FADEMO SOCIAL PROTECTION FUND

A COMBINED DEFINED CONTRIBUTION (DC) AND DEFINED BENEFIT (DB) SCHEME

THE WHITE PAPER OF THE FADEMO DC & DB SCHEME HYBRID MODEL.

The Best Private Social Protection Fund in Africa

Operating from Dodoma Capital City, Tanzania

Since July 2021.

1. INTRODUCTION

It is my great pleasure to introduce "**FADEMO Social Protection Fund"**, an innovative social protection and financial security initiative designed to address two fundamental financial needs facing individuals, families, employees and members of the community.

The first need is the need to **build and accumulate financial wealth for the future**.

The second need is the need to **protect ourselves financially when important life events occur hence disturb us financially**.

FADEMO Social Protection Fund therefore does not look at social protection from only one angle.

It combines:

1. **Long-term financial accumulation and investment**, and
2. **Social protection against defined life events.**

To achieve these two objectives, FADEMO Social Protection Fund operates through two complementary funds:

LULU FUND = A Defined Contribution-oriented Investment Fund

and **FARAJA FUND = A Defined Benefit-oriented Social Protection Fund**

Together, these two components create the **FADEMO Hybrid Social Protection Model**.

2. WHAT IS A HYBRID SOCIAL PROTECTION MODEL?

A hybrid social protection model is a system that combines characteristics of both:

- **Defined Contribution (DC) arrangements**, and
- **Defined Benefit (DB) arrangements**.

The fundamental difference is simple.

Under a **Defined Contribution arrangement**, the primary thing defined in advance is the **contribution**.

Under a **Defined Benefit arrangement**, the primary thing defined in advance is the **benefit**.

Therefore:

DC asks:

"How much are you contributing and how much will your accumulated account grow?"

DB asks:

"What benefit will you receive when the qualifying life event occurs?"

FADEMO brings these two philosophies together.

3. THE FADEMO MODEL AT A GLANCE

The FADEMO model can be understood through the following simple structure:

MEMBER

↓

FADEMO SOCIAL PROTECTION FUND

↓

LULU FUND

Defined Contribution / Investment Approach

Member contributes money

↓

Money is allocated to the member's investment account

↓

Funds are invested

↓

Investment income is generated

↓

Income is credited to the member according to the Fund's rules

↓

Member accumulates financial assets

At the same time:

FARAJA FUND

Defined Benefit / Social Protection Approach

Member contributes according to the applicable membership rules

↓

Contributions create eligibility for social protection

↓

A qualifying life event occurs

↓

Member submits the required evidence

↓

Eligibility is assessed

↓

Defined benefit is paid according to the applicable rules

Therefore, the member is simultaneously participating in:

WEALTH CREATION + SOCIAL PROTECTION

That is the central philosophy of FADEMO Social Protection Fund.

4. UNDERSTANDING THE DEFINED CONTRIBUTION MODEL

Let us first understand the DC component.

A Defined Contribution scheme is an arrangement in which the amount contributed by or on behalf of a member is predetermined or governed by established contribution rules.

The ultimate value available to the member depends on factors such as:

- contributions made;
- investment performance;
- investment income;
- investment period;
- applicable fees and charges;
- withdrawals, where permitted; and
- the rules governing the particular fund.

Therefore, under a DC model, there is generally no promise that a member's account will reach a predetermined final monetary amount unless the governing rules specifically provide otherwise.

The member therefore has an **individual financial accumulation account**.

The fundamental principle is:

The member contributes today so that financial resources can accumulate for tomorrow.

5. HOW LULU FUND OPERATES AS A DC-ORIENTED FUND

Lulu Fund is the investment and wealth-accumulation component of FADEMO Social Protection Fund.

The philosophy of Lulu Fund is:

"Save, invest, grow and build financial security."

A member contributes to Lulu Fund. The contribution becomes part of the member's investment position.

The money can then be invested in permitted investment instruments or vehicles in accordance with the Fund's Investment Policy and according to the laws of Tanzania.

Potential investment areas may include:

- government securities;
- fixed-income instruments;
- bank deposits;
- collective investment arrangements;
- equities;
- real estates;
- and other approved investment instruments.

The objective is to generate investment income over time for benefits payment.

6. THE MEMBER'S ACCOUNT UNDER LULU FUND

One of the important characteristics of the DC approach is that the member can understand the relationship between:

Contribution → Investment → Investment Income → Accumulated Value

For example, assume a member contributes: **TZS 100,000**

The contribution is invested.If the investment generates income, the member's accumulated value increases according to the applicable Fund rules.

If the member continues contributing regularly, the account can continue growing.

Therefore:

The longer the investment period and the more consistently the member contributes, the greater the opportunity for financial accumulation, subject to investment performance and applicable risks.

7. WHY LULU FUND IS IMPORTANT

Lulu Fund addresses a major weakness in traditional financial planning.

Many people work for decades but do not accumulate sufficient financial assets.

They depend almost entirely on salary or employment income.

When employment income stops, financial pressure begins.

Lulu Fund seeks to change this mindset.

Instead of asking only: "How much do I earn?"

FADEMO encourages the member to ask:

"How much of what I earn am I converting into financial assets?"

This is the philosophy of wealth accumulation.

8. THE POWER OF COMPOUNDING

Another important feature of the DC investment philosophy is the power of compounding.

When investment income is retained and reinvested, future returns can potentially be generated not only from the original contributions but also from previously accumulated investment income.

This creates the potential for:

Contribution

↓

Investment Income

↓

Reinvestment

↓

Larger Investment Base

↓

Potentially More Investment Income

↓

Further Accumulation

This process is particularly powerful over long periods. Therefore, Lulu Fund is not simply a savings mechanism.

It is designed to encourage a culture of **long-term investment and asset accumulation and wealth accumulation**.

9. UNDERSTANDING THE DEFINED BENEFIT MODEL (DB SCHEME).

Now let us turn to Faraja Fund. This is a Defined Benefit arrangement works from a different direction.

Here, the primary question is not: "How much money is in my individual investment account?"

Instead, the question is: "What benefit am I entitled to when a qualifying event occurs?"

The benefit is defined by the rules of the scheme.

The member contributes according to the applicable contribution structure and, when a qualifying event occurs, the member may receive the benefit prescribed by the Fund's rules, provided that the eligibility conditions have been satisfied.

Therefore, the basic relationship is:

Contribution + Eligibility + Qualifying Event = Defined Benefit

10. HOW FARAJA FUND OPERATES

Faraja Fund is designed as the social protection component of FADEMO Social Protection Fund. Its purpose is to provide financial assistance when members experience specified life events. Examples of such events may include:

- maternity;
- paternity;
- marriage;
- medical needs;
- house construction;
- car acquisition;
- major injury or accidents
- death of the bread winner
- funeral support
- and other approved social protection events.

The exact benefits, contribution requirements, qualifying periods, documentation and payment conditions are determined by the Fund's governing rules.

11. THE DIFFERENCE BETWEEN LULU AND FARAJA

The easiest way to explain the distinction to stakeholders is:

LULU FUND

Your money is invested for your financial future protection and growth.

The focus is:

Accumulation + Investment + Growth + Wealth

FARAJA FUND

Your contributions create eligibility for defined social protection benefits.

The focus is:

Protection + Eligibility + Defined Benefit

Therefore:

Lulu helps you build wealth. Faraja helps you manage financial shocks associated with important life events.

12. AN IMPORTANT DISTINCTION

Stakeholders must understand that the two funds should not be confused.

A member should not expect Faraja Fund to operate exactly like a personal investment account.

Similarly, Lulu Fund should not be viewed as an insurance or defined-benefit arrangement.

They have different financial purposes.

Lulu Fund is principally about:

OWNERSHIP AND ACCUMULATION OF WEALTH

Faraja Fund is principally about:

PROTECTION AND BENEFIT ENTITLEMENT

This distinction is fundamental to understanding FADEMO.

13. WHY COMBINE DB AND DC?

The reason FADEMO combines the two models is that human financial needs are not one-dimensional. A person needs both:

Financial assets for the future

and

Protection against financial shocks today.

Imagine a member who is diligently investing for retirement.

That member may still experience an unexpected major life event.

For example:

- marriage;
- childbirth;
- medical expenditure;
- house construction;
- Injury or accidents
- deaths
- or any other disturbing event.

If the member has to withdraw long-term investments every time such an event occurs, long-term wealth accumulation can be disrupted.

Faraja Fund provides a separate social protection mechanism.

Therefore, the hybrid model helps separate:

LONG-TERM WEALTH BUILDING

from

SHORT-TERM/CONTINGENT SOCIAL PROTECTION

14. THE TWO-PILLAR FADEMO MODEL

FADEMO can therefore be presented as a two-pillar system.

PILLAR ONE: LULU FUND

WEALTH ACCUMULATION

The member contributes.

The contribution is invested.

Investment income is generated.

The member's financial assets accumulate.

The objective is long-term financial security.

PILLAR TWO: FARAJA FUND

SOCIAL PROTECTION

The member contributes.

The member becomes eligible according to the Fund rules.

A qualifying life event occurs.

The member submits the required documentation.

The Fund verifies eligibility.

The defined benefit is paid.

The objective is financial protection against qualifying life events.

15. A SIMPLE EXAMPLE

Let us take a hypothetical member called **Asha**.

Asha joins FADEMO Social Protection Fund.

She participates in both Lulu Fund and Faraja Fund.

Through Lulu Fund:

Asha makes regular investment contributions.

Her contributions are invested.

Over time, her investment account accumulates.

Her objective is to build financial assets for the future.

Through Faraja Fund:

Asha makes the required social protection contributions.

Later, she experiences a qualifying event covered by Faraja Fund.

She submits the required documentation.

If she meets the eligibility requirements, she receives the benefit prescribed by the Fund.

Therefore, the same member has two different forms of financial security:

Lulu = Asset accumulation

Faraja = Social protection

16. THE PHILOSOPHY BEHIND FADEMO

FADEMO's philosophy can be summarized in five words:

EARN → SAVE → INVEST → PROTECT → PROSPER

A person earns income.

A responsible person saves part of that income.

A financially intelligent person invests part of the savings.

A socially protected person prepares for major life events.

The ultimate objective is financial prosperity and resilience.

FADEMO Social Protection Fund is designed to bring these principles together within one institutional framework.

17. THE ROLE OF RISK

Stakeholders should also understand that the two funds have different risk characteristics.

Lulu Fund

Because it is investment-oriented, investment risk exists.

The value and income generated from investments can depend on:

- market conditions;
- interest rates;
- asset performance;
- economic conditions;

- investment duration;
- and the Fund's investment strategy.

Therefore, investment returns should always be communicated responsibly and transparently.

Faraja Fund

The principal concern is different.

The Fund must manage:

- membership risk;
- contribution adequacy;
- frequency of claims;
- benefit costs;
- sustainability;
- liquidity;
- and demographic or behavioural risks.

Therefore, Faraja Fund requires appropriate actuarial and financial management to ensure that promised benefits remain sustainable.

18. FINANCIAL SUSTAINABILITY OF FARAJA FUND

For Faraja Fund to operate successfully, there must be a proper relationship between:

Contributions received

and

Benefits paid

and

Administrative and operational costs

and

Investment income, where applicable.

The Fund must continuously monitor whether contribution levels are adequate to support the benefits promised under its rules.

This is why a strong governance structure is essential.

The Fund should periodically review:

- contribution rates;
- benefit levels;
- membership growth;
- claims frequency;
- claims experience;
- reserves;
- liquidity;
- investment income;
- and long-term sustainability.

19. GOVERNANCE OF THE HYBRID MODEL

The success of FADEMO Social Protection Fund depends not only on collecting contributions but also on strong governance.

The Fund operates under clear policies covering:

1. Investment Policy

Particularly for Lulu Fund.

2. Benefit Policy

Particularly for Faraja Fund.

3. Risk Management Policy

To identify and manage financial, operational, investment and social protection risks.

4. Member Protection Policy

To ensure members receive fair and transparent treatment.

5. Financial Management Policy

To ensure contributions, investments, benefits and expenses are properly accounted for.

6. Internal Audit

To independently review controls and operations.

7. Transparency and Reporting

Members should be able to understand:

- what they contributed;
- where applicable funds are invested;
- investment performance;
- benefits they are entitled to;
- and the financial condition of the Fund.

20. SEPARATION OF FUNDS

One of the most important governance principles is that Lulu Fund and Faraja Fund should be properly accounted for and managed according to their respective purposes.

Money contributed for investment accumulation should not be casually used to finance social protection benefits.

Similarly, social protection contributions should not be treated as though they are individual investment balances.

Each fund should have:

- clear accounting;
- clear rules;
- clear contribution structures;
- clear benefit structures;
- appropriate reserves;
- appropriate reporting;
- and appropriate governance.

This separation protects members and strengthens confidence in FADEMO.

21. WHAT MAKES FADEMO DIFFERENT?

The uniqueness of FADEMO is that it recognizes that financial security has two dimensions.

Dimension One: FINANCIAL GROWTH

People need to accumulate assets.

This is the role of **Lulu Fund**.

Dimension Two: FINANCIAL RESILIENCE

People need protection when significant life events occur.

This is the role of **Faraja Fund**.

Consequently, FADEMO does not simply ask:

"How much money can you accumulate?"

It also asks:

"How protected are you when emergencies of life happens?"

This is the heart of the FADEMO concept.

22. FADEMO AS A PERSONAL FINANCIAL SECURITY SYSTEM

The Fund can therefore be presented as a personal financial security architecture.

A member can potentially move from:

Income

to

Contribution

to

Investment

to

Asset Accumulation

while simultaneously having:

Social Protection

against defined qualifying events.

The ultimate objective is:

FINANCIAL SECURITY + SOCIAL PROTECTION + WEALTH CREATION

23. THE ROLE OF MEMBERS

The success of FADEMO does not depend only on management.

Members have an important responsibility.

Members should:

1. contribute consistently;
2. understand the rules;
3. provide accurate information;
4. keep their membership information updated;
5. understand the difference between Lulu and Faraja;
6. avoid treating long-term investments as ordinary spending money;
7. submit genuine claims with proper documentation;
8. monitor their statements;
9. seek financial education; and
10. plan for the long term.

24. THE ROLE OF FADEMO MANAGEMENT

FADEMO management has an equally important responsibility.

Management must ensure:

- prudent investment;
- proper record keeping;
- accurate member accounts;
- timely benefit processing;
- transparency;
- accountability;
- effective risk management;
- strong internal controls;
- compliance with applicable laws and regulations;
- protection of member information;
- and sustainability of the Fund.

The management's responsibility is not merely to collect money.

It is to **protect the confidence that members place in the institution.**

25. THE FADEMO PROMISE TO MEMBERS

The Fund's message to members therefore is:

"Your contribution should have a purpose."

Part of the member's contribution can be directed toward building financial assets through Lulu Fund.

Another contribution can support social protection through Faraja Fund.

This creates a culture where a person does not wait until a financial crisis occurs before thinking about financial security.

Instead:

We get prepared before the event happens.

26. FADEMO'S LONG-TERM VISION

The long-term vision should be to develop a financially sustainable social protection ecosystem in which ordinary people can participate in building their own financial future while also receiving structured protection against defined life events.

FADEMO therefore seeks to promote a new financial culture:

From consumption to accumulation.

From dependence to preparedness.

From financial vulnerability to financial resilience.

From saving without a strategy to investing with purpose.

From reacting to crises to preparing for life.

27. THE SIMPLE MESSAGE TO STAKEHOLDERS

If stakeholders remember only one thing from this paper, it should be this:

LULU FUND BUILDS YOUR WEALTH.

FARAJA FUND PROTECTS YOU FROM DEFINED LIFE EVENTS.

LULU = ACCUMULATION

FARAJA = PROTECTION

FADEMO = BOTH

That is the essence of the hybrid social protection model.

28. CONCLUSION

FADEMO Social Protection Fund represents an approach that recognizes that financial security cannot be achieved through investment alone, and social protection cannot be achieved through benefits alone.

People need both.

They need a mechanism through which they can **accumulate financial assets for the future**.

They also need a mechanism through which they can **receive financial protection when qualifying life events occur**.

That is why FADEMO brings together the two approaches.

Lulu Fund operates on a Defined Contribution-oriented investment philosophy, where the member's contributions are invested and accumulated according to the applicable rules and investment performance.

Faraja Fund operates on a Defined Benefit-oriented social protection philosophy, where qualifying members receive predetermined benefits for specified qualifying events according to the Fund's rules and eligibility conditions.

Together, they form the FADEMO hybrid social protection model.

The message is therefore simple:

"Invest for tomorrow. Protect yourself for today. Build a financially secure future."

And that is the vision of:

FADEMO SOCIAL PROTECTION FUND

WEALTH CREATION. SOCIAL PROTECTION. FINANCIAL SECURITY = FADEMO.

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