International
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Extending Social Security and Fighting Poverty:
Two reform proposals to extend social security in Kenya

1. Improving and extending coverage through a social insurance pension scheme

The Kenyan Government is in the process of converting the existing provident fund for private sector workers into a national social insurance pension scheme. This reform will make it possible to improve and extend pension coverage.

Existing pension schemes are limited to formal sector workers. Civil servants are member of a non-contributory scheme that provides an earnings-related pension on retirement. Civil servants who work for local authorities are dependent on the lump-sum payments produced by regular contributions to a public sector provident fund. The provident fund concept is also the basis for the principal pension scheme in Kenya – the National Social Security Fund (NSSF) - which was established in 1965 for private sector workers.

The NSSF has 2.9 million members but only about 1 million are active contributors. This means that the vast majority of the labour force is excluded from pension coverage. Moreover, even for those who are covered benefits are often inadequate. In addition, the payment of a lump-sum is generally recognized as an insufficient basis for the long-term social protection needed throughout retirement, widow-hood or invalidity.

In order to overcome these gaps and to aim at extending social security coverage to all Kenyan workers, the Government has decided to convert the provident fund scheme into a mandatory national social insurance pension scheme. This new scheme, which is guided by the minimum standards of ILO Convention No. 102 and world wide agreed principles of social security, will have the following features:

- Opening up membership to all workers in both the formal and informal sectors;
- Encouragement to self-employed or seasonal workers to make voluntary contributions;
- Payment of monthly pensions to retirees in place of a single lump-sum;
- Guarantee of a minimum benefit, which will be regularly adjusted;
- Introduction of benefits for members in need prior to retirement;
- Retention of the provident fund for workers who will be unable to meet the required contribution rates of the new scheme;

- Operation of the scheme on the principle of "pooling" and "sharing" of risks;
- Financing of benefits by contributions from workers and employers;
- Guarantee of the financial soundness of the scheme through regular statutory actuarial reviews;

The successful conversion of the provident fund into a national social insurance pension scheme will provide old-age pension as well as invalidity and survivors' benefits to the contributing members. In addition, it will reinforce the converted NSSF through improved governance and will thereby strengthen the trust of the Kenyan people in national administration.

The ILO supports the conversion of the provident fund into a national social insurance pension scheme through assistance regarding the new legislation and capacity building of the NSSF.

2. Ensuring access to quality health care for all Kenyans

The Government of Kenya proposes to reform the existing health care financing arrangements by introducing a national health insurance scheme, which aims at providing access to a basic health care package for all citizens. Equity and solidarity are the guiding principle of the National Social Health Insurance Act that has now been submitted for adoption by the Kenyan parliament.

This reform should be seen against the background of a majority of the population that is living below or just above the poverty line. They are excluded from access to health services because of high out-of-pocket payments, which in 2001 constituted more than 60 per cent private expenditure on health.

In addition, the reform aims at supporting the high number of people suffering from HIV/AIDS. Up to 50 per cent of hospital beds are occupied by patients with HIV/AIDS. Many of these patients are faced by catastrophic health costs and related impoverishment.

Besides the devastating impacts of HIV/AIDS on the individual level, the impact on the labour force and economy is enormous: ILO estimates that 6.7 per cent of persons in the labour force are HIV/AIDS positive and that the related loss of the annual growth rate of GDP (Gross Domestic Product) amounts to 1 per cent[1].

The National Social Health Insurance Act foresees a compulsory coverage of all Kenyans including the self-employed, unemployed, the poor as well as (non-Kenyan) permanent residents. Monthly contributions are to be paid to the National Social Health Insurance Fund (NSHIF); contributions of workers in the informal sector are charged at a yearly flat rate; the contributions of the poor are to be subsidized.

[1] International Labour Office, HIV/AIDS and work: global impact and response, Geneva 2004

A gradual implementation of the Act is planned, given the enormous tasks involved. Key issues to be addressed in the near future include decisions on the benefit package, funding, enrolment of the population and management.

The ILO supports the implementation process through joint activities carried out with the World Health Organization (WHO) and the German Development Agency (GTZ). They focus on assessment of quality of service provision, contracting of providers, communication and training, as well as management and monitoring. Further, advice on the implementation of NHIF in pilot districts and methods for identification of the poor is provided. All findings, including recommendations for further development, have been submitted to the Government and published in the form of a CD-ROM.