



BASELINE SURVEY ON CONFIDENCE LEVELS IN MICRO-PENSION PRODUCTS IN KENYA

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To everyone who participated in the survey in one way or another, we express our deepest gratitude and look forward to building on this success together. It is our sincere hope that the findings and recommendations herein will inspire actionable solutions, transformative growth and dignified retirement of our older population. To everyone who has been part of this journey, thank you for your trust, collaboration and support.

ABSTRACT

The survey sought to gauge the confidence level in micro-pension products in Kenya. It also sought to assess the awareness and factors affecting membership in micro pension schemes. Further, the survey sought to assess the challenges associated with pension schemes and make policy recommendations based on the research findings.

The Survey revealed that the informal sector workers had high confidence level in retirement schemes and were willing to join and make contribution to the schemes albeit in small amounts. The survey also revealed that the majority of the workers in the informal were young people and most of them had accessed the credit under the financial inclusion fund popularly known as the “hustler fund” but majority of the them were not aware of the purpose of the 5% deducted from the loan disbursed.

The survey also revealed that the uptake of pension products among the informal workers is still low and only a small proportion of the informal sector workers are were members of a retirement benefits scheme. From the survey findings only 14% of the respondents were members of a retirement benefits scheme. Further, the survey findings revealed that the awareness level and trust on pension schemes was low.

The study recommends for development of simple, affordable and pension products tailor made to suit the informal sector needs and expectations. The informal sector pension product should leverage in technology which is secure and offer a variety and array of options and capabilities. The study also recommends for development of Micro Pension specific legal and regulatory framework.

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1.0 INTRODUCTION

The retirement benefits sector in Kenya, an integral component of the financial sector has witnessed a remarkable growth over the years. It has become a key pillar in securing the financial future of the Kenyan workforce. Retirement savings therefore has become increasingly important as individuals age and thus the need for a structured arrangement in which people can save and secure their retirement. This is more critical in Kenya, where a majority of workforce is in the informal sector and are not covered in any retirement benefits arrangement. This situation is worsened by the shrinking fiscal space. This prompted the government to institute both legal and regulatory reforms, which saw the enactment of the Retirement Benefits Act, No. 3 of 1997 and the establishment of the retirement benefits regulator, the Retirement Benefits Authority (RBA) to among others to oversee the establishment and management of retirement benefits schemes and safeguard the interests of the members while ensuring the stability and growth of the retirement benefits sector.

Over the years, the Kenyan government, through the Retirement Benefits Authority (RBA), has implemented a series of reforms aimed at enhancing the governance, transparency, and performance of pension funds. These reforms include the introduction of new regulations, guidelines, promotion of the development and innovation in the pension sector as part of the efforts to cover the uncovered, more so, the informal sector workers who are largely excluded in the current retirement benefits arrangement. The retirement benefits Authority in its strategic plan for the period 2019-2024 recognized low pension coverage as one of major challenge in the pension sector. It therefore targeted to increase the pension coverage to 30 per cent by the year 2024 placing special focus to the informal sector, which the plan identified as a key driver for growth.

Following the reforms and implementation of various initiatives, the retirement benefits sector has grown both in sophistication and product offerings which has seen the introduction of various retirement benefits products which includes micro-pensions. The new products in the sector leverages on technology which have been amplified following the adoption of mobile money. Despite the growth, the pension sector still faces challenges. The pension coverage is low, with 26% of working population being covered under retirement benefits arrangement (RBA, 2022). This leaves out a big proportion of the working population who are mainly in the informal sector, despite the efforts and intervention measures undertaken by the government and the pension industry players. The uptake of pension products among the informal sector workers has been dampened and hampered by a number of factors, key among them the low and irregular income coupled with complex and vexatious products not tailor made to suit their needs nor their economic situation.

A study commissioned by the Retirement Benefits Authority (RBA) and funded by the World Bank in 2017 to study the challenges facing MBO, an informal sector pension scheme in Kenya, identified the following challenges as the key barriers to pension uptake by the informal sector workers: lack of trust and confidence among informal sector participants in the products offered by pension schemes; high administrative costs; legal framework not designed for informal sector workers, and pensions product not attractive to the sector as it does not address pressing short-term needs. These challenges still persist.

The government through the National Treasury therefore established the Kenya National Entrepreneurs Savings Trust (KNEST), a national informal sector scheme

to cater for the needs of the informal sector workers. This in part to implement the recommendations of the MBAO study. The scheme is at its nascent stage and still incubated in the National Treasury until it gains scale and be sustainable. This study therefore aims to assess the confidence level of Kenyans in taking up the new scheme.

1.1 Problem Statement

The labour market in Africa is characterized by large informal and self-employed workforce, with a small formal or salaried workforce. Workers are informally employed and their employment terms are not subject to the national labor laws, income taxation, social protection and other employment benefits and entitlements (ILO, 2028). This therefore pose a challenge in extending pension coverage in many developing countries, thus, the right to social protection of older persons is not a reality for many (ILO, 2017:2018). A large proportion of the older persons therefore still depend heavily on family support arrangements (ILO, 2018). This creates furthers strains the individuals and the government.

Kenya, is not insulated from this dilemma. The labour market in Kenya is largely informal, and, majority of the workers are financially excluded despite the fact that Kenya has made strides in financial access as demonstrated in the 2021 FinAccess Household Survey in which the financial access stood at 83.7%. The informal sector workers are not adequately covered in the retirement benefits arrangements, with a paltry 1.9% of the informal sectors being covered in retirement benefits arrangement, notwithstanding Kenya having a mandatory scheme, National Social Security Fund (NSSF).

The low pension coverage in developing countries is not a new problem especially in countries like Kenya where a large proportion of the population work in

subsistence agriculture. Worst still, most retirement benefits schemes and pension arrangements are designed to cater for workers in the formal sector workers thus resulting to low pension coverage among the informal sector workers (RBA, 2020; Guven, 2019). The existing pension products do not adequately cater to the diverse and heterogeneous needs of informal sector workers in Kenya. The current pension arrangement are predominantly designed to suit formal sector employees who are able to make contributions on monthly basis thus failing to meet the unique requirements of informal sector workers whose incomes are irregular and unpredictable.

Further, the current pension arrangement do not provide for relevant, responsive and appropriate benefits which meet the needs of the informal sector workers in addressing the multiple risks and shocks they are confronted across their life cycle (Kwena and Turner, 2013). This problem is further complicated by the rapid growth of the workforce active in the informal economy (Reynaud, 2002). A survey by Retirement Benefits Authority on the “Influence of Demographic Factors on Savings in the Informal Sector” which surveyed 1,083 participants from the Kenya National Jua Kali Federation across the country on their saving habits and retirement preparedness amongst the participants noted that although 76% of the participants somewhat saved their income, only 9% made long-term savings towards retirement (RBA, 2012b).

The issues highlight above, therefore, demonstrate a pressing need for research and intervention to develop pension solutions that are accessible, affordable, and best suit to the unique needs of Kenya's informal sector population. Further, very little research has been carried out on the informal sector in Kenya (Murunga,

Kinyanjui and Wawire, 2021). This study therefore aims to assess the confidence level of micro pension products in Kenya.

1.2 Survey objectives

The survey sought to address the following objectives:

- a) Assess the general confidence level in micro pensions products in Kenya;
- b) To assess the awareness and factors affecting membership in micro pension schemes;
- c) To assess the challenges associated with pension schemes;
- d) Make policy recommendations based on the research findings.

2.0 LITERATURE REVIEW

2.1 Introduction

The pace of population ageing has been accelerating rapidly and it is estimated that by the year 2030 about 1.4 billion people will be age 60 years and over. The population of the older persons is projected to double by the year 2050 to reach approximately 2.1 billion globally and most of them will live in the low and middle income countries (HelpAge, 2024). The rapid increase in the older population is partly attributed to increase in longevity due to reduced mortality and the rising life expectancy.

Kenya like the rest of the world is facing the same challenge. The older population is rising fast¹. The older population in Kenya is estimated at 6 percent of the total population (KNBS, 2019). The 2019 Kenya National Census Report estimated the population of the older persons at 2.7 million against the total population of 47.5 million. The rapid growth of the older population has been witnessed since the first census in 1949 which the older persons stood at 270,000 and by 2009, the older person had reach 1.9 million.

Ageing population comes with both opportunities and challenges. UNFPA & HelpAge, 2012 notes that ageing population is both a celebration and a challenge. Ageing population present social, economic and cultural implications to individuals, families, societies and the global community. However, little attention is given to the consequences of ageing on the wellbeing and livelihood older people. Public policies often do not focus on older people as a distinct group and

¹ The Constitution of Kenya 2010 defines 'older member of society' as anyone who has attained the age of sixty (60) years.

assume that they will benefit from policy actions directed at broader population groups (HelpAge, 2024). Further, most of the older persons are adequately covered under social protection despite being a basic human right . Globally, 77.5 percent of older people benefit from social protection but, in Africa, this proportion is only 27.1 percent (HelpAge 2024). The older persons are therefore exposed to shocks, crises and other vulnerabilities.

Pension play a key role in ensuring that the elderly persons in the society have an income in retirement to ensure that their basic needs are met (RBA, 2020). The Constitution of Kenya (2010) espouses comprehensive Bill of Rights. Article 43(1) guarantees all Kenyans their economic, social, and cultural rights. Article 43(1)(e) guarantees the right to social security. Further, article 43(3) obligates the State to provide appropriate social security to persons who are unable to support themselves and their dependants. Article 57 obligates the state to take measures to ensure the rights of the older persons and particularly live in dignity, respect and free from abuse.

The Constitution also recognize the application of international treaties and conventions ratified by Kenya to form part of the Constitution. Kenya has ratified a number of treaties and conventions which among them touches on social protection and social security. These include among others, the Universal Declaration of Human Rights (1948), UN and ILO conventions as well as regional agreements including the African Charter on Human and Peoples' Rights (1981) and the East African Community Common Market Protocol which recognizes social protection as a fundamental human right for all citizens of the world.

However, majority of the older persons are not adequately covered under the social protection despite various efforts undertaken by the government including the cash transfer programme. Similarly, the pension coverage is low standing at 26 percent of the labour force in 2022 (RBA, 2022). Further, those covered under the pension arrangement are largely working in the formal sector leaving behind the bigger population working in the informal sector.

The Economic Survey 2024 indicates that 20 million Kenyans were engaged in employment in 2023 and over 16.69 million were engaged in the informal sector translating to 83.45 percent of the working population. The informal sector thus, plays a significant role in the economy. World Bank (2019) notes that in some Sub Saharan Africa economies, the informal employment accounts for 90 percent of the total employment and informal output 62 percent of GDP. The informal enterprises on the other part account for 8 out of every 10 enterprises in the world (ILO, 2020). Kenya National Bureau of Statistics estimate that informal sector often referred to the Micro, Small and Medium Enterprises (MSMEs) contributed 33.8 percent of the National Gross Domestic Product in 2015 (KNBS, 2016).

However, the informal sector workers are not adequately covered in pension arrangements. The coverage of pension systems in the African region is limited to the small segment of the population in the formal sector (Guven, 2019). The informal sectors are grossly excluded from access of the formal social risk management mechanism (Holzmann and Jorgensen, 2000). This is convoluted further by the fact that the traditional informal supports systems are weakening due to the changing demographic patterns, urbanization, cultural behavioral and social economic situation thus leaving the vulnerable population exposed to the impacts of the downside risks. Low income people around the world, more so the

informal sector workers are not adequately served by banks and other financial institutions, yet they often have same needs as the higher income people or the workers in the formal sector for financial services such as pensions (Kwena and Turner, 2013). This therefore calls for a well research solution to address the complex challenges and barriers to access and uptake of pension products.

2.2 Barriers to Participation of Informal Sector Workers in Pension scheme arrangements

The informal sector is heterogenous in nature. It consist of enterprises/businesses of different nature and sizes (Micro, Small and Medium enterprises) and of which some licensed while others are not licensed. The workers on the other hand are engaged under different labor arrangements from contractual, casual, seasonal to unpaid labour or family labour (RBA, 2020). Even though, the informal sector plays a vital role in the economy both in contribution to GDP and being a major source of employment, the pension uptake among the workers remains low.

One of the biggest challenge of achieving broad based and truly inclusive micro pensions programme in African countries has been the demographic that it targets is financially excluded, non-salaried informal workers with intermittent income, distrusting of and intimidated by the traditional financial institutions. They are also extremely price sensitive with limited financial literacy and unwilling to deal with cumbersome formalities that come with multiple prerequisites (Pillai, 2023). Informal sector workers have certain characteristics that alienate them from formal pension arrangement (RBA, 2012). The working poor and self-employed continue to have a specific and strong rationale for avoiding participation in the multi-pillar pension system and that transactions costs, system design issues, and problems of

credibility negatively influence the decision of all members of the labor force to participate (Holzmann and Truman, 1999).

Various studies (RBA, 2018: 2012: 2020; Kwena and Turner, 2013; Mwabu, 2012) have highlighted some of the barriers to participation in formal pension scheme arrangement by the informal sector workers to include: temporary nature of their employment, inadequate and irregular income, Complexity of pension schemes, in-accessibility of retirement benefits for short term needs, lack of trust, lack of formal documentation, perceived risks, lack of adequate education, Policy and institutional factor, legal and regulatory framework.

2.2.1 Low and Irregular Incomes

Kwena and Turner (2013) notes that extending pension coverage to the informal sector is difficult since the informal sector workers generally earn low and variable incomes. The informal sector workers therefore cannot be able to make regular contributions and at specified contribution rates as the case of the formal sector workers. The contributions and contribution rates for formal sector workers are often high and may be untenable or unreachable for the informal sector workers.

2.2.2 Lack of Trust

Trust is essential for the functioning of any financial system, including pension schemes. According to Akerlof (1970), trust in economic transactions reduces transaction costs and facilitates cooperation. Trust deficit affects the willingness of informal sector workers to participate in formal pension schemes (RBA, 2012b; 2018). Trust deficit is high in the informal sector given that their relationships are often based on personal networks rather than formal institutions, in this case, trust takes on a different meaning. Further, the lack of specific informal sector legal

framework and enforcement mechanisms also convolute the matter, leading to concerns on the security and reliability of pension savings in the informal sector.

2.2.3 Lack of Formal Documentation and Records

The informal sector is characterized by a lack of formal documentation and records. The absence of formal contracts in the informal sector causes many workers not to be able to access social security (RBA, 2020). Further, lack documentation poses challenges for pension providers in verifying incomes and contributions, which are essential for administering pension schemes effectively (Mwabu, 2012). Without reliable records, informal sector workers may be skeptical about the security of their contributions and the likelihood of receiving benefits in the future.

Social norms and informal networks play a crucial role in the informal sector. According to Ardington et al. (2009), informal networks often provide a safety net for workers, offering support in times of need. However, these networks may not align with formal pension schemes, leading to a preference for informal savings mechanisms that are perceived as more trustworthy and accessible.

2.2.4 Perceived Risk and Uncertainty

Akwasi (2020) suggests that perceived risk and uncertainty are significant barriers to pension participation among informal sector workers. Trust deficits arise from concerns about the stability of pension funds, the transparency of management practices, and the ability of providers to deliver promised benefits. These concerns are exacerbated by limited financial literacy and awareness of pension options (Ochien'g & Kwasira, 2015).

2.2.5 Lack of Financial and Pension Education

Financial literacy plays a critical role in influencing the savings behavior and member participation in retirement benefits schemes. It enables members to make informed judgements and effective decisions regarding the use and management of financial resources. However, financial literacy levels in developing countries, Kenya included is low.

According to DFID 2008 notes that half of the half of the adult population knew how to use basic financial products. A saving culture for retirement is largely absent in most African countries. Workers fail to save in a pension scheme due to lack of knowledge of what a pension is, and why it's important when retiring (RBA 2020b). Workers in the informal sector tend to be lower-skilled, with low access to finance and safety nets (Perry et al.; 2007; RBA, 2012; Loayza, 2018; World Bank 2019).

According to Mwabu (2012), increasing financial literacy among informal sector workers enhances understanding of pensions and build confidence in formal savings mechanisms. It is also critical in addressing trust deficits. Pension education programs that provide information on pension schemes' features, risks, and benefits have been shown to increase participation rates (Ouma, 2016).

2.2.6 Legal, Policy and Institutional Factors

The regulatory environment significantly influences trust and participation in pension schemes. According to Ouma (2016), a clear and supportive regulatory framework is essential for promoting pension savings in the informal sector. Regulatory reforms that simplify registration processes, improve governance

standards, and protect savers' rights can help build trust and encourage formal savings.

2.2.7 Role of Pension Providers and Institutions

Pension providers play a critical role in building trust. According to Ardington et al. (2009), institutions that demonstrate transparency, reliability, and accountability are more likely to attract informal sector workers. Collaborative efforts between public and private sectors can enhance outreach and tailor pension products to meet the needs of informal sector workers (Akwasi, 2020).

From the foregoing, it is therefore imperative for the government to put in place the necessary measures to ensure the rights of older persons more so on social security. However, this has not been fully achieved. There is therefore a need for research to understand the factors affecting the pension uptake and more so the micro pension.

3.0 METHODOLOGY

3.1 Study Population and sampling design

The survey targeted the informal sector workers across the country in the forty seven (47) Counties, working in the various sectors in the which included Jua Kali, transport comprising of boda boda and matatu workers, Textile/mitumba, Manufacturing & Construction, and small businesses/mama mboga. The survey was successfully carried out in thirty one (31) Counties. The informal sector associations were involved to serve as an entry point and introduce the researchers in order to ensure successful collection of data. The study utilized mixed research design which included qualitative and quantitative research. The data collection questionnaire was designed to capture both quantitative and qualitative information.

3.2 Data Collection and Analysis

The data collection was undertaken in June 2024. A semi -structured questionnaire administered by staff of KNEST Plc was used to collect the data and information from the respondents. The respondents were given verbal instructions and informed of the purpose of the study to minimize any bias and ensure completeness of the survey. The data collection was largely through face-to-face interviews. The data was collected in thirty one (31) counties. The survey was not conducted in eighteen (18) Counties owing to logistical challenge and security situation. The data collected was captured using google forms and analyzed in excel using tables and graphs.

3.3 Ethical Consideration

Ethical considerations were abided by the researchers while conducting survey. The researchers ensured that the identity and data of the participants were protected throughout the survey. The researchers maintained confidentiality of the respondents and the information provided. The researchers endeavored to build trust with the respondents so as ensure the quality and reliability of the data collected, as well as safeguard the integrity of the survey and the KNEST Plc. The researchers also informed the respondents the purpose of the study and sought consent of the respondents to participate in the survey without compelling them at any point in time during the interview process.

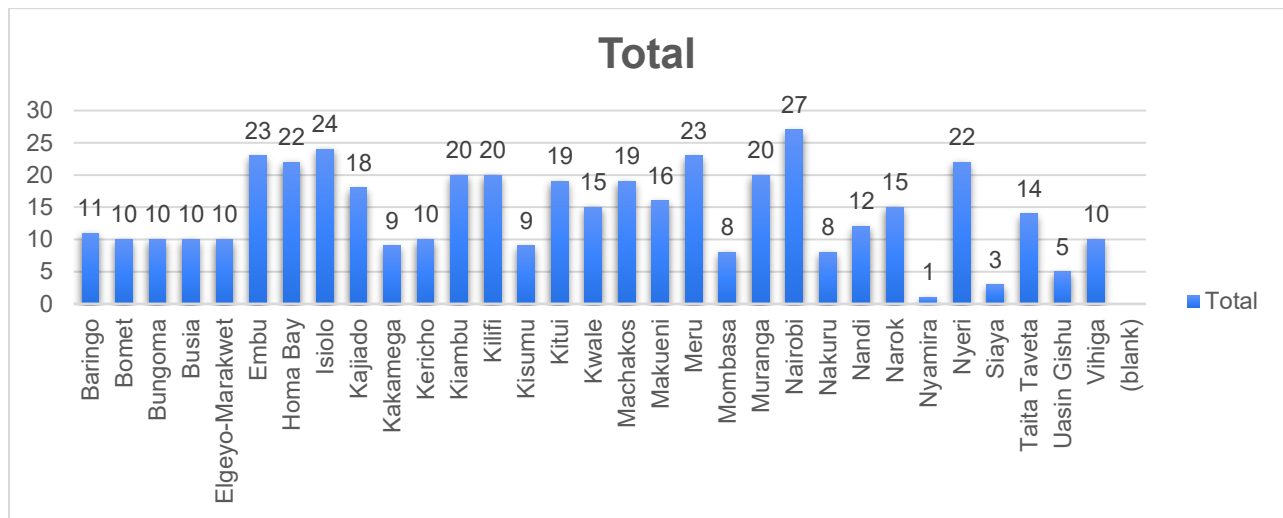
3.5 Limitation of the Study

The survey targeted the forty seven Counties across the country, but only thirty one (31) Counties were covered. Eighteen (18) Counties were not covered owing to budgetary constraints and the fact that a number of Counties are disperse and some had security challenges. Similarly, the success of the survey depended on the willingness of the respondents to participate in the interview. Further, the survey was carried out at the height of tensions following “the Gen Z” demonstrations which ensued arising from the concerns in the rejected Finance Bill 2024. These challenges were addressed by organizing the researchers into teams so as to cover more Counties and involvement of leaders of the informal sector associations who also provided contact persons in various regions and facilitated the researchers to navigate the regions and ensure the success of the interviews.

4.0 SURVEY FINDINGS

4.1 Response Rate

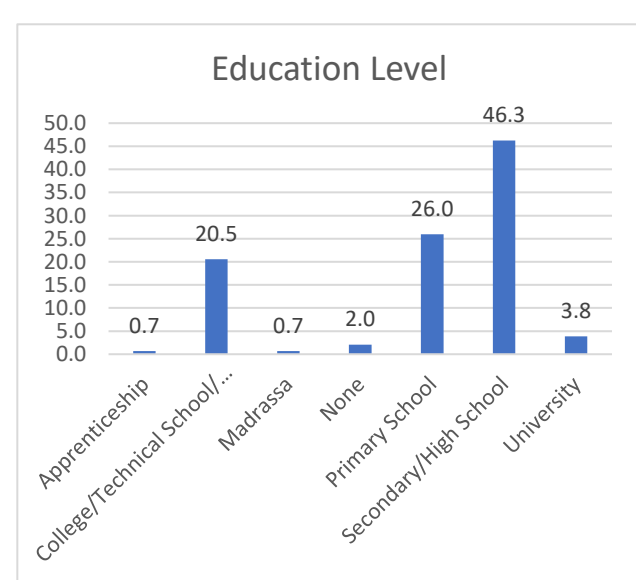
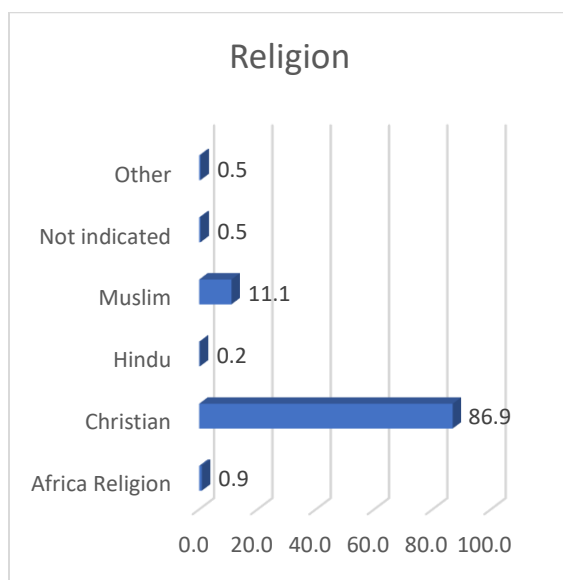
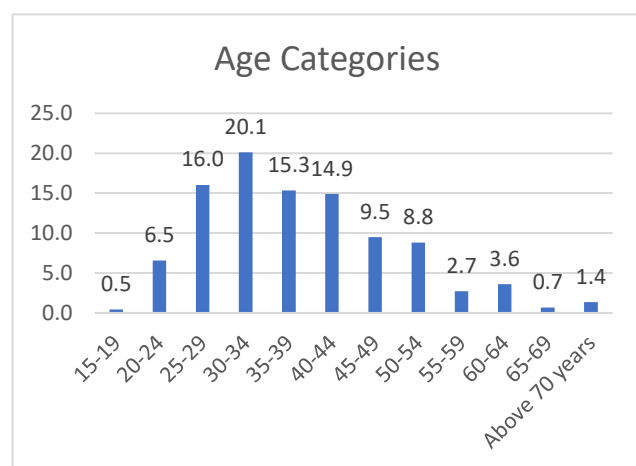
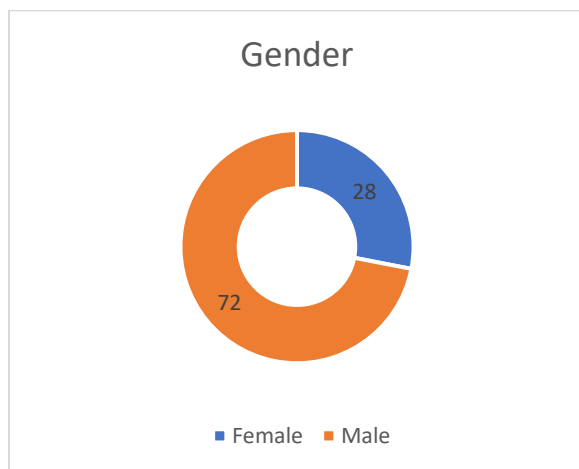
During the survey, a total number of 443 respondents were interviewed in 31 counties against a target of 620 respondents translating to a 71.5% response rate. The distribution of respondents was highest in Nairobi with 27 responses followed by Isiolo with 24 responses. The least was Nyamira with 1 response as shown in the figure below.

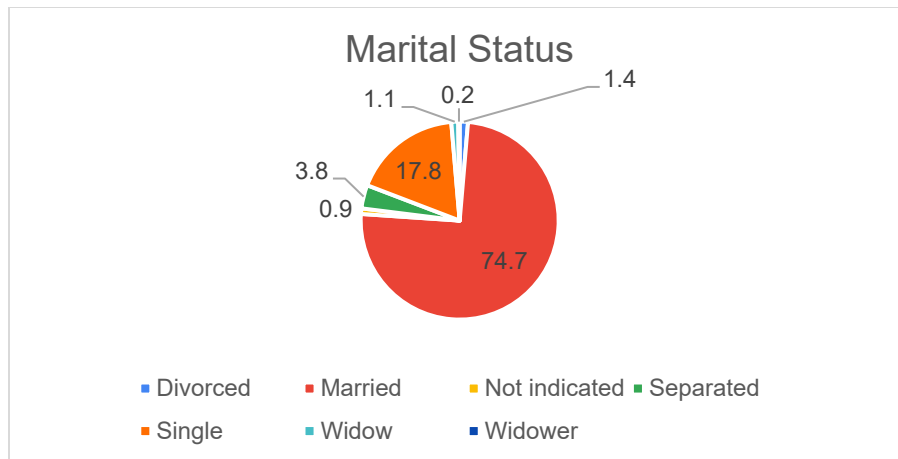


4.2 Demographic Data

In the survey conducted, 28% of the respondents were female while 72% of the respondent were male. The skewed population in the informal sector towards men can be attributed to the nature of work in the informal sector which is largely menial and physical. In terms of age, majority of the respondents were below age 50 years constituting 82.8% of the respondents. A sizeable number of the respondents were between age of 30-34 years constituting 20.1% of the respondents. This was followed closely by those in the age between 25-29 years. Those who were between the ages of 20-24 years constituted 6.5% of the respondents. The age distribution tended to the younger population owing to the

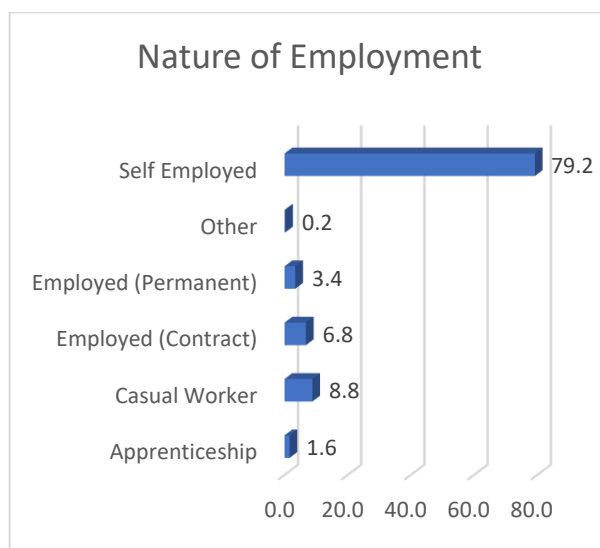
fact a majority of the workers in the informal sector were in the transport sector mainly “BodaBoda” and matatu industry. This also could be a reflection of the unemployment among the young youthful population. Those who are married were 74.7% followed by those who are single at 17.8%. On religion, majority of the respondents (86.9%) were Christian, while 11.1% were Muslims. In terms of the education level, majority of the respondents (46.3%) had secondary education, followed by primary education at 26%. Those who had colleges/tertiary/polytechnic were 20.5% while those who had university education were 3.8%. The figures below summarizes the demographic data.





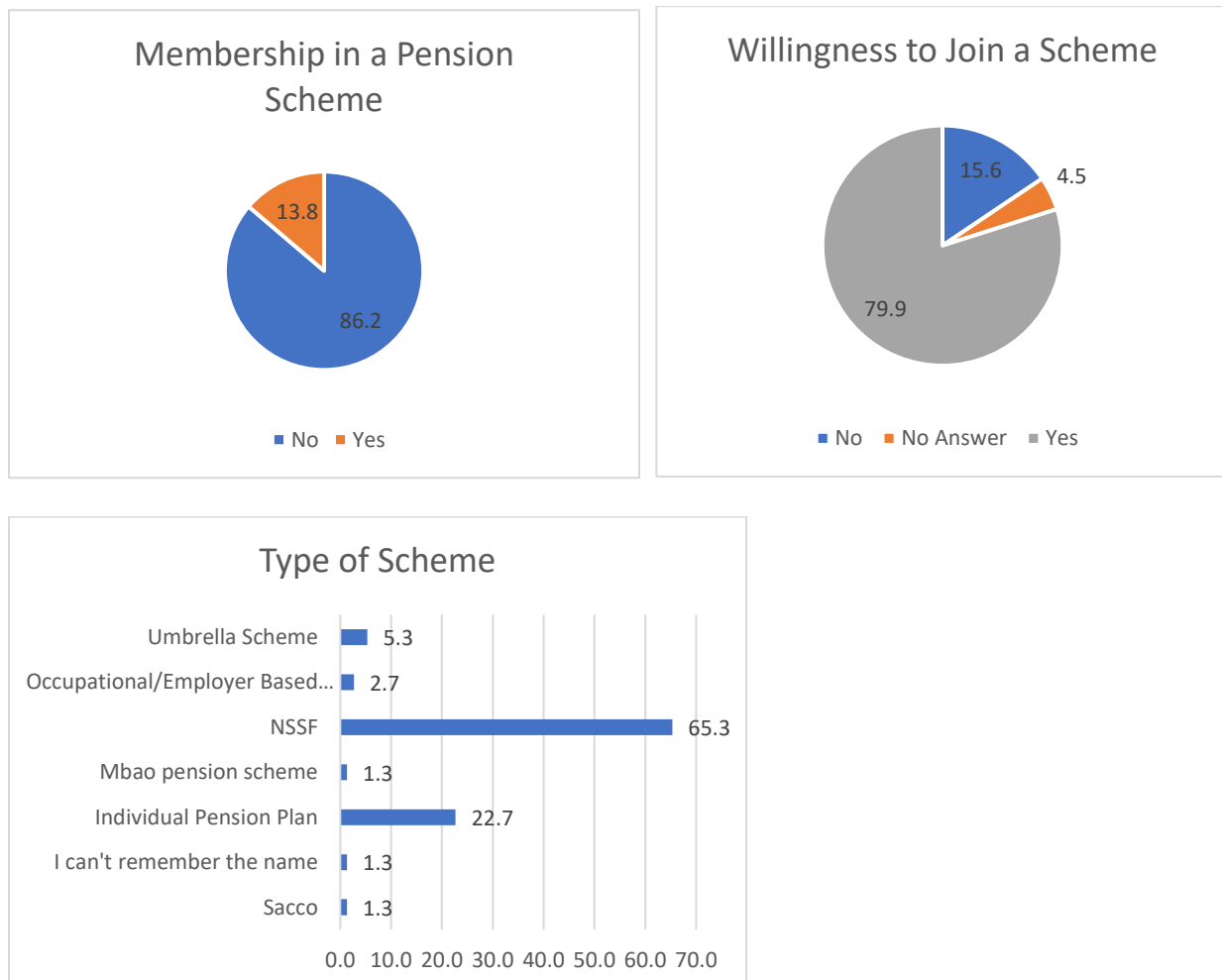
4.3 Nature of Employment

The survey showed that majority of the respondents were self-employed and constituted 79.2% of the respondents. This was followed by those who were engaged as casual workers at 8.8% and contracts at 6.7%. Only 3.4% of the respondents were engaged permanent basis. In terms of learning of the trade in which the respondents engaged in, most of them 55.5% indicated that they learnt their trade on the job, while 21.7 % of the respondents learnt through apprenticeship and formal training respectively.



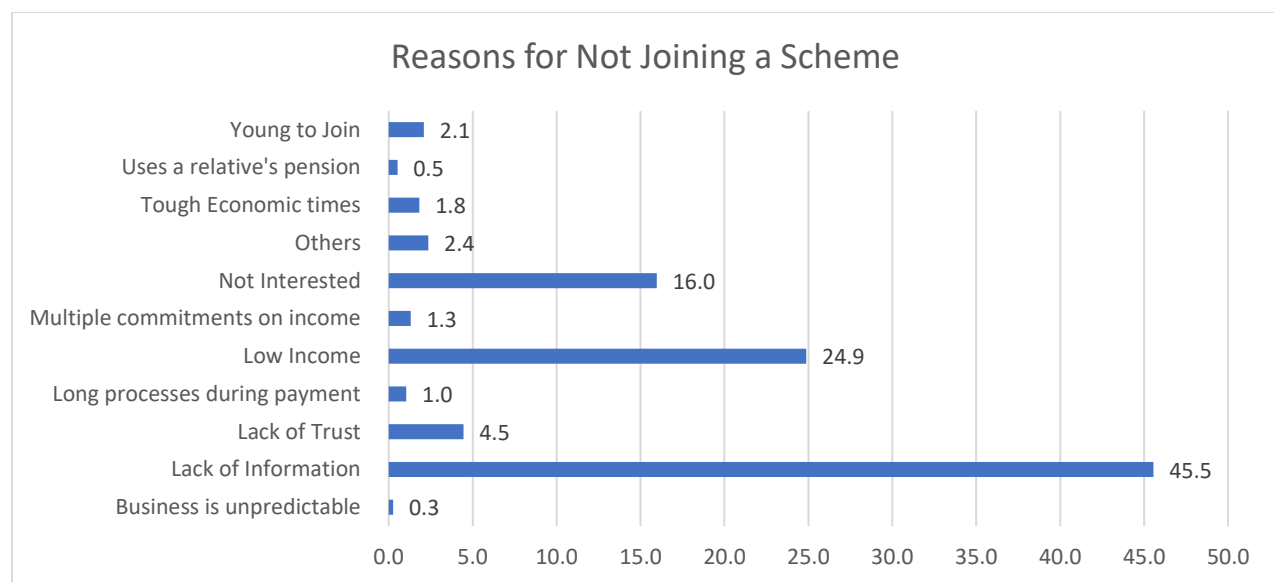
4.4 Membership in a Scheme and Willingness to Join a Scheme

A majority of the respondents (86%) were not members of any retirement scheme while only 14% of the respondents were members of the retirement scheme. Majority of the respondents (79.9%) who were not members of retirement scheme were willing to join a scheme, while 15.6% were not willing and 4.5% did not answer. For those who indicated that they were members of a retirement benefits scheme, majority of them (65.3%) were in NSSF, while those who were in individual pension scheme, umbrella, Mbao pension scheme, Sacco, and occupational/employer based were at 22.7%, 5.3%, 1.3%, 1.3%, 2.6% and respectively.



4.5 Reasons for Not Joining a Scheme

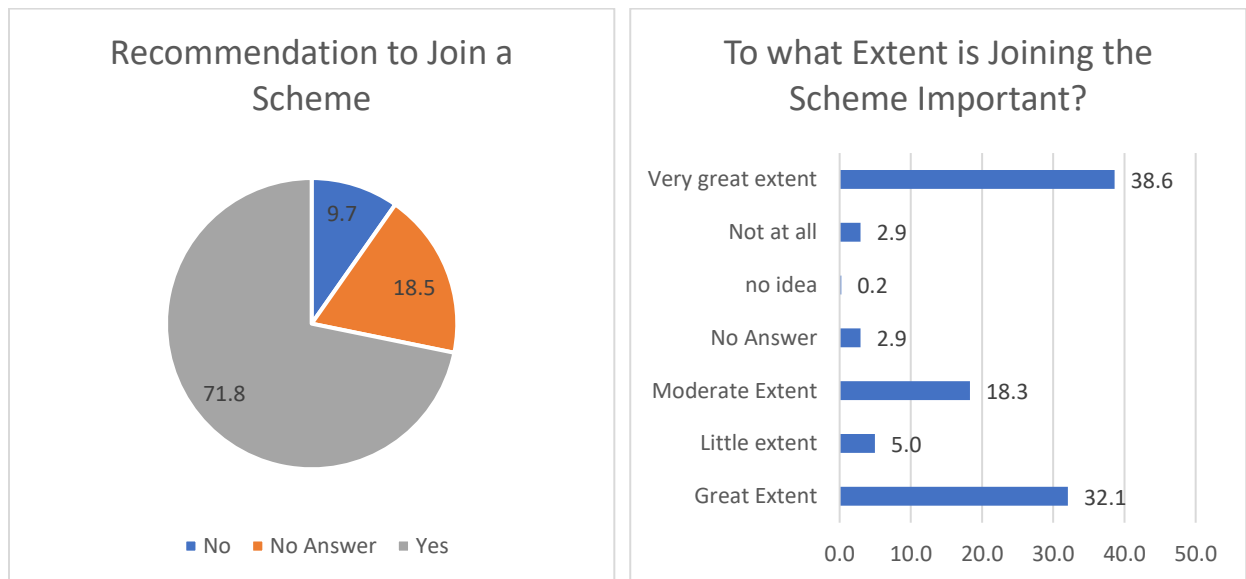
When the respondents were asked to state the reasons why they were not members of a scheme most of the respondents (45.5%) indicated that they lacked adequate information to join a scheme. They noted that they were not aware of any pension and they were not aware of how to join one. 24.9% of the respondents indicated that they lacked adequate income. Further, 16% of the respondents indicated that they were not interested in joining a scheme. Other reasons provided by the respondents included: lack of trust, multiple commitments, lengthy processing time of retirement benefits, businesses not thriving and tough economic situation.



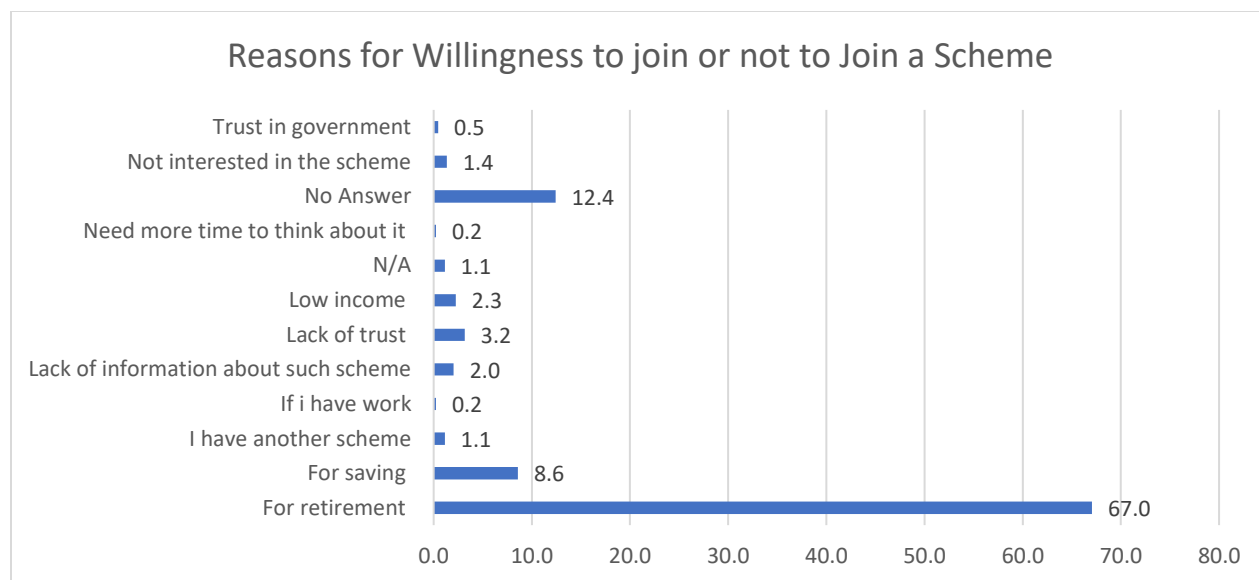
4.5 Importance for Joining a Scheme and Recommendation to Join a Scheme

Majority of the respondents (71.8%) who were members of a scheme indicated that they were willing to recommend someone to join a retirement benefits scheme, while 9.7% of the respondents indicated that they were willing to recommend someone to join a scheme. The respondents provided various reasons of joining a scheme and extent to which joining a scheme is important. Majority of respondents (89%)

indicated that joining a retirement benefits scheme was important, 2.9% of the respondents indicated that joining a scheme was not important at all.

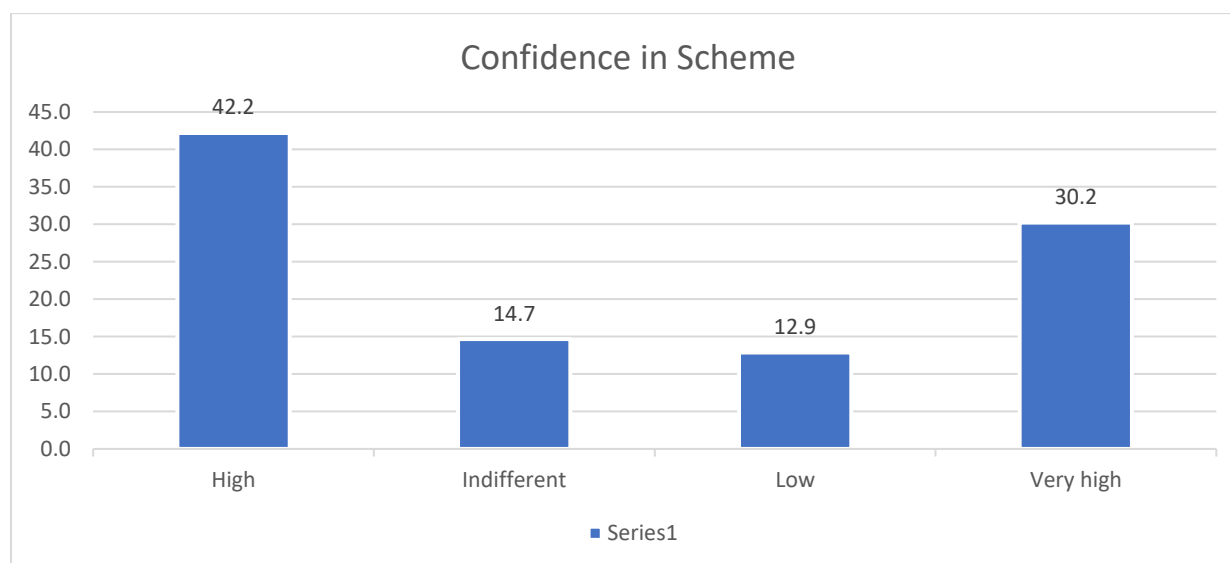


On the reasons for the willingness to join or not to join a scheme, majority of respondents (67%) indicated that it was important to join a scheme in order to save for retirement. 0.5 % of the respondents indicated that they trusted government. Those who were not willing to join a scheme indicated that they lacked trust (3.2%) in pension schemes, while 2.0% of the respondents indicated they were not willing to join a scheme because they lacked information of pension scheme.



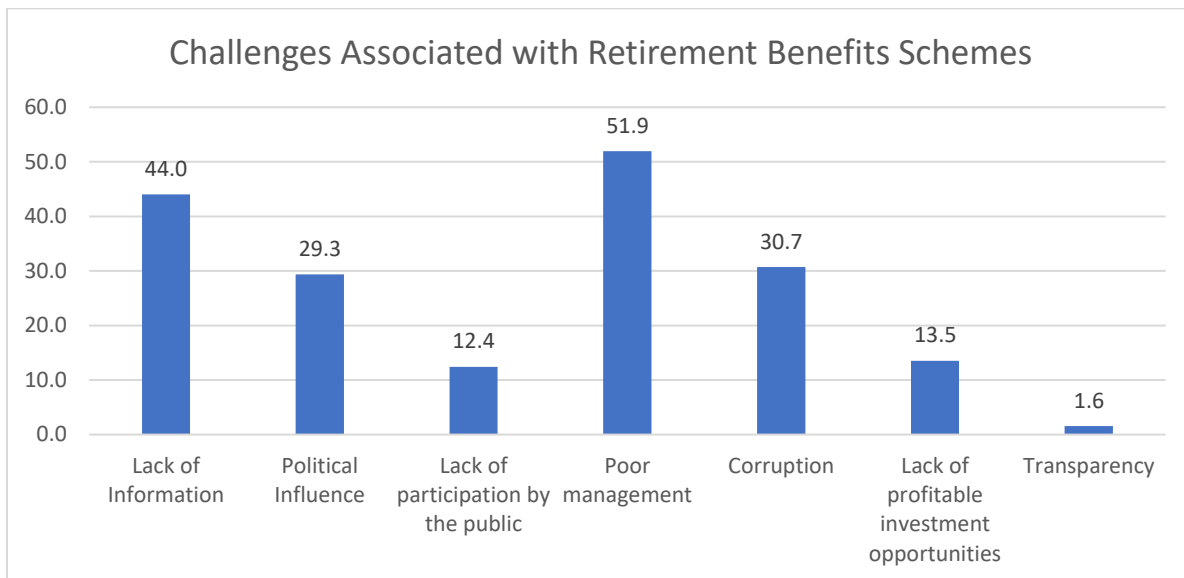
4.6 Confidence in Retirement Benefits Schemes

On the confidence level in retirement benefits schemes, majority of the respondents (72.5%) rated highly the confidence level in retirement benefits scheme. 42.2% of the respondents rated the confidence level as very high while 30.2% of the respondents rated their confidence level it as high. However, 12.9% of the respondents indicated that their confidence level in retirement benefits schemes was low. 14.7% of the respondents indicated that they were indifferent.



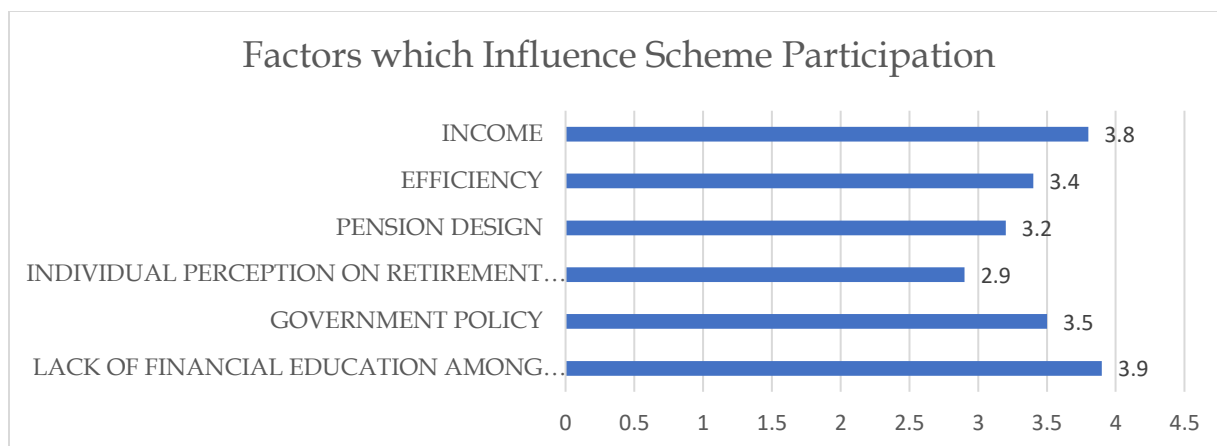
4.7 Challenges Associated with Retirement Benefits Schemes

On the challenges that are associated with retirement benefits scheme, majority of the respondents (51.9%) cited poor management of retirement benefits scheme as the greatest challenge. The respondents indicated lack of information disclosure (44%), corruption (30.7%), political interference and influence (29.3%) and lack of public participation as some of the challenges facing retirement benefits schemes.

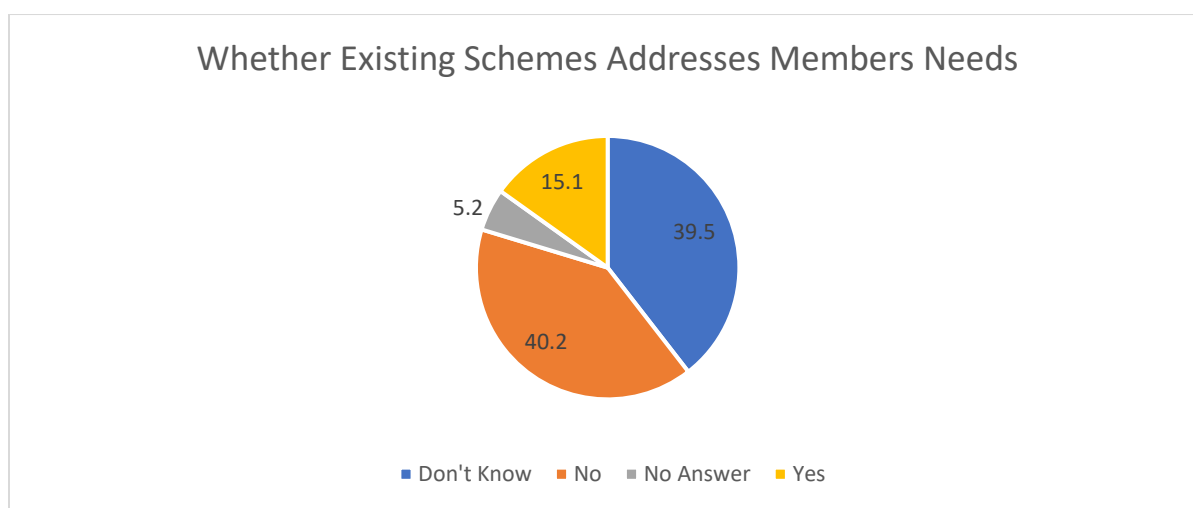


4.8 Factors Influencing Scheme Participation

On the factors which influence member participation in schemes, the respondents rated high lack of financial education among the members of the public, income and government policy which score 3.9, 3.8 and 3.5 on a rating of 1 to 5 where 1 refers to least significant and 5 as most significant.

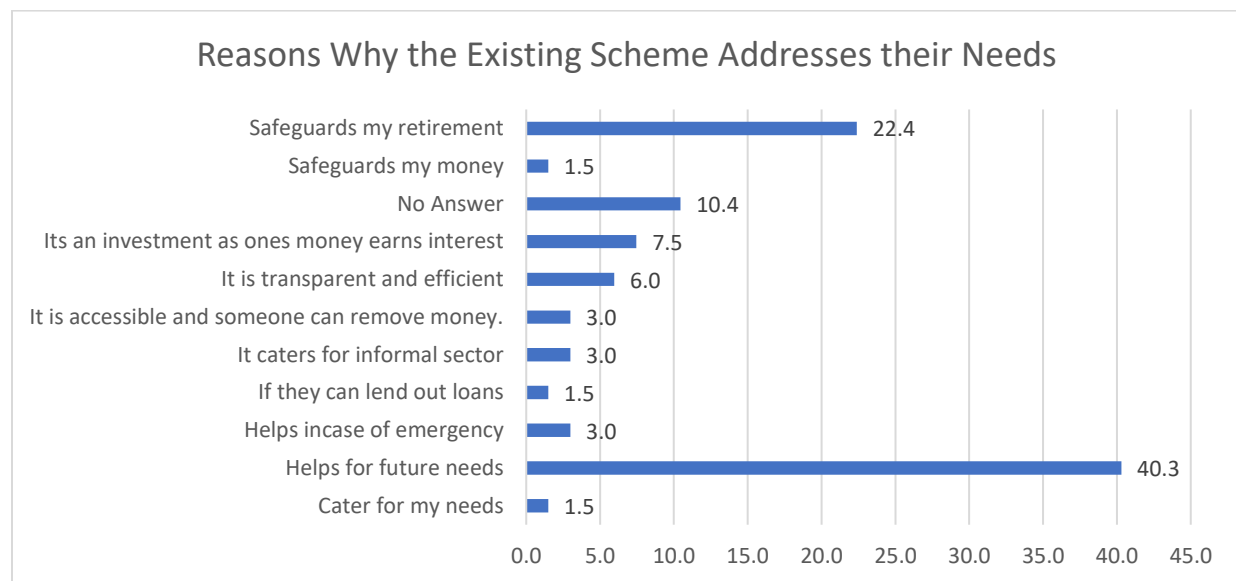


On whether the existing retirement schemes addresses the member's needs, only 15.1% of the respondents were on the affirmative. 40.2% of the respondents indicated that the existing schemes did not address their needs while 39.5% indicated that they didn't know.

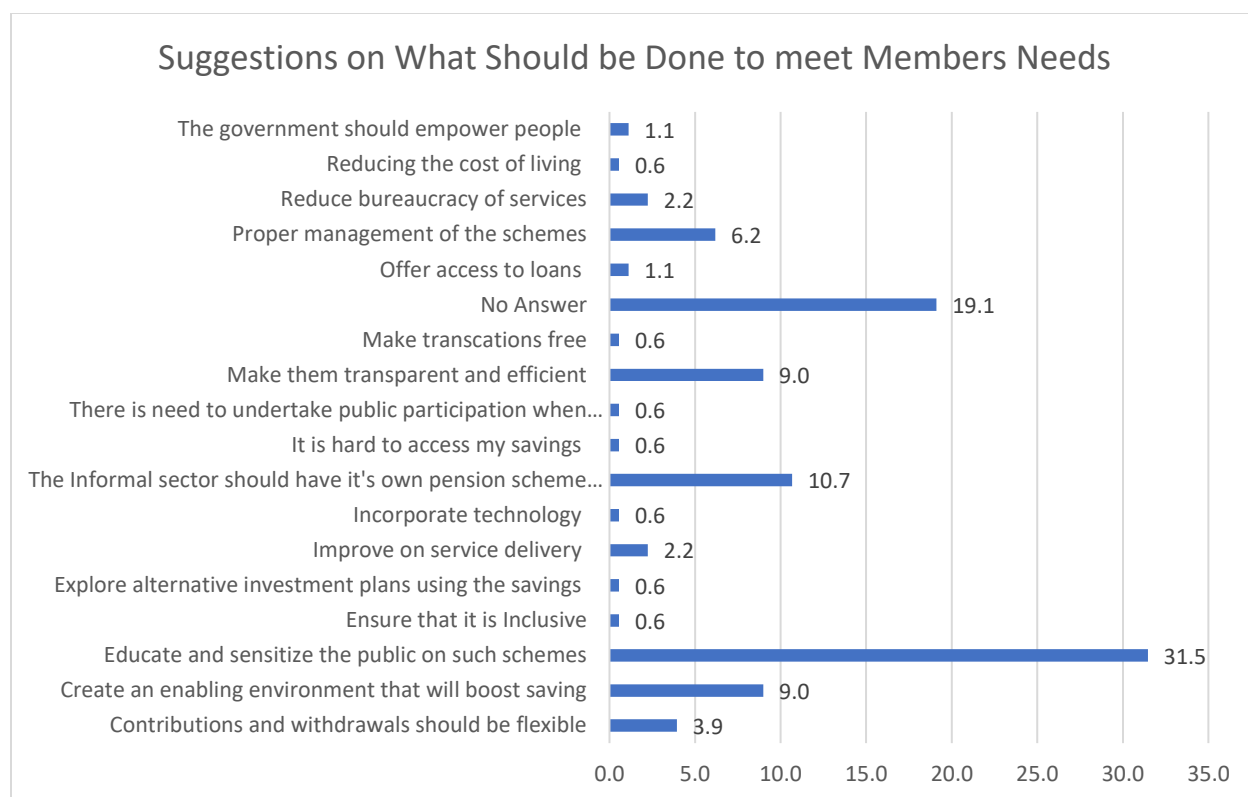


For the 67 respondents who indicated that the existing schemes addressed their needs adequately, provided a number of reasons for their answer. They noted that the existing schemes helped them in meeting their future needs (40.3%); it safeguarded their retirement (22.4%); it was an investment as one earns interest (7.5%) among others. They also noted that the existing schemes catered for the informal sector workers, transparent and efficient, the existing schemes could lent

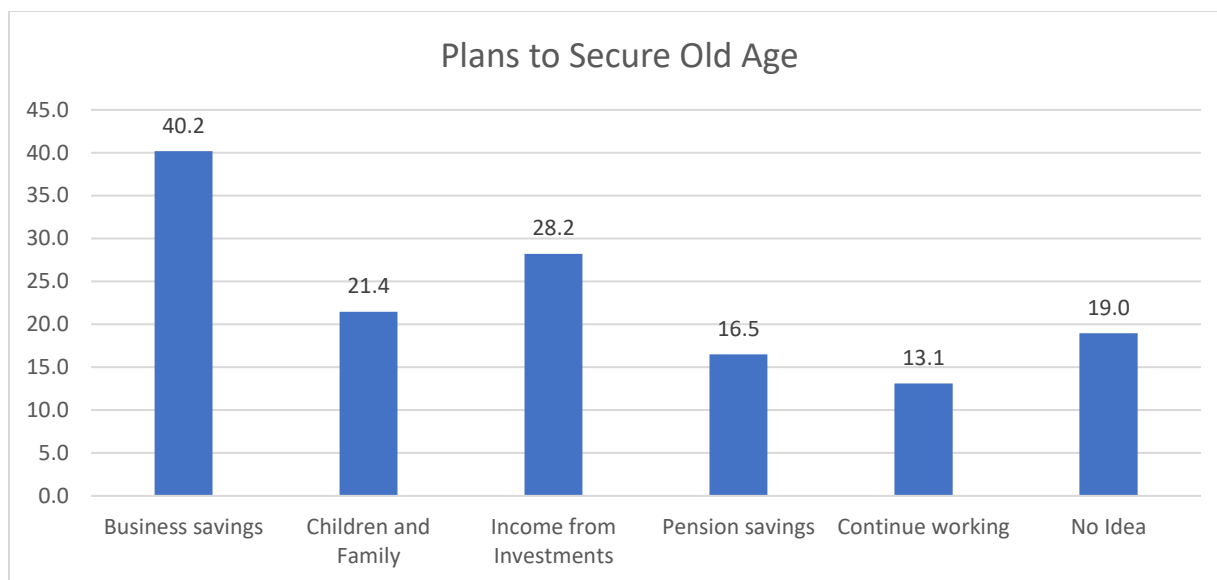
out loans, help in case of emergency and were also accessible for someone to access the savings.



For those who indicated that the existing pension schemes did not address their needs adequately, they were asked what they thought should be done to address their needs and they provided a number of suggestions which included: sensitization and education of members of the public on the need to save for retirement, establishment of an informal sector specific scheme tailored to meet the unique needs of members, ensuring that the operation of the schemes are transparent and efficient, adoption of technology, the contributions and withdrawals should be made flexible among others.

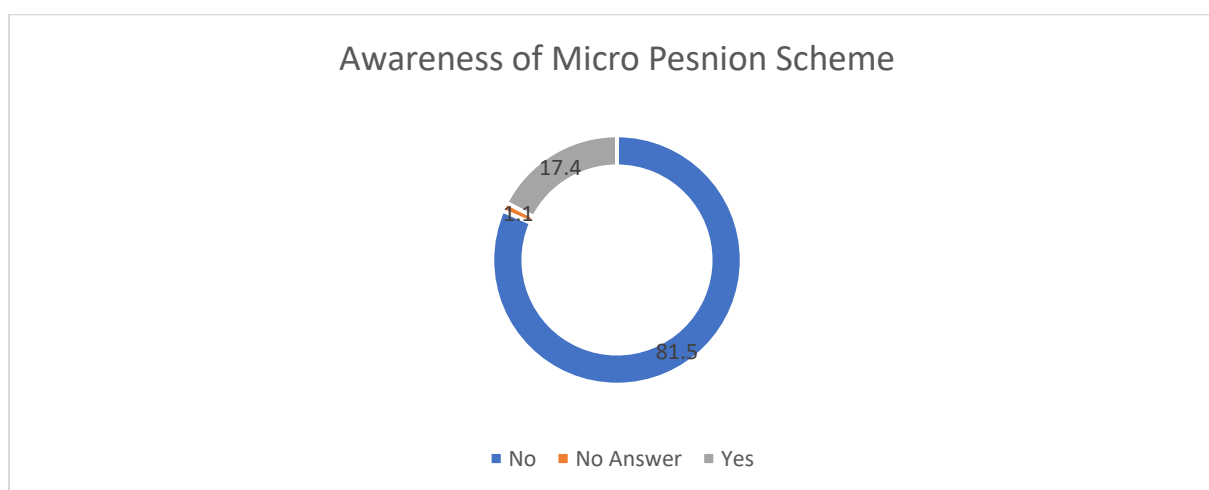


On the plans on how they would secure themselves in old age, most of the respondents (40.2%) indicated that they had planned to secure their old age when the they stopped doing their current hustle with their business savings, 28.2% noted that they would depend on income from investments, 21.4% of the respondents indicated they would depend on their children and family, 16.5% indicated that they would use pension savings. However, 19% of the respondents noted they had no idea of how to secure their old age after they stopped doing what they were doing while 13.1% noted that they would continue working.



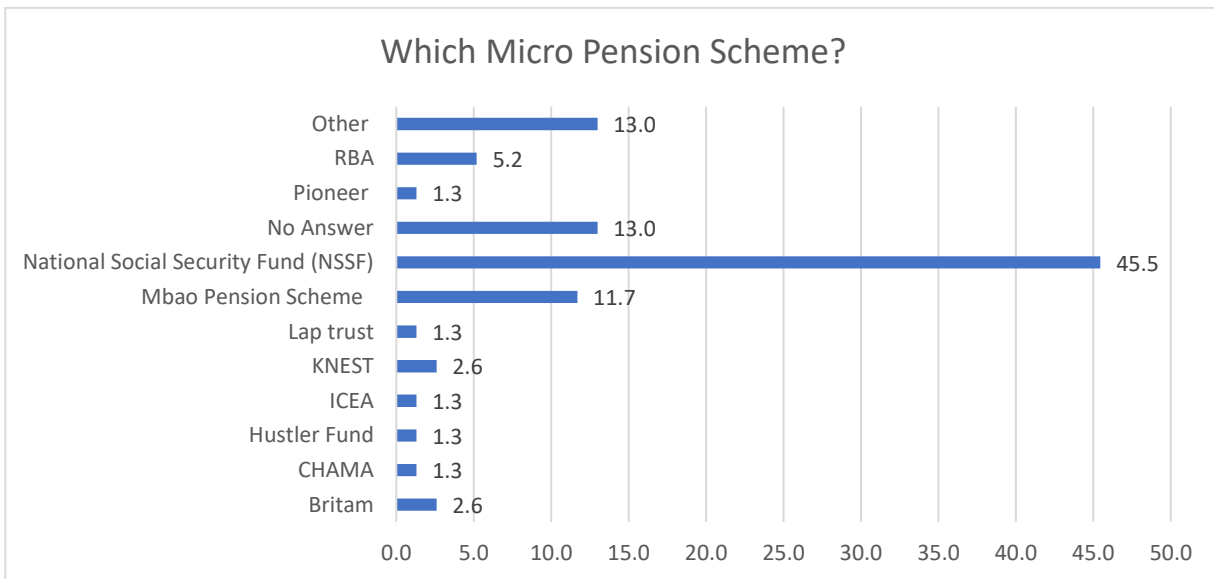
4.9 Awareness of Micro Pension Scheme

When the respondents were asked whether they were aware of any micro pension scheme, 81.5% of the respondents indicated that they were not aware of any micro pension scheme. Only 17.4% of respondents were aware. This indicates that that is low levels of awareness among the informal sector workers.



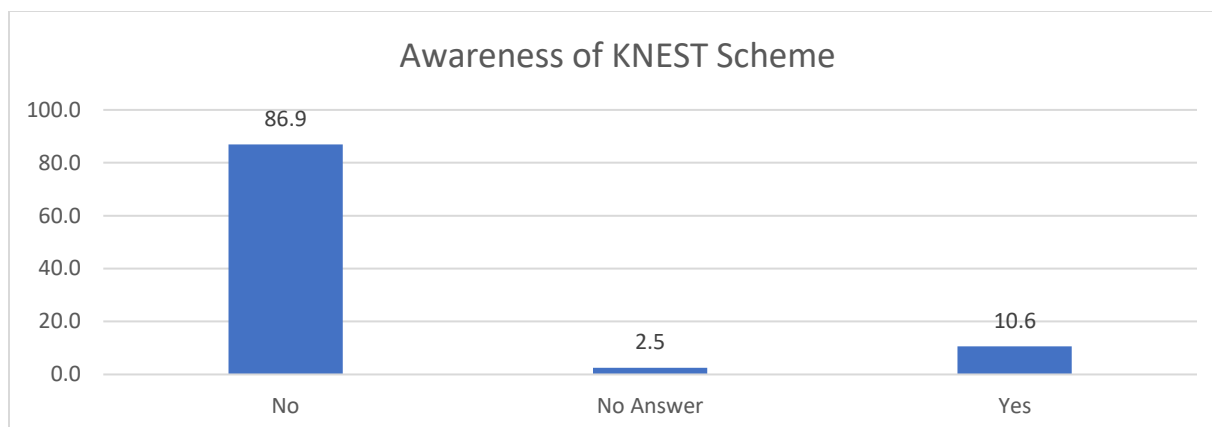
For the 77 respondents who indicated that they were aware of a micro pension, when asked to name the micro pension schemes they were aware of, 45% of the respondents mentioned the National Social Security Fund (NSSF), 11.7%

mentioned MBAO pension scheme, 2.6% of the respondents mentioned KNEST scheme, 1.3% mentioned Hustler Fund, some mentioned occupational pension scheme e.g Laptrust. This finding clearly indicates that the members of the informal sector are not aware of micro-pension schemes in the market.

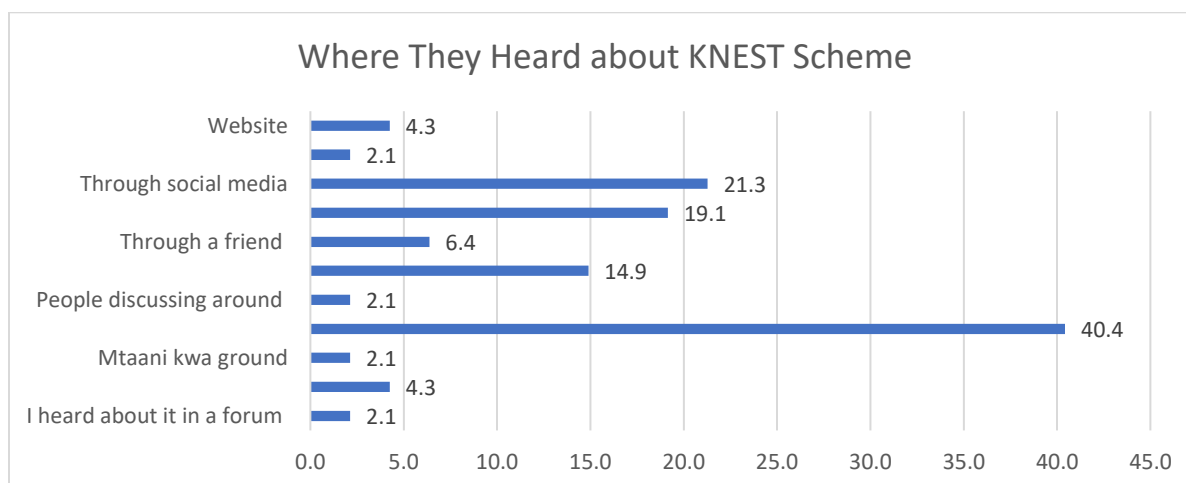


4.10 Awareness of KNEST Scheme

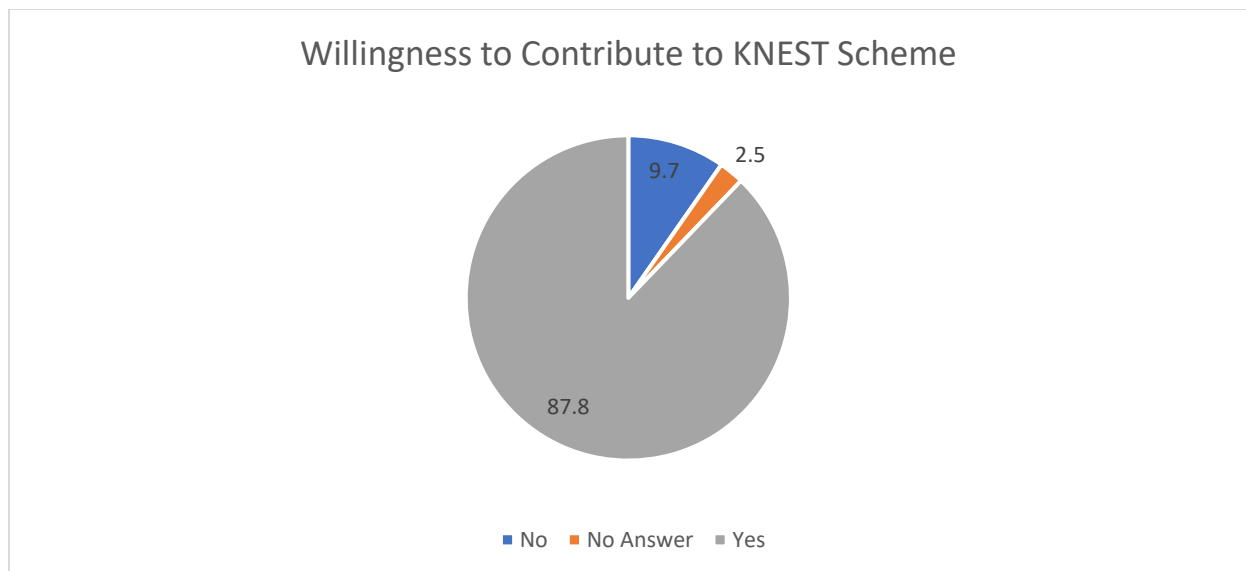
The respondents were asked whether they were aware or had heard about the KNEST scheme, and, 86.9% of them indicated that they were not aware nor had heard about the KNEST scheme. Only 10.6% of the respondents had either heard or were aware of KNEST scheme.



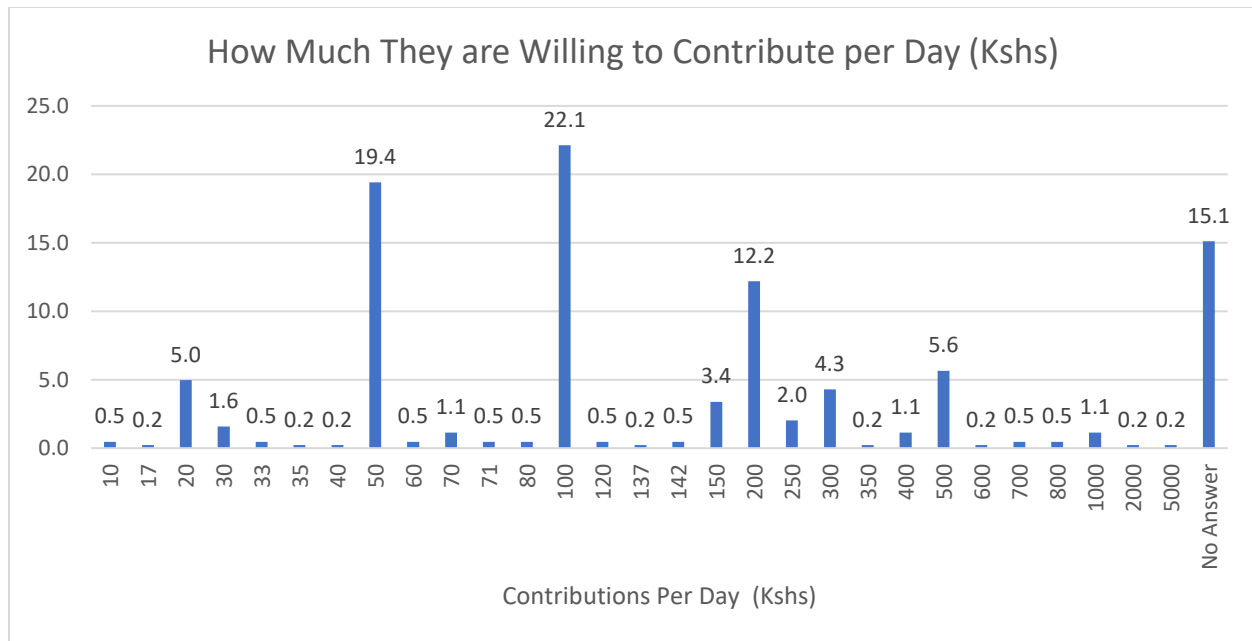
For those who indicated that they were aware or had heard about KNEST, when asked how they came to know about KNEST scheme, they provided a wide range of answers including the market place, “*mtaani/kwa ground*”, social media, friends, radio, various social gatherings or forum among others. The low level of awareness of the KNEST scheme indicates that KNEST PLC needs to adopt a multifaceted and multiprong approach to create awareness of KNEST scheme.



When the respondents were asked about their willingness to participate and contribute to the KNEST scheme after demonstration of how to join and contribute to the scheme through the various platforms, their willingness was high at 87.8%. However, 9.7% of the respondents were still not willing even after the demonstration.

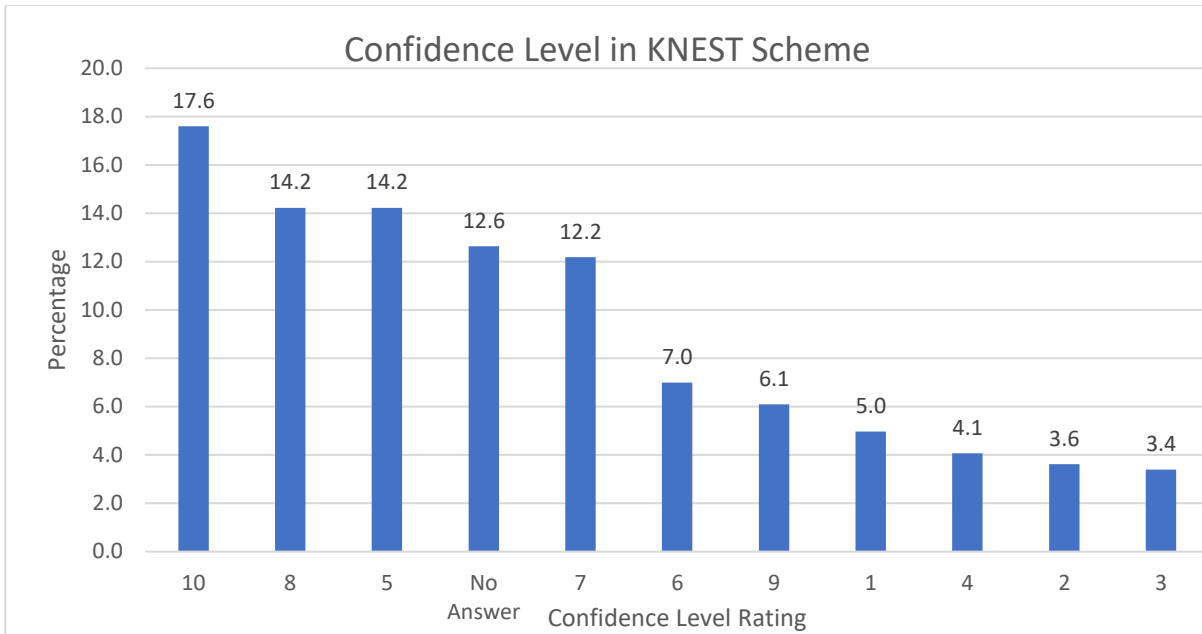


When the respondents were asked how much they could contribute per day to the KNEST scheme, the respondents provided a wide range of contribution rates. The contributions ranged from Kshs. 10 to Kshs. 5,000. The average contribution per was Kshs. 151.25 after factoring out contributions above Kshs. 1,000 per day. Most of respondents (68.8%) were willing to contribute Kshs. 200 and below to the KNEST Scheme. 52.1% of the respondents were willing to contribute Kshs. 100 and below. From the findings, it is apparent that the respondents were willing to make small contributions per day. The respondents also indicated that they willing to make contributions weekly while others indicated monthly. This findings show that the informal sector workers are willing to join a scheme and make contribution but in small amounts with some flexibility on regularity. This is so mainly due to the fact that the informal sector workers incomes are low, intermittent and unpredictable and majorly depends on the performance of their businesses.



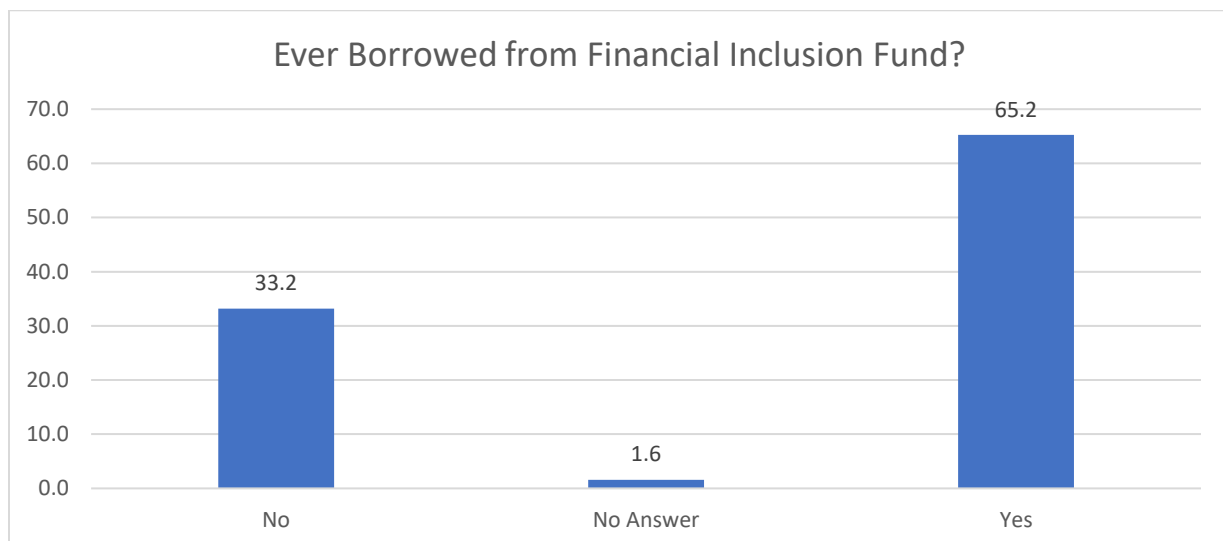
4.11 Confidence Level on KNEST Scheme

The respondents were also asked to rate their confidence level in KNEST Scheme on a scale of 1 to 10, where, 10 meant extremely confident and 1 meant Not confident. 17.6% of the respondents indicated that they were extremely confident while 5% of the respondents indicated that they were not confident. Those who rated their confidence level above 5 constituted 71.3% of the respondents. The average rating of the confidence level stood 6.66 implying that the confidence level in KNEST scheme is high. The high confidence level is attributed to the fact that the respondents were taken through the onboarding process of the KNEST scheme and were able to test and make contributions.



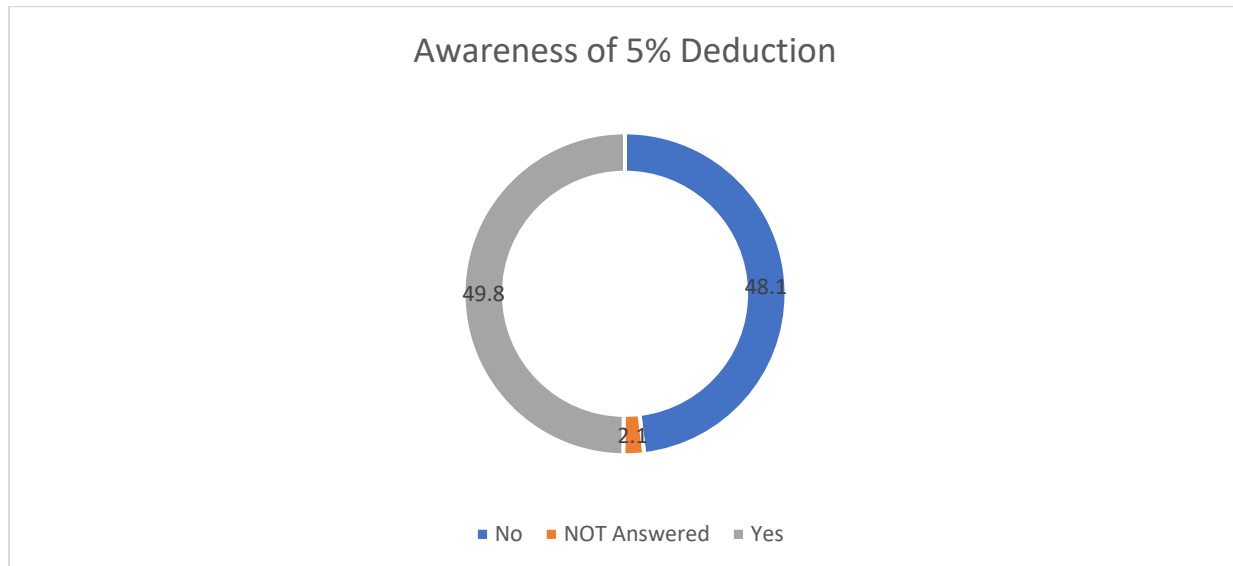
4.12 Hustler Fund

The respondents were asked whether they had ever borrowed from the financial inclusion fund popularly known as “*hustler fund*” and 65.2% of the respondents had borrowed from the hustler fund while 33.2% had not borrowed from the fund.



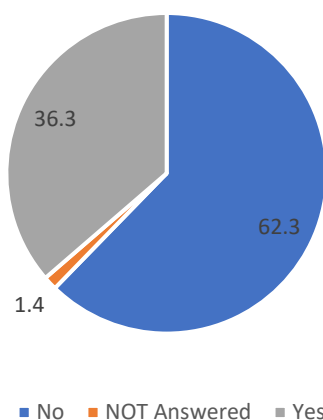
On the awareness of the 5% deduction on the loan disbursed under the financial inclusion fund, 49.8% (144) of the respondents who had borrowed from the hustler

fund were aware that 5% of the loan disbursed is deducted for purpose of savings, of which 70% goes to long-term savings or pension. 48.1% (139) of the respondents were not aware that the 5% deducted was for the purposes of savings.



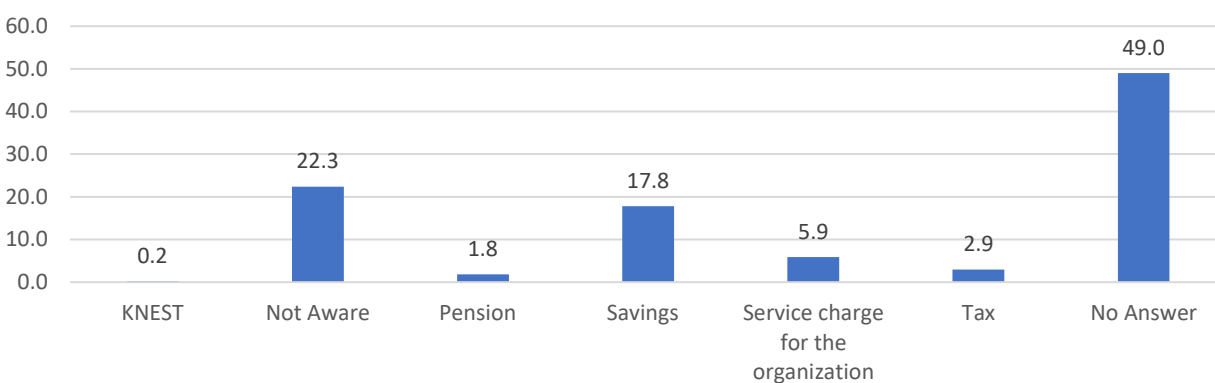
On the awareness of the purpose of the 5% deducted on the loan disbursed under the financial inclusion fund, majority of the respondents who had borrowed under the financial inclusion fund indicated that they were not aware of the purpose of the monies deducted from the loan disbursed. Only 36.3% indicated that they were aware of the purpose of the Monies deducted. The findings contradicts the earlier findings where 114 respondents (49.8%) had indicated that they were aware that the 5% of the loan disbursed was deducted for the purpose of savings, of which 70% went to pension. This therefore suggests that most the respondents and borrowers under the financial inclusion fund were not fully aware on the terms and conditions of the loan.

Awareness of the Purpose of the 5% Deducted

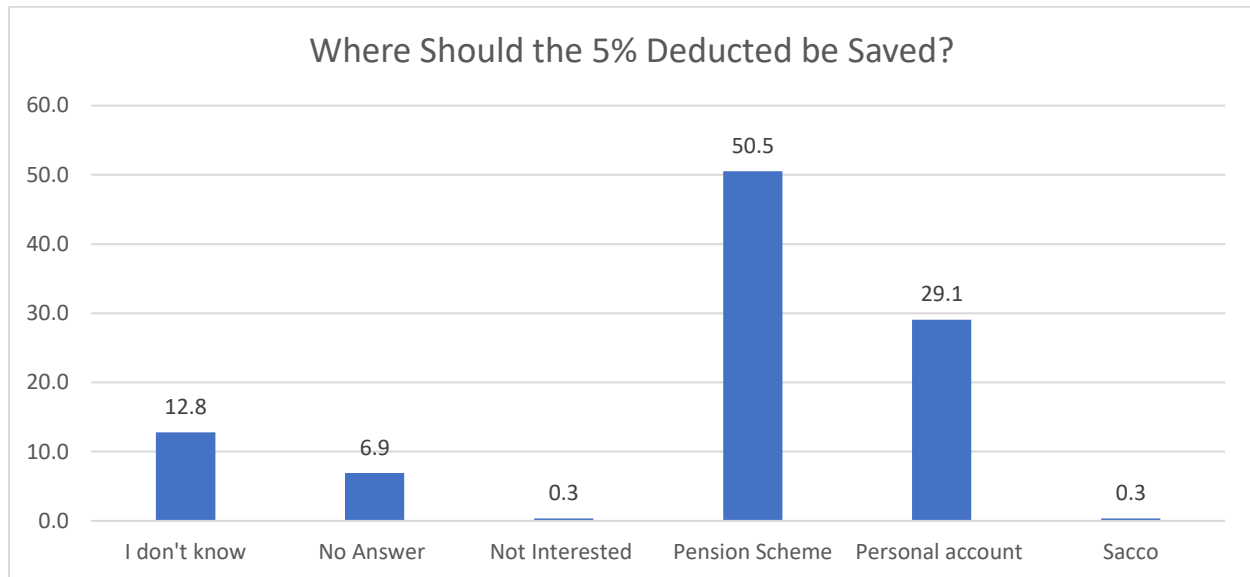


When the respondents were probed on the purposes of the 5% deducted from the loans disbursed under the hustler fund, 22.3% indicated that they were not aware, 17.8% indicated that the deducted were meant for savings while 5.9% indicated that it was a service charge for the organization. 1.8% of the respondents noted that the 5% deducted was meant for pension while 2.9% saw the deduction as a tax. However, 49% of the respondents did not provide an answer.

Purpose of the 5% Deducted



When the respondents who had borrowed from the financial inclusion fund were asked where the monies deducted should be saved, 50.5% indicated that the monies deducted should be saved as pension while 29.1% indicated that the monies deducted should be saved in personal accounts.



5.0 CONCLUSION AND RECOMMENDATION

5.1 Summary of the Findings and Conclusion

The survey sought to gauge the confidence level in micro-pension products in Kenya. The survey also sought to assess the awareness and factors affecting membership in micro pension schemes. Further, survey sought to assess the challenges associated with pension schemes and make policy recommendations based on the research findings.

The survey findings revealed that the pension coverage among the informal workers is low and only a small proportion of the informal sector workers are covered. From the survey findings only 14% of the respondents were members of a retirement benefits scheme, and majority of them (65.3%) were contributing to the mandatory scheme NSSF. The low coverage among the informal sector workers can be attributed to the fact that the current schemes arrangement do not respond adequately to the needs and expectations of the informal sector workers.

The survey also revealed that the majority of the workers in the informal are young people and most of them had accessed the credit under the financial inclusion fund popularly known as the “*hustler fund*” indicating the viability of bundled products. The findings also show that the informal sector workers are willing to join and make contribution to a scheme but in small amounts. This is so mainly due to the fact that the informal sector workers incomes are low, intermittent and unpredictable and majorly depends on the performance of their businesses.

On the confidence level of retirement benefits schemes majority of the respondents (72.5.%) rated highly the confidence level in retirement benefits scheme with 42.2% of the respondents rating the confidence level as very high while 30.2% of

the respondents rating their confidence level it as high. The confidence level on KNEST scheme was rated highly with the average rating of the confidence level at 6.66 out of a possible rating of 10. The high confidence level of the KNEST is attributed to the fact that the respondents were taken through the onboarding process of the KNEST scheme and were able to test and make contribution

The survey findings also revealed that the informal sector workers is plagued with challenges and barriers which included: trust deficit, lack of adequate information on pension schemes, lack of financial literacy, low and unpredictable incomes, lack of suitable and tailor made pension products among others. This challenges and barriers pose a significant risk to expanding pension savings among the informal sector workers.

In order to address these challenges there is therefore need for a multifaceted and multi-prong approach which takes into consideration the unique and heterogenous characteristics of the informal sector workers.

5.2 Recommendation

Based on the survey findings, the following recommendations are made:

- a) **Development of Simple, Affordable and Flexible Pension products:** The pension products for the informal sector should be designed taking into consideration the characteristics and needs of the informal workers. The contributions and access of benefits should be simple and flexible, given the low, irregular and intermittent incomes earned by the informal sector workers. The pension products therefore need to be tailor made, simple, convenient, affordable, flexible and easy to onboard members and accommodate their needs, situation and expectations.

The members should be able to contribute whatever amounts whatever small when available without any penalties and complexities. The pension product should cater for the member's short term financial needs in case of a shocks or an emergency or any other unexpected financial need as the member saves for the long term in retirement. Based on the findings and contribution rates in the market for similar scheme targeting the informal sector, a contribution Kshs. 50 per day is recommended. The pension product design and structure should also be easy to understand and operate, from entry/enrolment to exit. The formulation of the pension product and scheme should therefore take into consideration a delicate balance between the economic viability of the pension product, cost efficiency, affordability and generation of reasonable returns to the members.

- b) **Development of Innovative products which leverage on Technology:** The pension product targeting the informal sector should provide for ease of access and flexibility. The members should be able to contribute anywhere at any time at their convenience. The pension product therefore should leverage on appropriate and secure technology with wide range of options and capabilities. The technology should also be able to not only enhance access of information but should also facilitate communication and awareness creation.
- c) **Review of the legal and Regulatory Framework:** The current retirement benefits legal framework favors those in formal employment and earn a regular or monthly salary. It does not cater adequately the needs, aspirations and expectations of the informal sector workers who have low, irregular and intermittent incomes. The informal sector workers may not at all times be able to make regular or monthly contributions to the schemes. This therefore calls for the review of the retirement benefits legal and regulatory framework to cater for the unique needs of the informal sector workers. The legal framework

should provide for adequate incentives and flexibility including use of innovative solutions and technologies. There is need therefore for a specific micro pension legal and regulatory framework to guide the establishment and management of micro pensions schemes.

- d) **Stakeholder Engagement and Involvement:** The informal sector workers have low trust among the people outside their circle. The informal sector place their trust in one their own and thus giving out their money to people or institutions they are not aware of or they do not know is a big challenge. There is need therefore for well targeted and organized stakeholder engagements among the informal sector workers in order to reduce the trust deficit. The informal sector groups have high regard for their leaders and thus there is need to engage the various informal sector associations and groups and thus enhancing the reach to the informal sector workers. There is therefore a need to leverage the support and influence of informal sector association leaders to promote the scheme and facilitate widespread adoption.
- e) **Pension Education Clinics and Awareness Creation:** There is need for regular pension education clinics to sensitize members of the benefits of joining a scheme and the need to plan for retirement. The sensitization forums should target homogenous groups within the informal sector. This is important given that there is low levels of awareness on pensions and financial literacy among the informal sector workers.
- f) **Prudent Investment and Competitive Returns:** Given the sensitivity of the target members, there is need to investment the savings/contributions in investment instruments which preserve value and offer competitive returns. The competitive returns would ensure that the pension product remains attractive and thus enhancing enrollment.

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