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Crane Bank saga: Lessons for retirement benefits sector

Since 2011, there have been spirited attempts to pass the Retirement Benefits Sector Liberalisation Bill. The promoters of this law argue that if passed it will provide workers with more choices and better returns on their savings.

Currently, both employers and employees in the private sector are mandated to save with the state owned National Social Security Fund (NSSF).

If the law is passed, the NSSF will cease to exist and workers will have the option of selecting a retirement scheme with which to entrust their savings from a pool of private schemes licensed and regulated by the Uganda Retirement Benefits Regulatory Authority (UBRA).

At the moment, the Authority is headed by David Nyankundi who previously worked for the Kenya Retirement Benefits Authority. Incidentally, he comes from a country (Kenya) that still maintains a state backed retirement scheme that is not different from Uganda's NSSF.

It is, therefore, ironical that Uganda with a relatively smaller economy is rushing to liberalise its retirement benefits sector and decimate the NSSF under the guise of widening choices of workers in respect to retirement benefits schemes and the promise of high returns on investment.

Unfortunately, the Bill in its current form greatly detracts from this objective and in fact exposes workers to serious risks of losing their entire savings.

It should be noted that in calculation of the final benefit to the worker, the scheme is entitled to reduce the final settlement by all expenses and losses incurred in the administration of the fund.

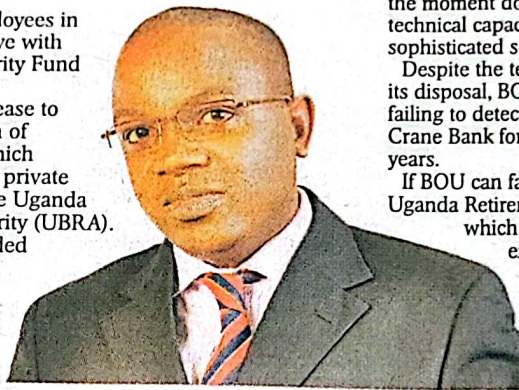
This puts workers savings at a great risk since they don't have control over the often-exorbitant costs of running private schemes.

On the other hand, under the current arrangement, the law guarantees workers all their savings and in addition compels the responsible minister to declare interest of not less than 2.5 % on every workers savings every year. There is no similar requirement under the Retirement Benefits Sector Liberalisation Bill and it is entirely up to the retirement scheme to determine how much interest they pay workers who save with them.

Needless to mention that increasingly the majority of schemes seeking to be licensed are foreign based presenting an even greater risk to the safety of workers' savings.

Unlike state backed schemes, the chief motivation of private schemes is cheap capital and profit and for this they have an insatiable appetite for high return ventures, but which are not without risk.

In the face of this reality, the proponents of the Bill and the liberalisation agenda have argued that workers interests



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will be well protected by the recently established Uganda Retirement Benefits Regulatory Authority.

Counter to this propaganda and in view of the recent Crane Bank saga, I argue that Uganda Retirement Benefits Regulatory Authority at the moment does not have the experience and technical capacity to regulate this highly volatile and sophisticated sector after it has been liberalised.

Despite the technical capacity and resources at its disposal, BOU has been put in the spotlight for failing to detect the alleged fraud associated with Crane Bank for over a period of more than three years.

If BOU can fail, how about a thinly constituted Uganda Retirement Benefits Regulatory Authority, which at the moment is presided over by an expatriate?

Liberalisation is a Brettonwood Institutions agenda which world over has failed to deliver the much-anticipated reform and growth. In fact, many countries are reverting back to direct state ownership and investment in critical sectors such

as banking and the retirement benefits sector. The Crane Bank saga epitomises the failure of the liberalisation experiment in Uganda's banking sector.

Many other banks have fallen and perhaps many more will fall in the near future if we don't learn from the current saga. Liberalisation of the retirement benefits sector will, therefore, tantamount to an act of suicide and will constitute the full cycle of the failed liberalisation experiment.

Gladly, several workers' rights groups including trade unions have been quick to realise the threat posed by the proposed law to workers savings and have been at the forefront of protesting its enactment.

That said, I would be committing the proverbial act of hiding one's head in the sand while leaving the rest of the body exposed if I did not acknowledge the challenges associated with the NSSF. In this regard, my suggestion is to have the NSSF Act reformed to improve and strengthen governance, transparency and accountability.

A number of other progressive aspects that should be incorporated into the law include that such as the compulsory savings for all workers irrespective of whether the employer meets the current threshold of five workers or not or whether one is employed in the informal sector or not. This way we shall avoid the trap of vesting false hopes in regulators and guard against another huge scandal this time in the retirement benefits sector thereby upholding the dignity of the Ugandan worker in retirement.

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