made by Ejo Heza despite the COVID-19 pandemic is striking, and the low numbers in urban areas could have been the direct impact of COVID on mobility restrictions in these dense settings. The scheme is still in early phases of design improvements and recommendations as well as international experience can be helpful for Ejo Heza to achieve its goals.

Coverage expansion in the voluntary schemes of other countries (such as Thailand, India, Colombia, Vietnam, and Kenya) has not been as high as that of Ejo Heza but there are three lessons learned which are considered to be applicable for Ejo Heza. First, flexibility in withdrawals is desired (India's latest scheme, Pradhan Mantri Shram Yogi Maan-dhan, offers much more flexibility than its predecessor scheme, APY). Second, bundling can be attractive if it is communicated well and if it allows informal sector workers to get similar risk coverage as the formal sector enjoys e.g., maternity, sickness, occupational Hazard is currently only offered to formal sector in Rwanda. Colombia and Vietnam in their voluntary schemes are beginning to extend coverages for short term benefits to the informal sector as well. Third, and most importantly, finding aggregators that can replicate the 'observe and auto-deduct' role that employers play for formal sector pension schemes is a gamechanger for scaling up coverage. India has attempted to do so with

Banks, some East Asian countries are attempting the same through platforms like Uber/Gojek, while some are exploring partnerships with Telcos.

This report is a product of a two-year engagement between the World Bank team and RSSB. It aims to overview the Ejo Heza scheme, highlight its key strengths, and provide recommendations to improve coverage, adequacy, operational efficiency, and long-run viability. For this purpose, a rich set of qualitative and quantitative information collected during the engagement has been analyzed and compiled. The engagement included meetings with Ejo Heza core teams; interviews with stakeholders and partners of Ejo Heza; an assessment of Ejo Heza's operational processes using the social insurance adapted delivery chain framework; field visits in 2021; use of the World Banks's Scheme Viability Assessment Tool (SVAT) to assess Ejo Heza's viability under multiple scenarios; and most recently, a phone survey of 386 subscribers of Ejo Heza. The target audience for this report includes policymakers at RSSB looking for scheme design and delivery system recommendations to improve the desirability and efficiency of Ejo Heza and global audiences who would like to learn lessons from Ejo Heza and understand the potential reasons behind its success. Researchers and practitioners studying voluntary schemes can also benefit from the frameworks, methods, and tools used for analysis in this report.

Specifically, the report uses the Delivery Chain framework, phone survey results, and the Scheme Viability Assessment Tool to structure the findings. The **phone survey** was carried out in 2022 with the Ejo Heza communications team. A random sample of 386 Ejo Heza subscribers was surveyed, out of whom half were females, half percent were below the age of 40, and half had an active contribution status in the last six months while the rest had not contributed (dormant) in the last six months. The findings from the phone survey of Ejo Heza members showcase respondents' socioeconomic characteristics and preferences. The **delivery chain framework** developed by the World Bank (Lindert et al. 2020) allows an assessment of programs and schemes from Outreach to the Exit stage. This framework was reimagined for a social insurance scheme to analyze Ejo Heza and desk research; interviews and field visits were used to complete the assessment. The World Bank customized the **Scheme Viability Assessment Tool (SVAT)** at the behest of the RSSB, which wanted to have a model that estimates the breakeven point for Ejo Heza under different assumptions—customized for the scheme at the request of RSSB. Data used for the SVAT assessment was as of December 2020, when the number of subscribers was a quarter (about 789,900) of current numbers. The fast evolution of the scheme since the SVAT assessment reduces the validity of modeling results. However, the results highlight the benefits of doing a viability assessment, especially in countries with limited fiscal resources, to support incentives indefinitely.

The findings from the report are presented in three areas to cater to the needs of different audiences. First are specific design-related questions that policymakers at RSSB were interested in exploring using the phone survey and through any international experience. Second is the lessons learned from Ejo Heza's success which is helpful for global audiences. Third, the World Bank team's policy recommendations are grouped into seven areas.

Specific design-related questions of interest to the RSSB

(1) Allowing short-term access to funds in Ejo Heza. Sixty percent of phone survey respondents said they had access to funds in case of emergencies or to meet short-term needs, while 33 percent indicated that they had no other saving access. Ninety-two percent of all respondents said they would like partial access to their savings in Ejo Heza. These results point to a significant proportion of members, irrespective of alternate savings, wanting partial access from Ejo Heza. A promising finding is that subscribers do not wish to withdraw all funds. When questioned on how much access to funds would be desirable, 33 percent of respondents said they would like to access less than 30 percent of their savings in Ejo Heza; 52 percent said they would like between 30-50 percent fund access and less than 1 percent would like full access. Based on the findings and in recognition of the liquidity needs of the target group, Ejo Heza could consider a side-car account structure with up to 30 percent or 40 percent in a short-term liquid account and the rest in a long-term saving account that can only be accessed once savings reach the target of RF 4 million or when an individual reaches age 55.

(3) Increasing the minimum savings level to be eligible for government incentives.

The high coverage growth rates that Ejo Heza has achieved are only sobered by the finding that despite the incentives, average savings have remained low. Low savings in the contribution phase will translate to lower pensions on retirement. Individuals can save more or more often to improve pension adequacy, or the scheme can earn higher returns. Currently, government incentive is offered when individuals meet a minimum saving threshold. The threshold varies depending on the household's poverty status (Ubudehe category) to whom the individual belongs. It is hypothesized that increasing the threshold for the incentive might encourage individuals to save more and, in turn, improve their adequacy. The phone survey results found that 70 percent reported they would save more if the threshold were increased, while 30 percent expressed an inability to save more. Financial inclusion literature points to optimism in individuals' reported ability to save, and most current subscribers cannot benefit from the matching. So while some individuals might be able to meet the higher threshold, it is likely that those with lower and unpredictable incomes will need more generous matching by the government to meet those thresholds.

(2) Scaling up coverage through mandates or identifying aggregators.

Universal pension coverage remains a bold aspiration for the Ejo Heza scheme. So far, working with cooperatives to enroll their members has proved to be a successful modus operandi. Since cooperatives in Rwanda observe their members' incomes and can auto-deduct their earnings, they can take on a similar role as employers in the formal sector. To scale up coverage to include all uncovered Rwandans, the scheme will need to look for other aggregators, ideally, one that has oversight over the entire population. The only such aggregator is a tax authority, and consumption (VAT) is the only tax that all Rwandans incur, irrespective of employment or income type. The sweeping increase in ID coverage, digital payments, and growing interoperability across different government systems in Rwanda will, in the near future, make it possible for the government to divert collected VAT revenues directly into individual Ejo Heza accounts. About 60 percent of respondents in the survey said that they would most likely save if the government automatically contributed some tax revenue into their account; 27 percent said they might continue to save, and 4 percent said they might not save. Such a move would be ingenious and bold, but consultations are warranted to test the feasibility of this proposal. Another possibility for expanding coverage could be to mandate that the more well-off individuals (in categories U3 and U4) contribute to Ejo Heza. Surprisingly there appears to be support for such a move among phone survey respondents (who one should note are registered subscribers). About 68 percent of respondents said that the government should mandate Ejo Heza coverage for individuals belonging to Ubudehe U3 and U4 (the more well-off income categories).

(4) Age restrictions in joining Ejo Heza or accessing insurance benefits.

Ejo Heza is an age-inclusive scheme that allows children and older adults to save. While this is a policy choice for Rwanda, to not exclude anyone from an opportunity to save, it comes with its challenges. Individuals who start saving at older ages (for example, age 52) are allowed to withdraw at 55, but their savings would not have grown by much. There is a risk that these individuals would have unmet expectations from the scheme. If the age distribution of Ejo Heza gets skewed towards older adults (maybe because they are more worried about older age), then the scheme will need to adjust its investment policy and keep cash in hand to be able to make payments. This will hurt the scheme's ability to invest in long-term securities that provide higher and more stable returns. Without age restrictions, a private insurer's premium for life insurance is high because they need to consider adverse selection in their pricing. By restricting the age for eligibility for the life insurance benefit, RSSB and MINECOFIN can negotiate globally competitive rates on life insurance under Ejo Heza. The government can retain the age-inclusive characteristic of Ejo Heza whereby an individual of any age can save, but the life and funeral benefits are provided to savers below a certain age. Lump sum or pension payouts can also be restricted to those with a minimum of five years of membership or after reaching savings of RF 4 million (whichever occurs sooner).

Key factors for Ejo Heza success and lessons for other schemes

1. **A sound legal basis for the scheme and alignment with GoR's strategic priorities-** A key intervention under the Economic Pillar of the NST1 2017-2024 was to operationalize a long-term savings scheme and pension for all Rwandans, including those in the informal sector as a basis to support long-term domestic investments. Following this strategic priority the GoR, through the MINECOFIN established EjoHeza Long Term Savings Scheme under Law N° 29/2017 of 29th June 2017.
2. **Set targets at sub-national level and recognize those who meet them:** This helps with increased ownership, higher accountability and leads to innovative campaigns by district level staff who want to be recognized. The targets themselves need to be well designed and the central office needs to support districts e.g., through a designated District Coordinator in Ejo Heza.
3. **Build trust in the institution and political will:** The Government of Rwanda and RSSB enjoy their people's widespread trust, which is a key advantage. In countries that might not have that, efforts need to be made at the policy and program level to establish trust and maintain it.
4. **Identify aggregators to onboard subscribers:** Aggregators who can 'observe and auto deduct', like cooperatives, can serve as an effective substitute to employers for those in the informal sector.
5. **Offer fiscal incentives:** Especially in the initial stages, when the scheme is likely to have operational teething troubles, a monetary benefit is expected to get more people interested in joining.
6. **Offer a tangible benefit for the short run:** Benefits such as life and funeral insurance, currently unavailable to informal sector workers are easily understood and feel like a good 'bargain' for locking away their money.
7. **Balance flexibility in design:** This would meet the needs of informal sector workers without acutely compromising the objective of retirement security.
8. **Be adaptable and agile:** The informal sector is dynamic and has evolving needs, so a scheme needs to be designed to 'meet the clients where they are found'. The traditional methods of social security organizations that cater to the formal sector are unlikely to be successful.
9. **Leverage digital infrastructure like ID and payment to make registration, contribution, and payments easy and efficient**. It also makes the individual account portable across jobs, locations, and service providers, which is critical for informal sector workers who are mobile and would like to be assured that their modest savings are safe
10. **Explore partnerships at the sub-national and civil society level:** Ejo Heza's partnership with mayors, CARE VSLA, Rwanda Cooperative Authority, and volunteer village-level mobilizers help with mobilization efforts.
11. **Ensure clear, consistent, and intuitive communication:** This can be done through leaflets, video, radio messages, call centers, and district coordinators who are knowledgeable enough to answer questions and are committed to the scheme's success (through monetary or non-monetary incentives).

World Bank policy recommendations based on analysis in the report

The Ejo Heza scheme has become a success story globally and is a signal to countries that voluntary coverage expansion can be a reality for low and emerging economies. The engagement's findings show that Ejo Heza must also focus on improving adequacy, scheme viability, and customer experience while expanding coverage and making operations smoother. Accordingly, the report concludes by providing recommendations grouped under seven thematic areas.

Recommendation 1: Communications: Keep doing what's working, fix the gaps, and explore new avenues.

i. **Reshape the narrative on why people should save in Ejo Heza**—steering away from incentives to highlighting prospects of a pension, and competitive and safe returns

ii. **Recognize and develop different targeting and communication strategies** for urban/rural; USSD/smartphone users; women/men, individuals with/without phones.

iii. **Create short (<1 minute) 'how to' videos** that can be shared on WhatsApp/YouTube and show how to register, contribute, check balance, and get enrollment information.

iv. **Build a community of mobilizers (paid or volunteers**) and make them feel part of one 'Ejo Heza family' by holding quarterly meetings and awarding tokens of appreciation.

v. **Engage with other aggregators** who might have an 'observe and auto-deduct' capability especially in urban areas.

vi. **Adopt a *'Tech with touch'* motto** to avoid excluding those with limited digital access (women, children, low-income members) and in vulnerable situations (after death of a member or disabled).

vii. **Create 'digital contracts' using information collected at the registration stage** that can be accessed by members with a #text and can serve as proof of membership.

Recommendation 2: Focus on improving persistency and preparing for withdrawals/payouts

i. **Revisit targets for districts using objective criteria** to reflect socio-economic differences by district.

ii. **Enhanced efforts to target urban dwellers**

iii. **Assess and manage members' expectations** on expected fund balance in old age, given their saving levels.

iv. **Highlight the competitive and stable returns** in the communication material, and in-person visits.

v. **Explore the potential for 'auto deduction'** in partnership with Mobile Money operators and Banks.

vi. **Promote the registration of spouses and children of existing members.**

vii. **Improve system readiness to process withdrawals, pension payouts** and evaluate their cost/investment implications.

Recommendation 3: Revisit incentives as 'experience' on the scheme develops

i. **Assess (empirically) whether RF 4 million** is a hard-to-meet target for most Rwandans.

ii. **Renegotiate insurance premiums** after imposing age restriction on eligibility

iii. **Consider incentives for agents/intermediaries based on a cost-benefit analysis** and experience from countries.

iv. **Pilot other short-term incentives to members**, for example, accident insurance, maternity benefits to savers in Ejo Heza, or points in a grocery store/mobile money top-ups/chance to win a lottery if one saves persistently.

Recommendation 4: Improve interoperability with other government systems and integrate with the private sector

i. **Ensure real time updates on the Ubudehe category of** members by registering on the 'messaging queue' of LODA MEIS.

ii. **Integrate Ejo Heza platform with banks, SACCOs, mobile money operators** so that they can be intermediaries (similar to cooperatives) who register and collect contributions.

iii. **Integrate with IREMBO** so individuals can submit claims/check balance.

iv. **Integrate the system with RCA to allow sharing of 'real time' information on cooperatives.**

v. **Integrate with the insurance benefits provider (Sonarwa currently) so that Ejo Heza teams can see the application status and reason for delay.**

vi. **Review and ensure that data privacy and security controls** are in place for registration through intermediaries.

Recommendation 5: Strengthen learning, monitoring, and evaluation

i. **Generate quarterly reports on monitoring and evaluation (M&E) indicators for management.**

ii. **Redo the World Bank SVAT analysis based on new data and consider withdrawal patterns.**

iii. **Organize study tours with countries that have relevant experience** to share.

iv. **Engage with researchers to carry out Impact Evaluations.**

Recommendation 6: Build human resource capacity and leverage external expertise as needed

i. **Evaluate the human resource policy for Ejo Heza team members with attention to staff shortage, capacity constraints, and short-term nature of contracts.**

ii. **Recognize and reward better HQ, district, and sector-level performers**.

iii. **Build technical capacity and review staffing of call center.**

iv. **Engage in regular training of agents** (paid and volunteer).

v. **Adapt systems and build capacity to generate 'intermediary logins'** at the district level.

vi. **Hire a PR firm to work with the communications team to craft tailored and creative messages targeting children, urban workers, women, and youth (age 16–30).**

vii. **Hire a statistical expert to analyze data, design research questions, and monitor call center staff during a survey**

Recommendation 7: Collect better data and mine it for policy making

i. **Build a more extensive profile of members by cross-referencing data from other government databases as relevant.**

ii. **Add a question at registration, such as 'Who helped you register?' .**

iii. **Collect data on 'occupation' at the time of registration and use the same categories as Rwanda's household survey data.**

iv. **Analyze panel data of participants** to uncover trends over time**.**

v. **Propose a module on social insurance in the next round of ECIV (HHLD) survey** by collaborating with the National Institute of Statistics of Rwanda.

vi. **Add monitoring and evaluation indicators in the IT dashboard of Ejo Heza .**

vii. **Add a question on the 'cause of death'** to build experience ratings and better price life insurance.