PERFORMANCE OF INVESTMENT IN SOCIAL SECURITY FUNDS

A CASE STUDY OF NATIONAL SOCIAL SECURITY FUND (NSSF)

PERFORMANCE OF INVESTMENT IN SOCIAL SECURITY FUNDS:
A CASE STUDY OF NATIONAL SOCIAL SECURITY FUND (NSSF)

By

Ephace Rutabanzibwa

A Dissertation Submitted to MZzumbe University – Mbeya Campus College in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science in Accounting and Finance (MSc. A&F) of Mzumbe University

2013

CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University a dissertation entitled, ***performance of investment in social security funds; a Case Study of National Social Security Fund*** (NSSF) in partial fulfillment of the requirements for award of the degree of MSc. Accounting and Finance (MSc. A&F) of Mzumbe University.

……………………………………..

Major Supervisor

………………………………….

Internal Examiner

Accepted for the Board of ……………………………

DEAN/ DIRECTOR FACULTY/ DIRECTORATE/SCHOOL/BOARD

DECLARATION
AND
COPYRIGHT

I, **Ephace Rutabanzibwa,** declare that this dissertation is my original work and that it has not been presented and will not be presented to any other University for a similar or any other degree award.

Signature_________________________

Date______________________________

ACKNOWLEDGEMENT

I would like first to thank God the Almighty for giving me strength and capacity to complete this work. I am particularly indebted to my research supervisor Prof. ShivTripathi whose constructive criticism of the early draft of this study and his unfailing support during the writing of this work has been of much help to me.

Special thanks to Reginald Malleywho’s his scholarly advice has helped me to shape this work to its present standard.

Much appreciation goes to respondents whose willingness to participate in this study enabled me to obtain requisite information.

I also acknowledge the help and encouragement of my beloved wife Rosemary and my sons Mjuni and Mugisha without forgetting my daughter Asimwe who tirelessly provided me with moral and material support which continuously encouraged and energized me to complete my studies. Special thanks also go to my beloved parents, brothers, sisters, nephews, nieces, in laws and other relatives for their support and prayers during my studies. They encouraged me to complete my studies even though it has resulted in them undertaking additional family responsibilities.

Last but not least, my thanks are owed to all lecturers at Mzumbe University and my fellow Master in science Accounting and Finance students of the 2010/2011 cohort for their advice and support which proved to be vital in the accomplishment of this study without forgetting my sponsor Inflight Catering services ltd. Many have obviously helped me to produce this dissertation but like every writer, the final responsibility for what has been produced rests with me.

DEDICATION

This work is dedicated to my beloved Uncle Alexander Kashalankoro for the basic Education foundation he laid down for me. I wouldn’t have reached this stage without his efforts.

LIST OF ABBREVIATIONS AND ACRONYMS

ALM	-	Asset Liability Management
GEPF	-	Government Employees Provident Fund
IARR	-	An Industry Average Rate of Return
LAPF	-	Local Authorities Provident Fund
NHIF	-	National Health Insurance Fund
NSSF	-	National Social Security Fund
OMERS	-	Ontario Municipal Employees Retirement System
PPF	-	Parastatal Pension Fund
PSPF	-	Public Service Pension Fund
RSA	-	Retiree Savings Account
ZSSF	-	Zanzibar Social Security Fund

ABSTRACT

To use social security fund to invest in different development project that have direct impact to the members of the fund and local community is a critical element of an effective poverty reduction strategy especially for developing countries as members will have so many benefits as the social security fund expand its income and portfolio

Specifically in this study the assessment performance of investment in Social Security Funds has made with case study of NSSF and its have specific objectives such as to identify the pattern of portfolio selection for the NSSF investment, to determine the factors influencing the management choice of portfolios for social security fund investment , to examine the profitability of the investment of the social security fund , to assess the riskiness of the Social Security fund in their investment activities and lastly to suggest improvement in investment management of NSSF. A sample of respondent has been chosen including managements of NSSF and some members, data has been collected both primary and secondary data such financial statement of 2003-2008 including NHIF as a comparison base. Followed by analysis of the data and presentation of the findings,

The result has shown there is profitability of the funds even though its have some challenges like inflation and political interference on fund investment activities.

TABLE OF CONTENTS

Pages

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE

INTRODUCTION AND BACKGROUND OF THE STUDY

1.1 Background Information

Financial system is an integral part of the economic system that includes all financial organizations or agencies that facilitate the flow of financial resources or funds within the economic system, that is, the flow of funds among economic sectors (household sector, industrial and commercial sectors, the public sector (central, municipal and local governments and public enterprise), financial sector and foreign sector. The financial system includes the fiscal and monetary authorities.

The principal functions of the financial systems are to locate, secure and channel funds to economic units that need them for their investment activities. In other words, the financial system facilitates the saving and investment processes or what is known as capital formation or accumulation. This is the process which increases the amount of economic goods and services within the economy. (Fraser, 1988)

Financial intermediation involves linking of deficit spending units to surplus spending units through Financial Institutions (Gordon, 2002). Financial Institutions mobilize savings from surplus units and channel the savings as loans and investments to deficit spending units at a fee. Financial intermediaries are the ones which link themselves between surplus spending units and deficit units that need funds for consumption and investment purposes. Financial intermediaries have existed since ancient times taking deposits from households and make loans toagents requiring capital (Santanamero, 1986).

One of the financial system is social security fund as financial intermediary its cover wider variety of public and private measures that are meant to provide benefits in the event of the individuals earning power permanently ceasing being interrupted , never developing, being unable to avoid poverty or being exercised only at an acceptable social costs (Ministry of Labor, 2003). The major domains of social security are:

poverty alleviation, social compensation and income distribution. Many issues relating to social security are sensitive as they touch the material interests of organized workers and the organized poor as well as insurance industry and employer organizations. The main key elements of the social security system in Tanzania are social assistance scheme, mandatory scheme and private earning.

In Tanzania there are six major formal institutions and one in the Isles that provide social security protection in Tanzania. These are the National Social Security Fund (NSSF) offering social security coverage to employees of private sector and non-pensionable Parastatal and government employees, the Public Service Pension Fund (PSPF) providing social security protection to employees of central Government under pensionable terms, Parastatal Pension Fund (PPF) offering social security coverage to employees of both private and Parastatal organizations, the Local Authorities Provident Fund (LAPF) offering social security coverage to employees of the Local Government the National Health Insurance Fund (NHIF), the Government Employees Provident Fund (GEPF) and the Zanzibar Social Security Fund (ZSSF).

Currently there is an ongoing debate on the investment performance of the Social Security Funds investing in real Assets, raising the question of whether real estates and financial assets markets could be impacted by major portfolio reallocations (Yermo, 2003). It should be clearly understood that the regulation in other segments of the financial sector: the promotion of resource mobilization and allocation through a framework ensure transparency, security and stability, minimization of costs and promotion of sound investment decisions (Rugemarila, 2005).

The social security institutions apart from transforming themselves into a market oriented organization in order to become responsive to the social security needs of their members have to formulate investment guidelines that have to align to their respective vision and projected financial obligations. However among other challenges facing social security Institutions in implementing investment guidelines is to establish appropriate mechanisms for policy harmonization and having common guidelines for investment of social security funds in the country (Baruti, 2007).

The investment portfolio of the National Social Security Fund comprises of government securities, real estates, corporate bonds, equity (Long term investment portfolio) and short term investment portfolio which comprises of fixed deposits, treasury bills and commercial papers.

1.2 Problem Statement

Performance of the Social Security Funds in Tanzania is undoubtly the public interest as they are the largest class of Institutional Investors. As with any other types of financial Institutions, the Social Security Funds members are exposed to a great variety of risks including investment, agency and systematic risks. In countries with poor governance records, the worst returns are produced by the publicly managed Social security funds and investment returns are often below bank deposit rates and the growth rate of per capita income.

Most of the Social Security Funds in Tanzania have over-concentrated their investment portfolios either in real estate, Treasury Bills or in some medium scale joint ventures.

The leading Social Security Funds in the country have often been disapproved on their engagement in risk concentration, by putting too much of the workers` money in commercial buildings. Still on records, some Social Security Funds have been maligned for lending billions of shillings to well-connected businessmen, while even others condemned for having advanced unsecured loans to political parties and senior politicians. (The Guardian Reporters, 2008-12-27)

Huge investments made by the Social Security Funds implicitly mean that employees had become the controlling shareholders of most corporations. The growing tendency of the Social Security Funds to draw retirement benefits out of the funds raises the question of the Social Security Funds performance and investments to be critically emphasized.

The extent and nature of respective choice of investments, profitability and its riskiness of the Social Security fund is still questionable, resulting to the need of evaluating investment performance of the Social Security Funds in the country, for funds sustainability and economic growth. Therefore, in view of the above its there is a great need to assess the performance of investment in Social Security Funds.

1.3 Research Objectives

1.3.1 General Objectives

The overall objective of the research was to assess the performance of investmentin Social Security Funds, more specifically:-

1.3.2 Specific Objectives

(i) To identify the pattern of portfolio selection for the NSSF investment
(ii) To determine the factors influencing the management choice of portfolios for social security fund investment in Tanzania.
(iii) To examine the profitability of the investment of the social security fund in Tanzania
(iv) To assess the riskiness of the Social Security fund in their investment activities
(v) To suggest improvement in investment management of NSSF

1.4 Research Questions

In order to achieve these objectives, the study was designed to answer the following questions:-

(i) What is the pattern of the portfolio selection for the NSSF investment?
(ii) What are the factors used to determine the management choice of portfolio for social security fund investment in Tanzania?
(iii) Does the investment of the Social security fund make profit? How?

(iv) What are the risky do the social security fund encounter in their investment management

(v) What are the improvements measures should NSSF take to improve its investment management?

1.5 Scope of the Study

The goal of this study was to evaluate the investment performance of the social security fund in Tanzania with the case study of National Social Security Fund. In broad the study has covered the profitability of the NSSF investment, hadassess the risk of the investment and investment choice they make.

1.6 Significance of Study

1.6.1 Policy Development

As the government continue to improve the social security fund sector like establishment of the Social Security fund Regulatory authority. This study will help on that matter especially in policy development. The study findings will be used by them as a basis in developing policy and plan.

1.6.2 Academic and Research Reference

Through this findings and analysis, will provide new knowledge and insights regarding the investment of the members fund, riskiness and its profitability.

1.6.3 Practical Values

The research will help investments managers to make a right choice when it comes to investment opportunities.

1.6.4 To Contribute to Knowledge in Pension Fund Management

1.7 Limitation and De-Limitation of the Study

During the study researcher has encountered some limitation here are some;

1.7.1 Time

The time for data collection was not adequate consider the research has also other responsibility like jobs and family, to solve that problem he has decided to use email to communicate with management and other respondents, this was done to some appointment where he have time limit.

1.7.2 Respondent's Behavior

Some of the respondents were not ready to participate fully, To handle that problem the researcher decide to leave the questionnaire and come back to take it some next days after being completed filled by respondent,, also to some areas used other methods of data collection such as observation and focus group discussion as to see and hear for himself the real situation that exist.

1.7.3 Financial Problem

Financial limits was also the constraints in conducting this study because there was no fund for financing the study instead its private sponsorship which has the limit according to the financial capacity of the researcher. Therefore the study covers only respondent from head quarter and those members who were around by that time.

1.8 Organization of the Study

This is where the structure of the final project is described. This study looked at the investment management of the social security funds in Tanzania a case study of NSSF. It is divided into 5 chapters.

Chapter one opens the report and covers the background information, problem statement, research question, the objectives of the research, methodology, significance, scope and limitations, and organization of the chapters.

The Second chapter examines the literature review and acknowledges what other authors have said about investment management of the social security funds, covered theoretical part, empirical, conceptual framework, research model and hypothesis.

In Chapter Three, the research methodology has been discussed. Type of the study, study area, study population, variables and their measurements, sample size and sampling techniques, types and sources of data, data collection methods and data analysis methods.

Presentation of findings is found in the fourth chapter. It presents data that has been collected from the field concerning of investment management of the social security funds in Tanzania by using such as shape ratio, capital growth profitability ratio and by using tables.

Chapter five also focuses on discussion of the findings. Chapter six focus on discussion of the findings. Conclusions and recommendations and area for further research were then given in chapter six.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This part gives the definition of terms used and it explains theories of Social Security and investments in a broad perspective. It also provides an overview of social security schemes in Tanzania and their traditional investments. Some related conceptual frameworks and empirical studies are given in order to widen understanding of the study.

2.2 Definition of Terms

2.2.1 Financing

Financing decision involves issues about how and from where to raise funds for the business startup and operations. Financing decision is assumed to be independent of the investment decision such that there is no need to associate certain projects with a particular source. It is about the firm’s capital structure. A capital structure decision is about the relative amount or the proportions of debt & equity that a firm should use to finance its business (Kaijage and Tarimo, 1999)

2.2.2 Investment

Investment is the employment of funds with the aim of achieving additional income or growth in value (Singh, 1991). It is capital formation, the acquisition or creation of resources to be used in production (Peter et al 1992)

Investment decision involves issues about how and where to allocate funds for replacement and the expansion of the business. Also investment may be defined as a long-term commitment of economic resources made with the objective of producing and obtaining net gains in the future. The main aspect of the commitment is the transformation of liquidity. Investors borrow funds and are transformed into productive assets represented by the fixed investment and working capital as well as the generation of the liquidity again during the use of these asses (Baxter and Crucini, 1993)

2.2.3 Internal Financing

According to Penman 2010 firm can be financed internally through the following methods:-

(i) Use of retained earnings
(ii) Better management of funds to improve revenues, and
(iii) Additional investments from owners' savings.

2.2.4 External Financing

Outside financing exists in two main forms: debt and equity. The main difference between the two is that equity dilutes the ownership of a company, whereas debt increases the liability and must be paid back over a fixed period of time. Debt is preferred to equity financing because interest expense is tax deductible hence less costly.

2.2.5 Debt Financing

Debt provides financial leverage which essentially allows for a magnification of profit (and losses). It exists as short term or long term debt where by the long term debt is the most popular because it offers a greater flexibility to the borrower as it allows longer periods for repayment (Stephenson, 1991)

2.2.6 Investment Analysis

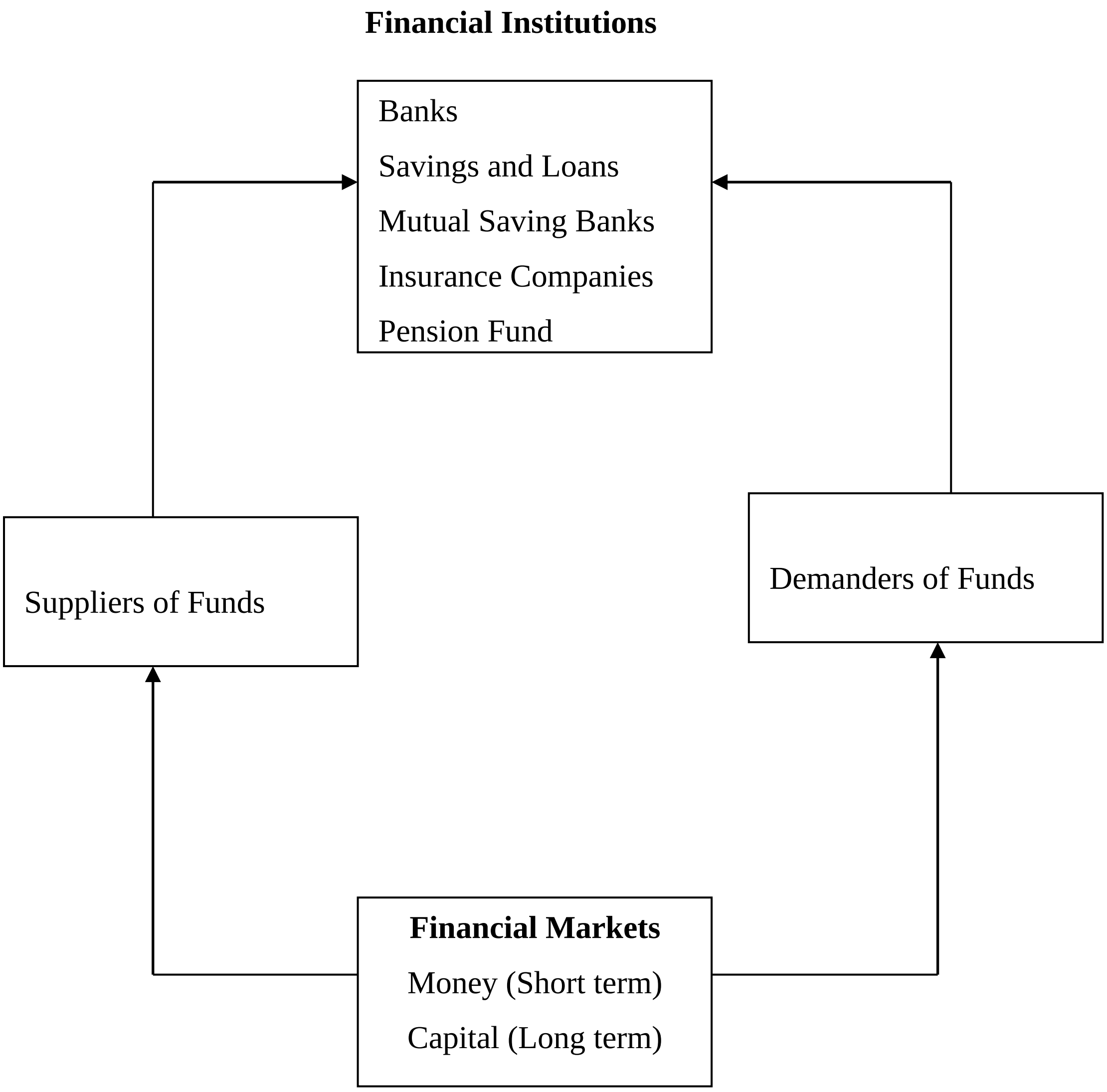
Finance theory guides managers as to how to evaluate an investment (Kaijage and Tarimo, 1999). The best investment may not be those that just maximize return but consider other factors like risk and tax (Gitman and Joehnk, 1981). It must be selected to fulfill the firm's investment goals.

2.2.7 Investment Process

This is the mechanism for bringing together suppliers (those having extra fund) with demanders (those who need fund) through financial institutions and financial markets.

Financial institution is likely to participate in financial market as demanders of funds. Figure 3 below illustrates the interplay of several parties in the investment process

Figure 2.1: Investment Process



Source: (Gitman andJoehnk, 1981)

2.2.8 Reward for Investing

Reward or return for placing funds in the investment process may be received in two basic forms which are current income and increased value.

2.2.9 Return on Investment

Return on Investment (abbreviated ROI) is a measure of a company's ability to use its assets to generate additional value for shareholders. It is calculated as Net Profit divided by Net Worth, and expressed as a percentage.

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

The return on investment formula

$$ROI = \frac{(\text{Gains from Investment} - \text{Cost of Investment})}{\text{Cost of Investment}}$$

Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

Social security means any kind of collection measures or activities designed to ensure that members of the security meet their basic needs and are protected from contingencies to enable them to maintain a standard of living consisted with norms (National Social Security Policy – NSSP, 2003)

2.2.0 Pension

Pension is a term which expresses all long-term benefits offered by the scheme. It defines periodical payments given to a retired member, invalid persons and survivors of the deceased member to replace the loss of income resulting from old age, disability or death.

2.3 Financial Intermediation Process

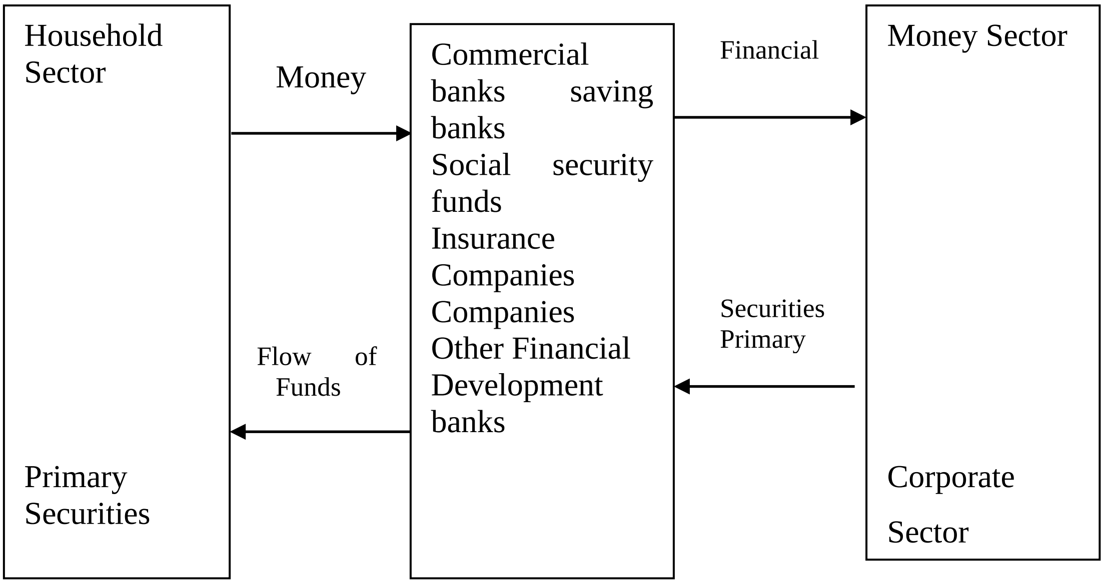
Financial intermediation involves linking of deficit spending units to surplus spending units through Financial Institutions (Gordon, 2002). Financial Institutions mobilize savings from surplus units and channel the savings as loans and investments to deficit spending units at a fee. Financial intermediaries are the ones which link themselves between surplus spending units and deficit units that need funds for consumption and investment purposes. Part one of the Banking and Financial institutions Act of 2006 defines 'Financial intermediation to mean the lending, investing or placement of funds or securities or both, received, acquired or obtained from the general public or from a well-defined group of persons by way of deposits, borrowings, contribution premiums or in a fiduciary capacity either for the account of the person receiving such funds/securities or for the account of others'. Financial intermediaries are at the heart of 'Indirect Financial Markets'. They mobilize funds from the surplus units by selling them various types of indirect or secondary financial securities e.g. deposits in commercial banks and savings banks; shares in investment companies, policy claims against Insurance companies and Social Security Funds arising from premiums and contributions received respectively.

Figure 2.2: Financial Intermediation Process

LENDERS BORROWERS

(Surplus economic units) (Deficit economic

Units)



Source: Srinivas, 2005

2.4 Risk Perception, Risk Tolerance and Portfolio Choice

Financial risk tolerance is defined as the maximum amount of uncertainty that someone is willing to accept when making a financial decision. Although the importance of assessing financial risk tolerance is well documented, in practice the assessment process tends to be very difficult due to the subjective nature of risk taking (the risk of investor willing to reveal their risk tolerance) and objective factors such as Grable and Joo (1997), Grable and Lytton (1999), and Grable (2000).

Risk tolerance represents one person’s attitude towards taking risk. This indicated is an important concept that has implications for both financial service providers (asset management institution or other financial planner) and consumers (investors). For the latter, risk tolerance is one factor which may determine the appropriate composition of many assets in a portfolio which is optimal and satisfied investors invest preference in terms of risk and return relative to the needs of the individual investors Droms, (1987), Hallahan et al., (2004).

There are some empirical evidence showing the impact of risk perception; risk tolerance and socio-economic on portfolio choice, for instance, Carducci and Wong (1998), Grable and Joo (1997), Grable and Lytton (1999), Grable (2000), Hallahan et al., (2003), Frijns et al., (2008), and Veld and Veld-Merkoulova (2008).

In terms of different risk perception or risk tolerance level, individual investor may show different reaction base upon their psychology factor and economic situation, which would lead to heterogeneous portfolio choice for individual investors. For this reason, it is crucial to recognize and attitudinal how individual investors with different risk perceptions and risk tolerance make their invest products choice on investment plan, in particular socioeconomic status differentials may make their choice vary and difference. Portfolio management concerns the constructions and maintenance of a collection of investment. It is investment of funds in different securities in which the total risk of the portfolio is minimized, while expecting maximum return from it. It primarily involves reducing risk rather than increasing return. Return is obviously important though, and the ultimate objective of portfolio manager is to achieve a chosen level of return by incurring the least possible risk. Determinants of risk attitudes of Individual Study of risk perception and its impact on investment behavior is one of the core activity Hallahan et al., (2004).

2.5 The Concept of Social Security

Social security means any kind of collective measures or activities designed to ensure that members of society meet their basic needs and are protected from the contingencies to enable them maintain a standard of living consistent with social norms.

The social security concept has been changing with time from the traditional ways of security to modern ones. As societies became more industrialized as a result of industrial revolution in the 19th century and more people became dependent upon wage employment, it was no longer possible to rely upon the traditional system of social security.

The negative impact of industrialization and urbanization attracted the attention of policy makers to formalize social security system that addressed the emerged social issues.

Social security is defined in its broadest meaning by theInternational Labour Organization (ILO) as: -

> *"The protection measures which society provides for its members, through a series of public measures against economic and social distress that would otherwise be caused by the stoppages or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, disability, old age, death, the provision of medical care subsidies for families with children."*

The ILO framework of social security is based on a three-tier structure, which seeks to utilize various funding sources for provision of better protection to the country's population. This structure also seeks to address needs of different groups in the 3 society with respect to income and degree of vulnerability. The structure consists of the following: -

(i) Tier One – Social Assistance Schemes

This constitutes provision of services such as primary health; primary education, water, food security and other services on a means tested basis. These services are usually financed by the government and Non-Governmental Organizations (NGOs.

(ii) Tier Two - Mandatory Schemes

These are usually compulsory and contributory schemes financed by both employer and employee during the working life for terminal and short-term benefits.

(iii) Tier Three - Voluntary or Supplementary Schemes

The schemes under this tier include personal savings, co-operative and credit societies, occupational pension’s schemes and private schemes; managed by employers, professional bodies, community based organizations and other private sector actors

2.6 Investment of Social Security Funds

Social security institutions in Tanzania have been investing in portfolios such as commercial loans, real estate, government securities, Loanable funds, bank deposits and equities; all of which have contributed to social and macro-economic development of the country.

In many countries, governments recognize the need to provide pension funds to take care of the ageing population, the dependants of a breadwinner in case of his or her death or the breadwinner in case of invalidity through accidents at work, etc. Pension funds in most countries are managed by government institutions or private firms. Pension fund (according to investopedia.com) is defined as “a fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement”. Pension funds are commonly run by a financial intermediary for the company and its employees, although some larger corporations operate their pension funds in-house. Pension funds control relatively large amounts of capital and represent the largest institutional investors in many nations.

There are two main types of pension funds management that are widely used-namely defined benefit plan and defined contribution plan. The International Accounting Standards (IAS) 19, states that “For defined benefit plans, the amount recognized in the balance sheet should be the present value of the defined benefit obligation (that is, the present value of expected future payments required to settle the obligation resulting from employee service in the current and prior periods), as adjusted for unrecognized actuarial gains and losses and unrecognized past service cost, and reduced by the fair value of plan assets at the balance sheet date. [IAS 19.54]" This means that the risk remains with the employer and the employee's obligation is to provide the agreed amount of benefit to current and former employers. In a defined contribution pension plan, a company pays a fixed pension contribution into a separate entity (fund) and has no legal or constructive obligation to pay further contributions if the fund does not have sufficient assets to pay employees benefits relating to employee service in the current or prior periods.

In Ghana, The Social Security and National Insurance Trust (SSNIT) is the statutory public organization charged with the administration of Ghana's National Pension scheme known in common terms as social security. The Social Security and National Insurance Trust was established to administer the National Social Security Scheme in 1972 under the NRCD 127 System. The trust administered a provident fund until 1991 when this was converted into a pension scheme under the Social Security Law (PNDC Law 247). Prior to establishment of SSNIT, the fund was jointly administered by the department of pensions and the State Insurance Corporation (www.ssnit.com).

The primary responsibility of the Trust is to replace part of income due to old age, invalidity or loss of life. The Social Security and National Trust operates a contributory social insurance scheme where members contribute to a pool of funds throughout their working lives and receive pay outs when they satisfy the qualifying conditions. The Social Security and National Trust has a primary duty to collect contributions and to pay pension as they fall due. The social security scheme is financed from the contributions of members and the investment income on the assets held by the Trust.

Social security is considered essential and many societies and governments work to ensure their people have it. Usually the pressure of life leads people to focus on providing for their immediate needs such as food, clothing and shelter. Only a small group can set aside some money to take care of future bills in their old age. However accidents do happen which may render a person unable to work for the rest of his or her life. Eventually old age also catches up with people. The challenge is for the society to provide the health and material needs of those rendered disabled through accidents or sickness, the dependents of breadwinners in case pre – mature death as well as the needs of the senior citizens through their old age without putting much constrain on the working populace.

Societies should be concerned with providing social security to ensure that the future income needs of their citizens can be met when that need arises. Without this arrangement, many stand to suffer severe hardships and embarrassment in the future. Governments are actively involved in the provision of social security in an effort to meet the future needs of vulnerable groups in society. Historically, in country like Ghana there existed a traditional system of social security among our rural folk that ensured that the extended family had the responsibility of taking care of the aged and the infirm. The development of modern societies with migrant population and changing perceptions has disrupted this traditional extended family system of care, as we now know it.

It is therefore necessary for the authorities to establish and manage a fund that is financially sustainable in the long term to provide pensions to its workers in their old age or in case of accidents that may render a contributor disabled. Most importantly the resources should be invested in viable projects with high returns to secure the future of workers. In line with this objective SSNIT invests in many areas of the economy such as the financial sector, real estate development, the hospitality industry, building of modern marketsetc. in the country.

2.7 Overview of Pension Funds

Traditionally, welfare of the elderly was the role of the family unit. However as world population grew rapidly the issue of care for the elderly became a serious problem for the state. Various countries at different points in time could no longer provide the necessary support to the elderly because of improvements in medical care, standard of living etc. which increased the cost. This led to the creation of pension funds some which are among the largest financial institutions in many developing and developed countries.

Pension funds were started in 1875 in the United States of America by the American Express Company. Although established in the 1800's real growth in retirement programs came after world war two. The rapid growth was attributed to high-profit taxes imposed on corporations which encouraged some of them to establish pension plans; since the employer's contributions to qualified pension plans were not tax-deductible and therefore could be funded inexpensively.

Another factor that made the people in America conscious of the need to provide for their future economic security was the Depression of the 1930's. The depression swept away the life savings of millions of people and created a feeling of insecurity (.investmentsandincome, 2010)

Pension funds have existed in the United Kingdom since the early 1900's. Lloyd George, the Chancellor of the Exchequer under the government of Herbert Asquith introduced the very first state pension. To pay these pensions, he had to raise government revenues by an additional £16 million per year. The 1909 budget known as the People's Budget included increases in taxation. It was originally designed to help the poor and payable by age 70 (incipit. Pensions, 2011).

By 1936, active membership of private pension funds had risen substantially. This was associated with a shift in benefit design from defined contribution to final salary defined benefit (Avrahampour, 2006). An additional State Pension payable on top of the Basic State Pension was introduced and came into effect from April 1978. It was an earnings related pension. The Guarantee Minimum Pension was also introduced to provide guarantee with respect to the adequacy of pension funding.

By 1891, it was possible for people in Germany who were over 70 years of age to obtain an old age pension. The imperial insurance code in 1911 introduced additional benefits. A few decades later the pension scheme was reformed – specifically in

1957. The pay-as-you-go scheme was introduced as well as a pension formula which calculated the earnings during old age based on the earnings obtained during the years a person was in gainful employment. Further changes in 1970 allowed the self-employed, students and housewives to profit from pension cover (pension-scheme-FRG/German, 2011).

By an Act of Parliament in 1961, Nigeria established the National Provident Fund. It was set up to provide income loss protection for employees to meet the requirements of the International Labour Organization (ILO) Social Security (Minimum Standards) Convention 102 of 1952. The National Provident Fund which initially covered only the private sector workers was converted to a limited social insurance scheme in 1993.The new scheme was administered by the Nigeria Social Insurance Trust Fund (NSITF). The institution is self-financing and sustains itself from revenue generated from its operations. It has branches covering all states.

In 2004, the Federal Government passed a law which assigned the administration, management, and custody of pension funds to private sector companies; that is private pension fund administrators and pension fund custodians. The Act mandated the Nigeria Social Insurance Trust Fund (NSITF) to set up its own pension fund administrator to compete with other fund administrators in the emerging pensions industry, and also to manage the accumulated pension funds of current NSITF contributors for a transitional period of five years. As a result the NSITF incorporated the Trust fund Pensions Plc. as a pension fund administrator in collaboration with other institutional investors and social partners.

The pension scheme in Tanzania was established during the colonial era and covered only a few people who were in colonial employment. After independence, the new government introduced a number of policies and measures to reverse the situation that prevailed during the colonial era; a move that led to the establishment of statutory social security schemes. The National Provident Fund was among those established by an Act of Parliament in 1964 and amended in 1975. It was again repealed and replaced by the National Social Security Fund Act of 1997. In all, there are five pension funds for various categories of workers in Tanzania. These are National Social Security Fund (NSSF), the Public Service Pension Fund (PSPF), the Parastatal Pension Fund (PPF), the Local Authorities Provident Fund (LAPF) and the National Health Insurance Fund (NHIF). About eighty – five percent of employees in the formal sectors are covered by one of these pension funds (tanzaniag.2009).

In Ghana, SSNIT was established to administer the National Social Security Scheme in 1972. The institution administered as a provident fund until 1991 when this was converted into a pension scheme. A new reform bill has been passed which will allow the participation of private funds managers in the industry.

2.8 Types of Pension Funds

There are different types of pension funds depending on who instituted them and the benefits derived. The process that each type of pension fund uses to decide on policies relating to investing and financing etc. is different from other competitors. Pension funds can be classified as a defined benefit plan or a defined contribution plan. A defined benefit plan is a pension plan that defines a benefit for an employee upon retirement. The pension paid to the retiree under this plan is calculated taking into consideration certain factors such as the number of years a person works, the members salary at retirement, age at retirement and a factor known as the accrual rate.

Where the pension plan allows for early retirement, payments are often reduced to reflect the fact that retirees will receive pension payments for longer periods. A defined benefit plan may be funded or unfunded. A funded plan is one which invests the contributions of both employers and members towards meeting the benefits to be paid in later years. On the other hand, an unfunded defined benefit pension sets no assets aside for investments. The benefit is paid for by the pension sponsor as and when they fall due.

Most state pensions in the world are unfunded with benefits directly paid out of workers contributions and taxes. In a defined benefit plan any investment risks or rewards are assumed by the sponsor and the individual takes no responsibility for it. In a defined contribution plan, the contributions made by each member are paid into his or her individual account.

The contributions are then invested on money markets and other viable sectors of the economy. The returns on the investment which may be positive or negative are also credited to the members account. Upon retirement therefore, the benefits are paid based on the sum accrued to the individual memberDefined contribution plans have become widespread all over the world. In these plans, investments risks and rewards are assumed by the employee and not the sponsor. Many employers are avoiding the large expenses associated with using a defined plan and are instead offering a defined contribution plan to employees.

An occupation or employer pension is one created by an employer (company) for the benefit of its employees. Open pension funds support at least one pension plan with no restrictions on membership while a closed pension fund supports only pension plans that are limited to certain employees.

A public sector pension fund is regulated under public law while a private pension fund operates under private sector law. Public sector sponsored defined benefit plan covers employees working for federal states and local governments. Private sector sponsored pension plans are employment based plans established by firms such as IBM, General Motors and AT&T. Government-sponsored pension plans are countrywide, compulsory programs such as the social security system in the United States and the Canada and Quebec pension plans in Canada (Macule and Policies, 2003).

However, both the public and private sector pension plans are subject to the same financing, investment and organizational principles. It is process that each type uses to decide and implement its policies that differ. For example investment policy decisions for public sector plans are made at public forums while the same decisions for private sector plans are made behind closed doors by individuals with strong investment background.

2.9 Features of Various Pension Funds

"The publicly provided pension benefit in the United States, known as social security has a progressive benefit formula. There is also a means-tested top payment available for low income pensioners" (Whitehouse, 2007).

The current normal retirement age in the United States is between sixty five (65) and sixty seven (67) years. Eligibility depends on the number of years of contribution, with a minimum requirement of 10 years. Early retirement is possible from age 62 but with lower benefits (Whitehouse, 2007).

The United Kingdom has a two tier pension scheme as well as a large private pension sector. The two tier pension is made up of a flat rate basic pension and an additional earnings related pension. An income related pension targeted at helping the poorest pensioners was also introduced.

The pensionable age is sixty five (65) and people need to pay social security for approximately nine-tenths (44 years) of their working lives to qualify for state pension. There is a reduced pension available to those who do not meet the full condition. "The full basic state pension for a single pension was £3896 for the calendar year of 2002" (Whitehouse, 2007).

In Germany, the pensionable age is sixty five (65). One can retire at age sixty three (63) with thirty five years of contribution. Germany has a single tier pension.
"A year's contribution at average earnings earns one point. Contributions are levied on monthly earnings between €325 and €4500 (2002 values). The floor and ceiling are equivalent to 12% and 163% of average earnings, respectively. The ceiling also applies to the number of points earned. Average covered earnings were €28,626 in 2002 equivalent to 86% of the earnings of the average production worker. For social

assistance the benefit values is determined regionally. The government pays the health and long term care contributions of older social assistance recipients" (Whitehouse, 2007).

In Morocco, there are three separate schemes to cover civil servants, the military and other public sector workers. The pensionable age is sixty (60) years for both sexes. People who want to retire early can do so at age fifty five (55) but the employer must pay their pension between ages 55 and 60. Miners have a pension-eligibility age that is lower than sixty (60) years. To qualify for a pension, one must have contributed for 3,240 days.

Morocco's pension system currently includes a number of funds. There is a fund for public workers in civil and military fields (Moroccan pension fund, or CMR); a fund for private sector workers (CNSS) complemented by a scheme managed by the CIMR (Moroccan inter professional pension fund); and an organization for those on State contracts (RCAR). Added to this are the various internal funds owned by certain public enterprises such as ODEP, ONCF, OCP and others" (Touahri, 2008).

In Ghana, SSNIT operates a retired contribution plan with each member having a separate account. The scheme is financed by a combined contribution from employers and employees. Membership is compulsory for people who are not self-employed and work for companies or other employers and voluntary for the self-employed. It excludes members of the Armed forces, Diplomatic missions and Universities as these institutions have different schemes to cover the retirement needs of their members.

Currently the Trust pays old age pensions, invalidity pensions, survivors' benefits or health insurance benefits. The retirement age is between 55 and 60; one needs 180 months contribution to qualify for a pension. The lump sum is paid to members who would have qualified for a pension but did not meet the number of month's contribution required. The survivors benefit is paid to nominated or dependent members of the family of a deceased member who was receiving an invalidity or retirement pension or was still a contributing member before his or her death.

Under the new three-tier system which became operational on 1st January, 2010 SSNIT now manages the first tier. The second and third tier will be privately administered by approved Trustees licensed by the National Pensions Regulatory Authority. The Trustees will appoint pension fund managers who will be required to achieve the best returns on the funds within specific investment parameters set by the Trustees.

2.10 Investments of Pension Funds

Pension funds invest in capital markets to make profit. They need a future economic recovery that lasts and as such most of them invest for the long term. In many countries pension fund resources are the domestic sources of long term capital. Initially the pension funds are channeled into safe investment areas. As the funds mature some turn towards “alternative investment vehicles, which in general have had better returns than pension fund portfolios, albeit with greater risk” (Vives,1999).

“The case of Chile, with its longer history, is illustrative of the possible evolution as funds mature and tends toward riskier portfolios, even within the very conservative limits set by regulations. At the beginning, most assets were invested in essentially risk free securities, as is the current case in Mexico. As time went by and capital markets developed, funds started to invest in mortgage bonds and corporate securities, to the point that in 1994 these represented a proportion similar to public securities.” (Vives, 1999).

In the United Kingdom pension plans have increased their investments in hedge funds by significant proportions since the year 2006. They often outperform the broad stock market by wide margins. The pension funds in Canada, Portugal, Holland, Switzerland, the United States and many others have also invested in hedge funds for profit. “Though estimates vary, up to 20% of European and American pension funds and 40% of Japanese pension funds are thought to invest in hedge funds" (Stewart, 2007).

Two prime examples: As of January 2, 2009, the two largest (United States) government pension funds investing in hedge funds were the California Public Employees Retirement System with a total market value of $188 billion and the Ontario Teachers Pension Plan with $108 billion in net assets (Agarwal, 2010).

Other pension funds have taken to socially responsible investments and invest in areas like the energy sector. These are investment strategies that seek to maximize both financial return and social good. They have the potential to yield the higher returns than those earned from investments in capital markets.

Pension Denmark and PKA, two of Denmark's biggest pension funds, acquired a 50 per cent stake in the Anholt wind park, the Danish utility, off the country's north-east coast. The deal highlights growing interest in the investment opportunities surrounding renewable energy as well as the increasing importance of pension funds as a source of funding for the sector (Ward, 2011).

In March 2009, the Danish labour market pension scheme, ATP invested $400 million in the Hudson Clean Energy fund adding that investment in clean energy could grow to 2 to 3 percent of the portfolio. Denmark has been involved in clean energy research and technical development and its wind turbine technology is highly rated and used all over the world.

About 7 per cent of Danish teachers' pension fund Pension was invested in forestry by the last quarter of 2009; this is expected to produce a stable annual return of 10 per cent.

"Pension funds are increasingly moving into new asset classes in a search for yield. Infrastructure is a type of investment being frequently discussed, given its potential to match long-term pension assets and provide diversification. Previously, pension funds exposure to infrastructure has been via listed companies, or via real estate portfolios. However, some larger funds globally are beginning to invest via private equity funds, or occasionally even directly Australian, Canadian and Dutch pension funds may be considered leaders in this field" (Inserts, 2009).

In Canada, the Ontario Municipal Employees Retirement System (OMERS) has several billions of Can$ invested in infrastructure through its subsidiary Borealis Infrastructure set up in 1998. The big US pension, CalPERS, adopted a new investment policy in 2008 with a target of 3% allocation of assets, or US$ 7.2bn in infrastructure. Other US pension funds with infrastructure allocations or intentions include CalSTERS, the Washington State Pension Plan, Alaska Permanent Fund Corporation, Oregon PERD, and the World Bank. In the UK, a number of big pension funds have announced going into infrastructure in recent years: USS, BT, and RailPen" (Inderst, 2009).

Argentina, Columbia and Chile allow their pension funds to invest in infrastructure projects. Pension fund managers in those countries are able to participate in infrastructure development programs and public services only indirectly by purchasing paper issued by specialized infrastructure investment funds or títulos securitizados" Vives,1999.

According to Vives, the investments in infrastructure provide higher returns for the pension funds than what is obtained by portfolios. Although the higher returns are achieved in the long run, pension funds can wait for them to mature because their liabilities are for the long term.

The National Social Security Fund has for a couple of years been involved in the real estate's sector. From their 2001 annual report, NSSF also invests in the manufacturing sector, services, the banking industry, other financial houses, private equity funds, economically targeted investments and listed equities.

Figure 2.3: Flow of Pension Funds

(Inserts, 2009).

2.11 Performance of Pension Funds

Pension funds all over the world usually invest in equities. When the stock markets are doing well pension funds tend to post strong results. In Tanzania NSSF has invested in majority of the companies listed on the stock exchange. Pension funds rank among the largest institutional investors in developed countries by assets under management. Recent years have witnessed the creation of new public pension funds in several countries, and the modernization of existing ones in others, with special emphasis placed on upgrading their investment policy framework and strengthening their governance structure.

Over 10 years to December 2009, pension funds in most industrialized countries posted varied results. Pension funds in the United Kingdom made good returns in some years and not so good returns in others. Majority of the United Kingdom's pension funds posted double-digit investment returns for the year 2009 but the results were not that positive between the years 2005 and 2008. In 2008, the average UK pension fund achieved a weighted average return of -13.6% (http://bnymellon.mediaroom.com). Irish pension funds lost 30% of their value in 2008. The world's largest pension scheme is the Japanese Government retirement pension plan and it posted positive results at the end of March 2004. The Japanese public pension fund is said to be worth $379bn and has more assets than the total GDP of Switzerland. However during the period when the Japanese economy witnessed economic stagnation, the government pension fund scheme suffered serious setbacks as resources continued to diminish, in direct relation to the weakness in the Japanese stock markets (hedgeco.net read 2013).

In 2008, most pension funds in the United States lost some value with a number of them posting poor results. The retirement savings account alone lost US$2trillion in 2008.

The global financial crises hit the economies of nations across the world hard with pension funds in different countries coming out as major casualties. However Germany seemed to have escaped these losses. They did so by investing a higher proportion of their pension funds in bonds. In Africa, Nigeria's pension fund also lost a significant portion of its value. In an article on the allafrica.com website entitled Nigeria: Pension Asset and Global Meltdown dated 6th April, 2009 AbubakarBuba states that "In Nigeria, 7% of the total contribution to the Retiree Savings Account (RSA) which stood at N471.77 billion was lost due to crash in the equities market. Pension Fund Asset which had accumulated to an estimated value of N1.1 trillion as at December 2008 was ordinarily supposed to call for celebration for all stakeholders in the pension industry including the apex regulatory body but, the meltdown ensured they never did. In addition, RSA investment in equities which was 15.93% in 2007 crash landed to 9.52% as at the end of December, 2008. Unlike Germany, Nigeria had only about 32% of its total pension funds invested in Federal Government securities/bonds and 11% in real estate".

There have been reports of inadequate returns generated from the investments of Ghana's pension funds. In February 2010, SSNIT was reported to be making low returns on monies invested with only six out of forty companies the Trust had invested in being able to declare and pay dividends as of 2004. An article written by Frank Dewotor of the data bank group under the caption "Towards a Sustainable National Pension System" also buttressed the fact that the returns on investments were unsatisfactory. He stated that "Other problems include SSNIT's record of investing in many projects that have yielded negative real returns over the years due to political interference, lack of competition and probably inadequate investment expertise at SSNIT." The nine-member Presidential Commission on Pensions also discovered that the SSNIT Pension Scheme had been mismanaged through, "reckless investments which have undermined the profitability and utility of the Fund and the

Scheme. SSNIT in its present form will have to change. The governance has to change" (Ghanaweb.com). This was Thomas AngoBediako, Chairperson of the Commission, speaking at an Editors Forum in Accra. Many other people have expressed similar opinions on the organizations investments.

2.12 Impact of Pension Funds on Society

Pension funds have been set up in many countries to provide support for members of society who have suffered some disability or became too old to work and therefore are threatened by economic deprivation and sometimes even social isolation. The payments received by pensioners help them to meet their needs a take care of children who may not have reached a mature age to enable them gain employment by the time the parent retires. This support to families through social systems prevents the breakup of family lives and leads to the stabilization of life and intensification of psychological links among family members.

Many developing countries have reformed their pension plans from a defined benefit to a defined contribution plan. One of the reasons for this shift is that it is beneficial for the development of domestic financial markets. In defined contribution plans, the accumulation of assets by pension funds bolsters the domestic market, which in turn leads to more efficient allocations of monies to productive investments in the domestic economy. Theoretically, this will lead to increases in productivity and growth.

Pension funds could trade frequently, increasing the liquidity of the domestic stock markets, and thus crowding in savings and new investors. Similarly, the intense trading of stock by pension funds and their large size may induce them to seek the introduction of innovations and new financial instruments to lower transaction costs, again attracting additional savings and new market participants" Catalan, 2004.

Pension funds are also used to aid development in many countries. From investments in housing to roads and even the educational sectors they have served as a medium for bringing development to the people. After equities and bonds, property has played an integral role in balancing the asset allocation and providing a longer term element in investment strategies. Given the shrinking equity premium of the public securities market, pension funds are seeking new kinds of investments where there is reward for expertise and returns consistent with the long term objectives of such institutions.

NSSF involvement in the real estate's sector has resulted in the development of new estates in major towns of the country. The Social Security and National Insurance Trust provides affordable housing to many ordinary workers. The commercial properties built by the organization provide office accommodation and trade outlets which have brought further improvements in the country's infrastructure and employment opportunities.

The circumstance of the family one is born into has a large effect on that person's economic well-being. The economic circumstances of one's birth family can seriously influence their personal development and opportunities for upward mobility. Social security can insure against the economic risks associated with being born into a poor family by providing income transfers to retirees who have had low lifetime earnings.

This is a way of redistributing income in society as the less privileged people get an additional income to improve their lot. Redistribution of income is an effective measure to reduce income differences and to stabilize the lives of the low-income class in the situations in which the market economy alone cannot ensure social fairness. Money is also transferred from people who can earn income to those who no longer have means to earn income. The funds received by these families can be used to improve the lives of their younger ones granting them better opportunities for upward mobility.

2.13 Investment Strategies of Social Security Funds

Social Security Funds are long term investments with limited needs for liquidity. The incoming cash receipts are known with considerable accuracy because of a fixed percentage of each employee's salary usually contributed to the fund. At the same time cash outflows are not difficult to forecast because the formula for which the benefit is to be paid, is stipulated in the contract between the fund and its members. This situation encourages Social Security Funds to purchase common stock, long term bonds and real estates and to hold these assets on a permanent basis.

In addition, interest income and capital gain from investments are exempt from federal income taxes and pension plan as members are not taxed on their contributions unless benefits are paid out. This is different in Tanzania where interest income from investment is not exempted from taxes. It was pointed out by Mwamoto (2003), "Apart from the public criticism in the type of investment they engage in Social Security Funds in the recent past have vividly been blamed in a way investments decisions are made. Example in Tanzania members of Social Security Funds including PPF, NSSF and LAPF demand to play a direct role in deciding how their savings should be invested. It is unfortunate however that those managers of Social Security Funds in Tanzania view with suspicions any way into their investment decisions and besides they believe that safety is by far the most important criteria that guide investments of Social Security Funds.

It is because of safety philosophy that compels Social Security Funds to have been blamed for tying up blocks of money in illiquid assets such as real assets which have long payback periods and low returns on investments (ROI's) while there are some investments opportunities which can be exploited. The appropriate investment management strategy for Social Security Funds running defined benefit (DB) scheme is Asset – Liability management (ALM) (also called surplus risk management: see, Blake (2003, ch.13)

2.14 Transparency Statement for Social Security Funds

According to Blake, (2003) each year, every defined benefit of Social Security Funds would be required to publish a transparency statement that presents the following information:

(i) The current value of its assets and in what asset classes they were invested.

(ii) The assumptions used to determine its liabilities.

(iii) Planned future contributions.

(iv) It's planned asset allocation for the following year or years.

(v) The assumed returns and assumed volatilities of those returns for each asset class Sufficient to meet liabilities.

(vi) A justification by the trustees of reasonableness of both their asset allocation and investment returns assumed in the light of the circumstances of the fund and of the sponsors.

(vii) An explanation of the implications of the volatility of the investment values for possible under funding and justification by trustees of why this level of volatility is judged to be acceptable.

2.15 Social Security Systems in Tanzania

Social security systems in Tanzania are organized according to three major principles; Social insurance, public support and Social assistance. Other principles include the principle of obliging an employer to grant security and the principle of compulsory saving. The principle of insurance is the basis of the five major formal institutions that provide social security protection in Tanzania.

These are the National Social Security Fund (NSSF) offering social security coverage to employees of private sector and non-pensionable Parastatal and government employees, the Public Service Pension Fund (PSPF) providing social security protection to employees of central Government under pensionable terms, Parastatal Pension Fund (PPF) offering social security coverage to employees of both private and Parastatal organizations, the Local Authorities Provident Fund (LAPF) offering social security coverage to employees of the Local Government and the National Health Insurance Fund (NHIF) offering health insurance coverage to pensionable employees of central government.

The composition of members in the social security funds in the country is as follows: NSSF - 506,000, (as at 30.06.2010 – NSSF Operations Functions 2010), PPF – 125,180 (as at 30.06.2010, PPF Financial Statement), PSPF – 292,308 (as at 30.06.2010, PSPF Compliance department), NHIF – 373,326 (as at 30.06.2010 – NHIF Actuarial department), and LAPF – 63,302 (as at 30.06.2008 – LAPF Financial Statement).

The pension awareness in Tanzania amongst the stakeholders and the General Public is very low yet the membership is mandatory to all of these funds. Various studies (see Bossert 1987, Tungaraza 1988 and Wangwe and Tibandebage 1999) on conventional social security have shown that the coverage of formal social security schemes is not comprehensive in terms of the population and risks covered. Currently, such schemes cover only 6% of the population and about 5% of the active labour force in the country. In terms of gender, the majority of the people covered are men, since men constitute most those employed in the formal sector.

In terms of risks, these schemes focus on a few benefits (Bossert 1987, Wangwe and Tibandebage 1999). They cover old age, disability, survivorship, illness, maternity, occupational accidents and diseases. Benefits are of two kinds: benefits in kind, where members are entitled to medical services from their employers and financial benefits in the case of illness and maternity. Provident funds give lump sum benefits to their members while social security schemes based on the social insurance principle provide initial lump sum payments followed by monthly benefits to their members

However Social Security Funds in Tanzania are taking two main challenges. Firstly, increasing competition among themselves and potential private social security schemes that ought to come in the near future, and second the HIV/AIDS has increasingly taking its toll on the funds active members leading to increase in deaths and survivors benefits (Dau, 2004).

The intense competition is reflected in the proposed social security policy which indicates that a social security will be liberalized. For instance, the PPF act 2001 that empowers the PPF to include the registration of employers in the private sector ends the monopoly that the NSSF enjoyed since its inception in 1964. Again the NHIF offers an indirect competition in providing health care to government employees while potential private social security scheme will further complicate the situation. Meanwhile, investments and assets of the funds in the recent year have been increasing rapidly. The guiding principles such as high yield, liquidity, socio-economic viability and safety need to be looked at by Funds administrators.

The safety in particular for the case of Social Security Funds is very important and gets high value through diversification. Tanzania with its narrow financial instrument and capital markets provides limited investment options and no safer avenues to these funds for the diversification of their investment portfolio mixes. To make the situation worse, the law does not allow Socials Security Funds in the country to invest abroad despite the fact that the government decided to liberalize the capital accounts. Thus the Tanzania Social Security Funds have to invest only in treasury bills, real estates, housing finances, equity capital, loans, fixed deposits and bonds. Other vehicles are infrastructures, stock and emerging markets within the country (Investment Policies)

Finally, the establishment of the National Social Security policy provides chances for the better future and will act as the regulation of social security system in the country.

2.16 Profile of the National Social Security Fund

The National Social Security Fund (NSSF) is a comprehensive Social Security Institution based on internationally recognized Social Security Insurance principles; The National Social Security Fund by then National Provident Fund was established under the Ministry of Labour as a government department. It was re-organized into a Parastatal organization by Act No. 2 of 1975 which established The Board of Trustees. The National Social Security Fund Act No. 28 of 1997 established the National Social Security Fund (NSSF).

The Tanzania Government established in 1964 the National Provident Fund (NPF) as the compulsory individual saving scheme with a view that it won't be a good foundation for the establishment of an internationally accepted social security scheme. In 1990/1991, the government was granted assistance by the UNDP and ILO through the project URT/90/003 which aimed at transforming the provident fund into a comprehensive social security scheme. After a thorough study by the ILO some recommendations were presented and adopted by the government to establish the NSSF based on Social Insurance Principles. Following the ILO report, the NPF was transformed into NSSF and the implementation was made operational in 1998. Radically years 1996/97 &1998/99were the period under which the fund had to undergo great internal restructuring as a result of administration costs having gone up and assets of the funds having gone down dramatically.

Table 2.1: NSSF project up to 2011

NAME OF PROJECT	VALUE	COMPLETION
252 Houses in Dodoma to facilitate capital transfer	Tshs 2.4bn	Completed 1992
Mabibo Hostel-4000 student	Tshs 16.4 bn	Completed 2002
Mkuranga Hospital	Tshs 219 ml	Completed 2002
Kagera Sugar Limited	Loan 12 bn	Financed 2004/5
Kinyerezi Low cost housing	Tshs 2.11 bn	Completed 2004/6
Ex Tazara Hospital used by THI	Tshs 2.0 bn	Completed 2005
Tanzania Pharmaceuticals Ltd (Preference shares)	USD 5.27 ml	Financed 2005
Bunge Hall in Dodoma(Syndication with other funds)	Tshs 10.7 bn	Financed 2005
Katani Ltd(Loan and preference shares)	USD 6.7ml	Financed 2006
Government houses in Kijitonyama for 200 family	Tshs 13.7bn	Financed 2006
Azania bank ltd (loan to on lend to SMEs)	Tshs 4.0 bn	Completed 2007 duration 4yrs
TPDF houses to accommodate 248 families	Tshs 21.54bn	Completed may 2008
TPDF (UBM MACHINE) to be used in construction of houses	Tshs 23.12bn	Financed 2007
Police houses to accommodate 240 families	Tshs 20.00bn	October 2008
Business Park for more than 500 small traders	Tshs12.14bn	August 2008
College of Humanities and Social Science for the University of Dodoma Phase I	Tshs 100.9bn	Sept. 2008
College of Humanities and Social Science for the University of Dodoma Phase I	Tshs177.bn	February 2011
Mandela Institute of Science and Technology	Tshs 38.72bn (NSSF 35%)	August 2011

Source: Field Data 2013

2.16.1 NSSF Members

The newly formed NSSF continued with all members of the NPF and its cover the following category of employers and employees of the private sector as follow; companies, Non-governmental organization, embassy employing in Tanzania, international organizations, organized group in the informal sector, Government ministries and departments employing non-pensionable employees, Parastatal organizations, self-employed person not covered by any other scheme any other category as declared by the ministry of labour.

In the recent past, the membership has increased from 356,070 in 2005/2006 to 550,000 in March 2012. Membership contributions increased from Tshs 162,379 million in 2006/2007 to Tshs 205,385.68 million in 2007/2008 which is (27%). Meanwhile investments of the fund increased from Tshs 532,605.28 million in 2006/2007 to Tshs 670,280.03 million in 2007/2008 which is (25.85%), while assets of the fund have increased from Tshs 597,574.37 million in 2006/2007 to Tshs 746,449.41 million in 2007/2008 which is (24.91%). The investment plan of the fund is guided by the investment policy (2001) that describes clearly investments avenues limits and the rule that at least 75% of the annual collection of funds from contributions must be allocated to safe ventures with high yield liquidity and social-economic utility (NSSF's investment Policy 2001).

A criterion for selecting its various projects among other financial indicators is guided by the expected real return such that the average return on investments generated must always be above the inflation rate. The fund does not hedge against the foreign exchange fluctuations in inflation but abiding to the above criterion provides protection to the interest of the members (Dau, 2004). The NSSF has particularly succeeded in making its name in the sphere of real estate development. It is now regarded as one of the major local trend-setters as the industry grows further (BOB Karashani, August 3 2004 Report in DAILYNEWS). The pride of NSSF includes the low cost housing scheme at Kinyerezi Dar es Salaam, MwalimuNyerere Towers, house-financing scheme at MabiboHostel, Water front House, Ubungo Plaza and Hifadhi House.

2.16.2 Scheme Financing

The scheme is financed through contributions at the rate of 20% of employee's salary. The employer is required to deduct from employee's gross salary the amount of contribution not exceeding 10% of the employee's salary. The employer adds the remaining balance to make the required contribution rate of 20

2.16.3 Scheme Investment

NSSF is a fully funded scheme running under defined benefit principles. All funds collected are wholly invested for the purpose of financing benefit payments.

2.16.4 Scheme's Benefits

The scheme provides seven benefits which are categorized as long term benefits and short term:

Long Term Benefits are Retirement Pension, Invalidity Pension, Survivor's Pension, Short Term, Benefits, Funeral Grant, Maternity Benefit, Employment Injury Benefit and Health Insurance Benefit.

2.17 Performance Evaluation

To assess the investment performance of the National Social Security Funds a number of variables have been used from different authors who are relevant for the Social Security Funds. Some of these variables are Sharpe's Ratio, Capital growth, Investment limits, Returns on Accumulated Assets, Returns on Investment, the systematic Rate of Return (SRR), and Reduction in the rate of return as well as Assets Allocation Index. The Researcher will use these variables and came out with a conclusion on how National social security fund performs better and on which aspect.

2.17.1 Sharpe's Ratio

The Sharpe's ratio is a risk-adjusted financial measure developed by Nobel Laureate William Sharpe. It uses a fund's standard deviation and excess return to determine the reward per unit of risk. The higher a fund's Sharpe ratio, the better the fund's "risk-adjusted" performance, given by

$$S = \frac{(r - r_{rf})}{\sigma}$$

Whereas - r is the return on the portfolio,

- r_{rf} is the risk-free return and
- σ is the standard deviation of the fund's returns (i.e., the portfolio).

The Sharpe ratio has its principal advantage that it is directly computable from any observed series of returns without the need of additional information surrounding the source of profitability. The Standard deviations of the returns in various portfolios aid in assessing how well the fund investment portfolios are diversified and as well the efficiency of managers of respective funds entire portfolios basing on the risk and returns.

2.17.2 Capital Growth

The capital growth is necessary factor for sustainability of social security funds and can be used to compare the efficiency of funds (Athumani Selemani, 2004). Stanko (2002) made a comparison of Polish Pension funds according to their share CAPITALS. Operationally as follows:-

Capital growth = (Ct – Ct-1/Ct-1)* 100%

Where, Ct = Capital in time t

Ct – 1 = Capital in year before time t

T = Time in terms of years (e.g. t = 1,2,3,4 etc.)

2.17.3 Investment Limits

Stock and bond assets allocation and other permissible composition justify portfolio composition of Social security Funds to be a factor for composition (Stanko, 2003).

Investment limits should be relaxed so that the majority of assets could be invested in stock or otherwise the members are overcharged due to poor performance of non-stock investments since the mandatory savings make it impossible for them to resign from such costly publicly managed pension reserves. (Stanko, 2003)

2.17.4 Profitability

The ROA is a test of capital utilization - how much profit (before interest and income tax) a business earned on the total capital used to make that profit.

Formula: ROA = (Net Earnings before Tax/Accumulated Assets) * 100%

Stanko (2002) argues that comparisons of total premium (plus penalty interest) that have been paid into the system with the accumulated assets lead to quite pessimistic conclusions in assessing overall investments result of the system. Return on assets has been used in several studies of investment performance evaluation of pension funds (Stanko, 2003, Masinda, 1996, Mwamoto, 2003, Palacios and Iglesias, 2000).

2.17.5 Cost related Measurements

Another issue relates to investment costs. The bench mark represents a passive investment and does not account for expenses occurred due to an active investment, custody fees, and research expenses and so on. However lowering the benchmark by those costs might produce negative effect of churning and cost inefficiency (Stanko, 2003). The last two indicators that were used are the system rate of return (SRR) and reduction in the rate of return (RiY)

The System’s Rate of Return (SRR)

This is calculated as:-

SRR = (Accumulated Assets/Total premium paid in) – 1

It indicates the net effect of savings in the Social Security system. It gives a client his/her individual rate of return and shows the combined effect of all systems hidden or explicit costs and investment efficiency.

Reduction in the Rate of Return (RiY)

This is calculated as

RiY = (Cum Administration Fee Rate of Return) – (Ex- Administration Fee Rate of Return)

This measure is based on the reduction in yield in details in Blake and Board (2000) and is the difference between the hypothetical rate of return that would have been achieved without any costs and the actual one that includes the costs borne by the member. Although the ratio is technically plain, Blake and Board (2000) mention that the public has some difficulties in understanding it. It seems however that such an indicator would be a very good measure to show a funds cost – effectiveness and to allow to some extent, cost comparison between funds.

2.17.6 Benchmark Proposal

Market Indices

Blake and Timmermann (2002) suggest that the benchmark should possess a 'cap' character i.e. that the index should recognize the portfolio restrictions that are placed in single investment. The issue is of particular importance in Tanzanian banks for instance, where the Social Security Funds assets are growing relative to the capital market capacities and where a single investment cannot exceed 5% of the stock market capitalization. Hence the individual weights for the index should not be higher than this value or percentage portfolio restrictions.

Asset Allocation index

For a more practical usage, one can use (operationally easier) multi – index benchmarks (Elton, E, .J. Gruber, M.J., Das, S., M.Hlavka, (1993). These calculate the portfolio's total average rate of return consisting of returns from stock, bonds and some other main investments such as Treasury bills. There is a question however, what should be the weights for those investments in a systematic benchmark. Stanko (2002) suggest that pension/Social security Fund administrators might be asked to declare their individual long run asset allocation ratio against that which will be assessed. Operational formula is

RRp=WE.RE + WB.RB + WT.RT + WP.RP + WL.RL

Whereas:

RRp = Portfolio's total average rate of return

WE = Weight of the equity portion in the asset mix

RE = Average return on equity

WB= Weight of the bonds portion in the asset mix

RB = Average return on Bonds

WT = Average return on Treasury Bills

WP = Weight of the real estate portion in the asset mix

RP = Average return on real estates

WL = Weight of the Loan portion in the asset mix

RL = Average return on Loans

Stanko (2003) follows the Blake and Timmermann (2002, p.110) suggestion that the assessment of managerial skills should focus on the tactical asset allocation results judged against the strategic asset allocation benchmark. Blake and Timmerman (2002, p.110) argue that the strategic asset allocation should also be viewed as a decision of fund trustee taken with regard to risk and not as an investment decision itself. Thus, framework enables the public to get information about the extent of investment skills pension administration, and the average weighted rate of return that would indicate the overall investment results. The weighted rate of return would be comparable to some wide – economic bench mark like long term Treasury bills return, real GDP growth.

An Industry Average Rate of Returns (IARR)

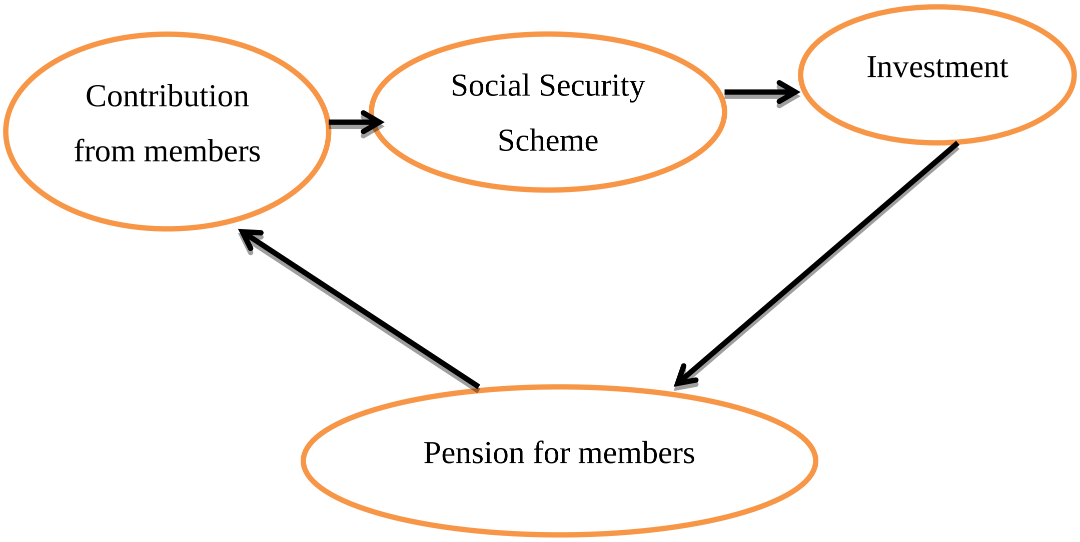
Most of Latin American countries use the AR as a benchmark in performance measurement of pension funds. The AR measure is a peer – group index. The results of pension managers/funds are compared to the industry's average return (AR).Its computational formula will be so much similar with asset allocation index formula shown above, with the exception that combined funds weights and their respective returns will be involved. This is also a reason why an external benchmark should be used (Blake and Timmermann, 2002 p.122)

2.18 Conceptual Framework

The research topic hinges on major construct of investment activities of the social security fund. Social security Institutions are established to offer protection to their members. That is Social Security Funds ensure that their members at least meet the basics of life. African economies are characterized by low wages and low per capita income. The working population can hardly finance all of their basic needs leaving alone the financing of social security protection for their future. This is why membership to Social Security Funds in Tanzania and elsewhere is compulsory by legislation and eligible members are forced to comply however in some cases there is direct contractual arrangement between the member and the social security fund schemes as the member is requested to contribute towards these funds as in the case with other schemes (Mwamoto, 2003).

It is obvious that inadequacy of self-protection, charity, family solidarity and private insurance justifies the creation and development of social protection (Barr, 1992, Euzeby, 1997. In keeping the members contribution the social security fund decided to invest those money or fund and its profit used to increase the members contribution and pay well their benefit. In this kind of investment is expected that once members contribute to the NSSF his or her funds will be invested and later on the benefit will go back to him or her.

Figure 2.4: Conceptual Framework



Source: Own Construct (2013)

2.19 Definition of Variables

Contribution from Members

These are funds or money that is flow to the social security systems; itcomes from members of the social security fund.

Social security scheme

Social security means any kind of collective measures or activities designed to ensure that members of society meet their basic needs and are protected from the contingencies to enable them maintain a standard of living consistent with social norms

Investment

Investment is the employment of funds with the aim of achieving additional income or growth in value (Singh, 1991). It is capital formation, the acquisition or creation of resources to be used in production (Peter et al 1992), in social security scheme investment is done so as to increase the capital of the scheme hence provide well benefit to its members.

Pension Members

Pension is a term which expresses all long-term benefits offered by the scheme. It defines periodical payments given to a retired member, invalid persons and survivors of the deceased member to replace the loss of income resulting from old age, disability or death and pension members these are people who employed or not employed but they have registered themselves to the social security scheme such as NSSF to get the mention benefit.

2.20 Hypothesis

Kothari (2004) defines hypothesis as a proposition set forth as an explanation for the occurrence of some specified group of phenomena either asserted merely as a provisional conjecture to guide some investigation or accepted as highly probable in the light of established facts. Quite often a research hypothesis is a predictive statement capable of being tested by scientific methods, which relates the dependent variables to some independent variables. Based on the conceptual framework the underlying hypothesis of this study is;

H1A: The investments portfolio patterns chosen by NSSF are of highly profitable
H10: The investments portfolio patterns chosen by NSSF is not of highly profitable
H1B: The investments portfolio pattern chosen by NSSF is of high risk.
H10; The investments portfolio pattern chosen by NSSF is of low risk.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the research methodology and the major focus is on research design, research techniques, sample size, data collection methods (interview, questionnaires, and documentations) also the types of data collected both primary and secondary.

3.2 Description of the Study Area

The study conducted at the National Social Security Fund Head offices located in Dar es Salaam city. As the way to collect all necessary data and meet with responsible respondents including investment managers, finance and administration department and members of the fund researcher decided to concentrate with head office where its act as center point for all NSSF operational activities.

3.3 Research Design

This is a cross- sectional and descriptive one aimed at assessing the performance of investment in Social Security Funds. As a descriptive research designed the study was used sample population and some tools to collect data such as interview, the data have been processed, analysed and presented as it required. This research designed has used because it's more useful in social science research. It helps to communicate the findings to others and need the researcher to do his/her study in an efficient manner. Also this kind of research design is a comparative design throwing light on all points narrated above and there is direct link between points narrated, research objectives and the resources available. However, its ensure minimisation of bias and maximisation of reliability of the evidence collected.

3.4 Sampling Population

The sampling population for this study comprises of National Social Security Fund Officials particularly the investment managers so as to get an overview of the investments decision criteria and elaborations on the fund’s investment policies as well as the prevailing investments owned by the funds respectively.

3.4.1 Sampling Technique

Most of the data was collected from National Social Security fund officials and some selected NSSF members from Inflight catering services and members who were visiting nssf office, so simple random sampling was used to collect data from some of those selected officials and members of the fund.

3.5 Types of Data

In order for the researcher to obtain therequired information, Data has been classifiedinto the following types

3.5.1 Primary Data

Primary data was obtainedfrom the field as the raw data since no one collectthembefore, the collection of the primary data have been donethroughquestionnaires, interview and observation.

Table 3.1: Sampling

Category of respondents	Numbers	Sampling method
NSSF AND NHIF MANAGEMENT	10	QUESTIONNAIRE, INTERVIEW
NSSF CUSTOMER	90	QUESTIONNAIRE, INTERVIEW

Source: Field Data 2013

3.5.2 Secondary Data

These refer to those data which had been collected by someone else and which had been passed through a statistical process. In thisresearch the data in question comprise of the secondary data on therelatedstudiesthroughvarioussecondary sources such as books, research reports, magazines, and internet searching and otherrelated documents from the government.

3.6 Methods of Data Collection

In conducting the research, the followingmethods of data collection it has been used.

3.6.1 Interview

The interviews wascarried out to various officials in the NSSF Operations department so as to have the current data of the Funds and respective membership compositions, alsowasdone to some NSSF memberswhoairedtheirviews on the investment of theirfunds.

3.6.2 Observation

Under this method the researcher observe different project conducted by the firm and its investment status among those investment are University of Dodoma, Machinga Complex and Bunge Hall.

3.6.3 Documentation Review

This methodswasusedspecificallytogetherthe already processed data, published andunpublishedmaterialssuch as fundfinancial reports, andvariousannualproject reports

Table 3.2: Documentation Data

Research Objective	Type of Data Needed	Data Source/ Respondents	Methods of selection (sampling type)	Tools used for collection (for primary data)
Paten of portfolio selection	Financial Statement	Account office	Non random	Interview, questionnaire and documentation.
Factors influencing the management choice of portfolio	Net Present Value,	Cash-flow statement.	Non Random	Interview, questionnaire and documentation
Investment profitability	Profit and loss.	Account office		Interview, questionnaire and documentation
Investment Risk	Report on Riskevaluation on investment.	Risk assessor	Non Random	Interview, questionnaire and documentation
Suggestion ofimprovement on investment	Future plan	Investment Management	RandomSampling	Interview, questionnaire and documentation

Source: Field Data 2013

3.7 Data Analysis and Measurement

Data collected by the researcher has been analyzed in such a way that, shows the relationshipbetween the researches questions with whathad actually been collectedfromrespondents of the interviewees such as investment managers. By using desk research method the researcheralso collect data from fund financial statements and some members of the NSSF for the purpose of obtaining relevant information concerning the study.

Data were analyzed both qualitatively and quantitatively. The reason for using both approaches was that, it was thought they would complement each other. Data from interviews were transcribed from interview to form notes. Then all the data from interviews, observations and document analysis was re-read and organized to form codes by relating with research questions and literature review. Through re-reading and reflecting from codes and data collected the categories were formed and developed themes. To make meaning, data were theorized before being written in narrative form.

Data from questionnaires and document that has been reviewed were analyzed statistically. The main tool which was used for data analysis was Microsoft Excel, Calculations for percentages, measures of central tendency. Tables, figures and charts were used to provide a quick picture of different situations observed from the collected data.

CHAPTER FOUR

PRESENTATION OF RESEARCH FINDINGS AND ANALYSIS

4.1 Introduction

In this chapter data collected were analyzed to show the relationship between research questions, observations, and enquiries made to interviewees and findings from some documents which the researcher had passed through since the data collected cover both primary and secondary data.

4.2 Field Work Execution

The fieldwork which comprised of interviews and collection of published data. The study covered mainly two publicly managed Social Security Funds in Tanzania namely NSSF & NHIF over a period from 2003 to 2008. Basically NHIF is used to make a comparison on capital growth and profitability ratio to the NSSF as my case study. The investments and planning division of these funds were visited at their headquarters based in Dar es Salaam.

Also the study covers 90 NSSF members who aired their views on how their finds managed especially in the investment area. Some interviews were conducted with investment managers and responsible officials so as to provide a qualitative data as quantitative been collected from secondary data i.e financial statement of those six years from 2003-2008. Other data source areas that were visited include the Bank of Tanzania and the Dar es Salaam stock exchange to get complementary economic and other financial statistics like Fixed Deposit Rates (FDRs), Treasury Bills (TBs) yield and dividends. Field work also includes some questionnaire to the NSSF members, they have been asked to air their views on the way their funds are invested. The study is designed to cover the period between 2003 and 2008. Hence the study analysis was made for only six years.

4.3 Descriptive Analysis

This subsection describes the statistical results and findings as they answered the issues intended for addressing the efficiency of publicly managed Social Security Funds in Tanzania. The analysis and findings are divided into two major parts namely: the profitability and risk, and management pattern of the portfolio of the NSSF investment including selection of the portfolios and the social and political investments.

This subsection describes the statistical results and findings as they answered the issues intended for addressing the efficiency of publicly managed Social Security Funds in Tanzania. The analysis and findings are divided into three major parts namely: the profitability and risk, and management pattern of the portfolio of the NSSF investment including selection of the portfolios, the social and political investments lastly is the demographic analysis and its findings from primary data.

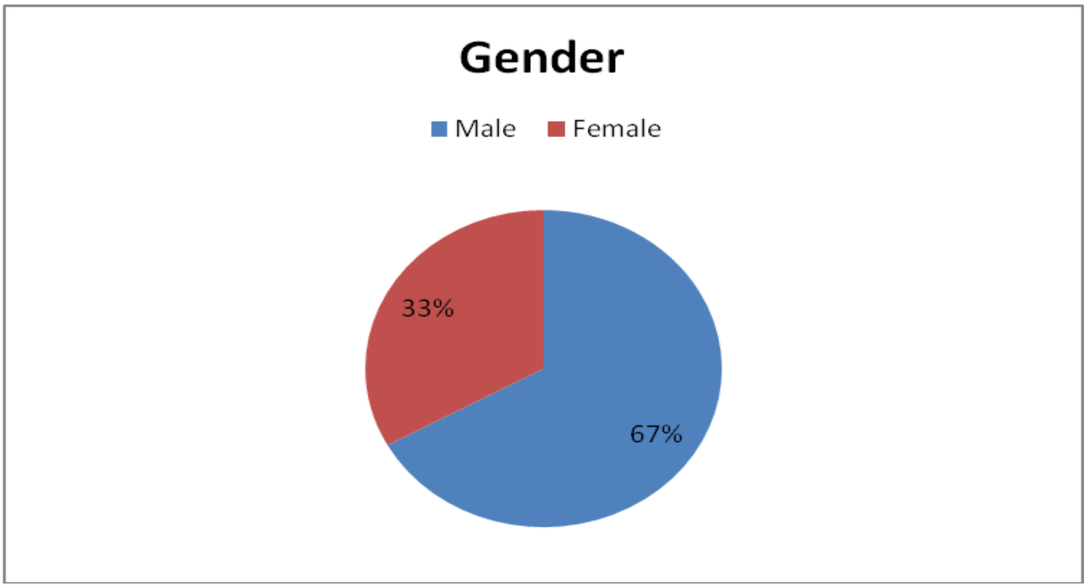
4.4 Demographic Analysis

In this section researcher study different demographic variables from the respondents which are ages, gender, education and employment position. The aim was to use those variables to analysesviews and observation from members of NSSF and employees in relation to the study objectives.

4.4.1 Gender

The presence of male and female ideas can attribute the highly performance of the firmAs it presented in figure 4.1below most of the respondents was male 67% and male 33% this shows that most employed and members of the NSSF are male.

Figure 4.1: Gender

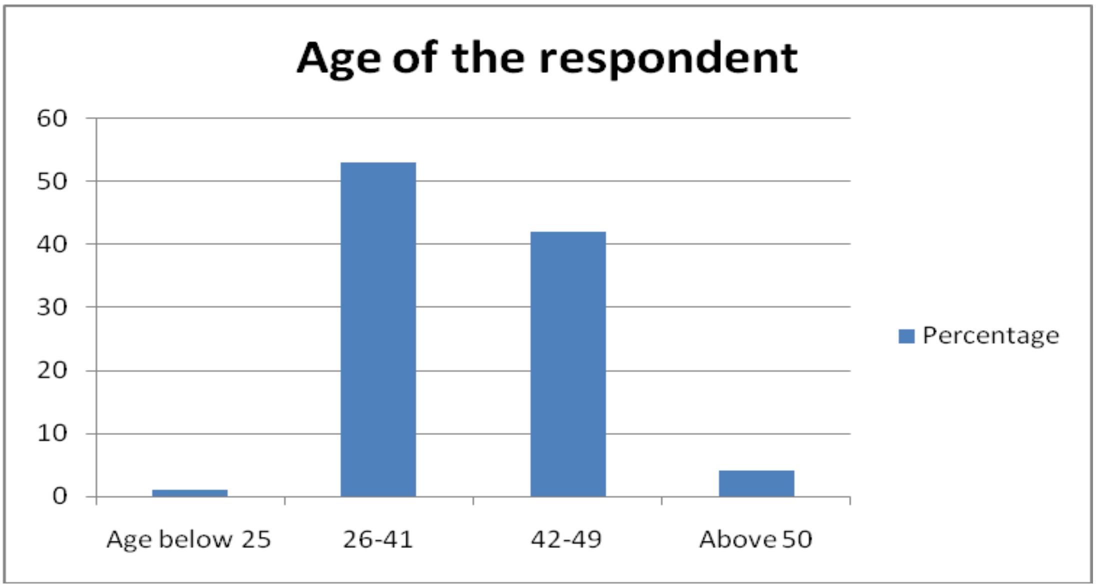


Source: Research Data, 2013

4.4.2 Age

This part present the ages of the respondents as it will help in analysing the data from the field. Most of the respondents are in the age between 26-41 (43%) as it presented in figure 4.2, this is the working and more active age most of the employers wish to have workers of that age their flexible, active and capable, This implies that most of the NSSF members and staff are with middle ages who have ability to know the fund managements and pursue there are responsibility.

Figure 4.2: Age of the Respondents



Source: Field Data 2013

4.4.3 Educationand Professional

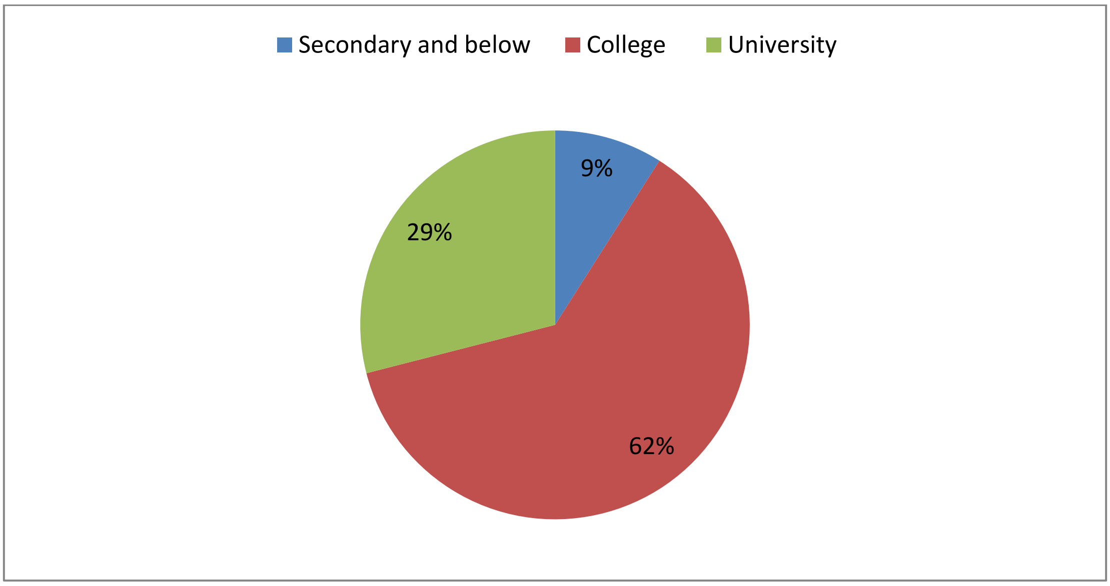
To understand the ability of the managers who manage the funds in surveyed department also needs to know his/her education status of the staff and its impact in his position. Table 4.1 and figure 4.3. Present education status of the NSSF members, that variable was identified to assist in analysing their understanding capability on how their funds are managed. Most of the members they attained college and university education (91%) and very few secondary and primary education. This can be explained that there is high level of illiterate for NSSF members.

Table 4.1: Education Status for NSSF Members

Education status	**Secondary and below**	**College**	**University**
Percentages	9	62	29

Source: Field Data 2013

Figure 4.3: Education Status



Source: Field Data 2013

4.4.4 Respondent's Positions

Among others, position of the respondents is also presented to know exactly data needed and responsible respondents to provide more explanation where needed. Most of the respondents were managers followed by officers, staff from low carder and one director. Managers were easy to access, they have enough information, knowledgably and experienced that is why they were preferred. In this part present the position and numbers of the NSSF and NHIF staff respond to the researcher as it has shown in Table 4.2 below. Most of the respondents were from investment department since it's the one which have direct impact to this study.

Table 4.2: Respondent Position

Finance		**Investments**		**Administration**	
NHIF	NSSF	NHIF	NSSF	NHIF	NSSF
1	1	2	4	1	1

Source: Field Data 2013

4.4.5 Experience of Working (NSSF)

As the respondent respond to the question of working experience in NSSF and NHIF about 56 (56%) they said they started working with their firm about 3 to 4 years ago, followed by 26% who worked for about two years now, 12% have got 5-6 experience and only 5 respondent they have been working with NSSF for more than 6 years now its presented in table 4.3 below. This data has been collected so as to measures the know-how and validity of institution matter as far as the information collected from them.

Table 4.3: Experience of Working (NSSF)

Years	**1-2**	**3-4**	**5-6**	**7 and above**
Percentage	26	56	12	6

Source: Field Data 2013

4.4.6 NSSF Member's Duration

Table 4.4 below present the members experience and duration being in NSSF which could be easily for research to connect membership experience and their views on fund investment management. Most of respondent have been members of NSSF for about 6-11 which is (41%) followed by those who have been members for about 12-17 years which is (33%), about 18 years and above cover 16% out of all respondents, 1-5 cover only 10%. This was done to measure members experience on NSSF fund and how much they know about investment of their fund that they have been investing for years.

Table 4.4: NSSF Members

Duration of membership	1-5	6-11	12-17	18 above
Percentage	10	41	33	16

Source: Field Data 2013

4.4.7 Risk Assessment

In responding to the questionnaire respondents provide their view on how much risk they sees of their funds being invested in those chosen portfolio of the NSSF investment management. Table 4.7 below presented those frequencies. Most of them said there is no risk in the chosen portfolio by NSSF since their already passed and comply with the SSRA policy while others they said there is risk since they don't see the direct impact for their benefit and few they don't know what it is.

Table 4.5: Risk Assessment

Yes	No	Non/not sure
12	79	9

Source: Field Data 2013

Highly percentage of members of the NSSF they agreed that the investment team of NSSF they made right choice to use their fund concentrating on the investment portfolio in real estate, Treasury Bills or in some medium scale joint ventures.

More than 82% of the respondents they said these are lower risk investments compare to other investments category. And only 18% are worry about investment category they have been chosen by NSSF with the reason that they don't see any enough increments of their funds.

Respondents who are members of NSSF they recommend that there are should be investment choice that could increase their funds and also members of the funds should be the first beneficiary of the investment made by NSSF.

4.4.8 Profitability and Risk

This section tackles all issues of the Social Security Funds profitability such as the administration costs: investments compared to other investment vehicles, capital growthand overall returns on assets. An analysis of volatility (risk) from their investment returns and overall returns on assets are also covered.

4.4.9 Investment returns and Volatility

In measuring the efficiency of two funds' investments, weighted return on investment (ROI) was computed and compared with alternative investment vehicles such as 364 days Treasury Bills, weighted average Yield (TB Yield) and 12 months fixed deposit rates (FDR) rates. This comparisonenabled the study to assess how capable investment managers were in allocating of their investible funds to the available investments and looking for lucrative opportunities in the market table 5 below shows the comparative annual weighted returns, TB Yield, Standard deviations &Sharpe's ratio of the two funds.

Table 4.6: Annual returns, TB Yield, Standard Deviations and Sharpe's Ratios

Year	**TB Yield**	**ROI**		**Sharpe's Ratio**	
		NSSF	NHIF	NSSF	NHIF
2003	6%	4%	3%	-2%	-4%
2004	9%	6%	4%	-3%	-4%
2005	11%	6%	6%	-5%	-5%
2006	12%	6%	8%	-6%	-4%
2007	15%	7%	8%	-8%	-7%
2008	10%	6%	10%	-3%	0%
Mean	10%	6%	7%	-5%	-4%
Std Dev	7%	2%	6%	5%	5%
Sharpe's Ratio	Na	-0.85	-0.75	-0.85	-0.75

Source: Author's computation

As indicated in table 4, the mean Treasury Bills weighted average Yield was 10% while the mean ROI for NSSF and NHIF was 6% and 7% respectively. A cursory glance at the simple average shows that the TB's yield outperformed the ROI measurement of the two funds over the six years except for 2008 for NHIF where the return on investment was the same to TB return. Thus the two funds average returns are low. As for volatility, standard deviations of returns of the funds are tempered against the standard deviation of returns of T-Bills. The standard deviation of T-bills yield (7%) was more volatile than the standard deviation of NSSF returns (2%) and NHIF returns (6%). A comparison between the funds shows that the NHIF returns are more volatile than NSSF returns. The Sharpe ratio is a measure of performance that gives due consideration to both risk and return. A negative rate implies that the fund produces lower returns than the risk free rate (treasury bills weighted average yield). In table 5.1, Sharpe's ratio for NSSF and NHIF are -0.85 and -0.75 respectively. Although both funds have negative Sharpe's ratio in this regard NHIF seemed to perform better than NSSF.

The fixed deposit rate (FDR) was also used as a benchmark to compare performances of the Social Security Funds. Table 4.7 below summaries the results of a comparison between the FDRs and the returns of the social security funds.

Table 4.7: Computation of ROI, FDR and Standard Deviation

Year	FDR	ROI	
		NSSF	NHIF
2003	2%	4%	3%
2004	2%	6%	4%
2005	3%	6%	6%
2006	3%	6%	8%
2007	3%	7%	8%
2008	3%	6%	10%
Average	3%	6%	7%
Std Dev	2%	2%	6%

Source: Author's computation

Results in Table 4.9 indicate that the average returns of both NSSF (6%) and NHIF (7%) outperformed the FDR (3%). Table 4.10 also shows that both two funds returns outperformed the FDR throughout the study period, however, comparing the two funds NSSF seems to perform better in the years 2003 and 2004 while NHIF has performed better in the years 2006, 2007 and 2008.

4.5 Overall Returns on Assets (ROA)

The average return on Assets (ROA) refers to net income after tax over funds Accumulated Net Assets. An argument is made that ROA is a crucial measurement in establishing whether fund managers are capable of generating a yield acceptable to members of the pension fund (Mwamoto, 2002).Ranking funds on this basis alone is clearly is in adequate, given the diverseinterest of the fund, such as safety, liquidity, yield and socio – economic criteria. For this reason, ranking is made using ROA as well as Sharpe's ratio. Again the 364 day weighted average yield is used because the ROA for the funds were computed on annual basis. Table 8 below summarises the results of these measurement.

Table 4.8: Computation of ROA, TB Yield, and Standard Deviation & Sharpe's Ratios

Year	**ROA(Real)**	**ROA(Real)**	**364-day TB Yield (Real**
	NSSF	NHIF	
2003	17%	51%	7%
2004	17%	41%	9%
2005	17%	33%	12%
2006	16%	31%	13%
2007	20%	29%	16%
2008	20%	27%	11%
Average	18%	36%	11%
Std Dev	4%	20%	7%
Sharpe's Ratio	**0.06**	**0.17**	**Na**

Source: Author’s computation

Results in table 6 shows that the real rate of return on assets of NHIF (36%) outperformed that of NSSF (18%). Never the less, both two funds have outperformed the managed for the case of NHIF, this trend contradicts with prediction put forward by Estelle, James and Dimitri (2000)

(i) ‘Administration fees as a percentage of assets decline over large ranges with volume of assets managed’, and

(ii) The ‘total costs of management ranges between ranges between 0.4% - 0.6% of the net assets for large defined benefits and defined contribution plans or which workers have no choice of investment manager’. Results are in line with ILO/INIDO Reports (1993) that administration costs for Tanzania Social Security Funds were higher.

A comparative analysis of administration fee per unit of gross revenue for the two funds is made against the International Social Security Funds (ISSA) standard.

Table 4.9: Administration Fees per Unit of Gross Revenue

Year	NSSF	NHIF	ISSA
2003	15%	7%	14%
2004	18%	6%	14%
2005	14%	8%	14%
2006	15%	8%	14%
2007	11%	8%	14%
2008	12%	9%	14%
Average per unit of revenue	14%	8%	14%
Maximum fee per unit of revenue	18%	9%	Na

Source: Author's computation

As observed in the table 7 above, NSSF level of administration fees is above the maximum recommended by ISSA with the exception of three years in the study period which are 2005, 2007 and 2008. Meanwhile NHIF level of administrative fees as a percentage of revenue is below the maximum recommended by ISSA the highest being 9% in 2008, the last year covered by the study

4.6 Capital Growth

The most important single indicator of how public reserves grow is the rate of capital growth. Unfortunately this does not explicitly show the impact of Net savings in total contributions due to some hidden costs that also have an influence on the accumulated assets of Social Security Funds. However the comparison between NSSF and NHIF on the basis of capital growth is depicted in table 4. 10.

Table 4.10: Capital Growth = [(Ct - Ct - 1)/Ct - 1]*100%

Year	**NSSF**		**NHIF**		**Comparative growth In Capital**	
	Accumulated Fund	Capital growth	Accumulated Fund	Capital growth	NSSF	NHIF
2003	287,898,820.00		22,792,795,074.00	-	0%	0%
2004	331,170,627.04	15%	38,726,035,306.00	70%	15%	70%
2005	399,055,876.57	20%	62,515,730,044.00	61%	20%	61%
2006	477,763,843.37	20%	92,356,392,152.00	48%	20%	48%
2007	597,574,366.51	25%	135,479,425,063.00	47%	25%	47%
2008	746,449,410.63	25%	183,189,393,375.00	35%	25%	35%

Source: Author's computation

The rates of capital growth of both two funds are shown in the above table. We observe that NHIF rate of growth of its capital outperformed the one of NSSF throughout the study period although the rate of increase of NHIF is seemed to be increasing at a decreasing rate which is seemingly that in three years to come the rate of capital growth is likely to be otherwise as the NSSF increased by 15% in 2004, 20% in both 2005 and 2006 while the years 2007 and 2008 the rate has increased to 25%. This shows consistency in the capital growth by NSSF than NHIF

Administration fees Ratio & reduction in the Rate of Returns

The administration fees ratio & reduction in the rate of return were used to calculate the levels of administration expenses in the pension systems of the two funds. These two measures were used to determine the levels of administration fees of the Social Security Funds namely administration fee as a percentage of assets, administration fees as a percentage of revenues and reduction in the rate of returns.

Table 4.11: Administration Fees per Unit of Net Assets (RIY)

Year	NSSF- Administration fees/Assets	NHIF -Administration fees/Assets	International Standards
2003	4%	4%	1%
2004	5%	4%	1%
2005	4%	6%	1%
2006	5%	7%	1%
2007	4%	8%	1%
2008	4%	9%	1%
Average fee per Unit of Assets	4%	6%	1%
Maximum fee per Unit of Assets	**5%**	**9%**	**1%**

Source: Author's computation

Finally the reduction in the rate of returns is used to compare and analyse cost differences among the two funds and some international benchmarks. A casual look on table 9 and shows that administration fee per unit of assets (reduction in the rate of return RiY) average and maximum administration fees as a percentage of assets for NSSF and NHIF were 4% and 6% and 5% and 9% respectively. Noticeably NHIF had extremely higher administration fees per unit of assets in from the year 2005 to 2008. Besides the administration fees per unit of assets for both funds under study have been consistently higher than the international benchmark of 1% of assets. Administration fees as a percentage of assets show no signal of decreasing over large ranges with volume of assets

4.7 Challenges Faced By NSSF in Investment Management

Table 4.12: Challenges Faced by NSSF in Investment Management

Problems	**Strongly Disagree**	**Disagree**	**Neutral**	**Agree**	**Strongly Agree**
Lack of Skilled personnel		2	4	5	4
Absence of cooperate bond	12	3			
Fluctuations in T-bill rates				2	13
Inflation			1	6	8
Lack of adequate number of contributors			2	7	6
Small size of contributions	2	1	3	5	4
	2	3	4	4	2

Source: Interview Data (2013)

Above table represent challenges face NSSF in their investment activities, respondent respond to the questionnaire and required to put degree of the situation like strongly agree, disagree, neutral, agree and strongly agree so as the research could get investment situation in the NSSF.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

This chapter presents the general discussion from the findings as researcher's analysis being need the overview concerning the present situations, findings and the objectives of the study. The discussions cover both primary and secondary data collected and presented in chapter four.

5.2 Challenges Faced By NSSF in Investment Management

According to the NSSF management the challenge are encountered on their investment activities as presented in table 4. 14 it has been solved by their investment policy. However, the fund investment policy states that NSSF objectives are to ensure, "that the values of the investments are not eroded by an inflationary economic environment" So that they can have yield, and safety project. Therefore although it is a challenge, they are also expected to find ways of dealing with such issues.

More than half of the respondents agreed that NSSF lacked skilled personnel. There have also been complains of over staffing from several quarters. In recent times, the organization has offered its old staff early retirement packages while recruiting new, younger men and women with relatively higher education levels. Hopefully these measures will ultimately help to improve the caliber of staff working in the organization.

Thirdly, not many people agreed with the issue that the small size of contributions was negatively affecting the institute. NSSF is better resourced than any other Scheme in the social security industry. The monthly contributions received by NSSF are highest in the industry. Again some schemes with fewer resources were posting relatively higher returns in the period under consideration. Sixty percent of the respondents accepted that lack of adequate number of contributors was a problem for NSSF,

From the NSSF own analysis carried out in its annual report since 2003, the company will survive for the long term, if the number of contributors to the fund increased at a minimum of 3% per annum.

5.3 Social and Political Investments

The guiding principles of NSSF projects are safety, yield, liquidity and Socio – economic desirability. But, for the pure socially responsible investments, the Funds prefer to invest on the basis of Build, Own, Operate and Transfer (BOOT) (NSSF's investment Policy). Although social investments adhere to the above principles, technically they are violating liquidity criterion because they are not case to find buyers to off – load them commercially as other commercial projects could be (Discussion with responsible investment officials). However, researcher collected facts on social projects, politicized and government pressurized investments to establish their impacts on returns, Some of these socio – economic investments through mini cases of selected fund (Mabibo Hostel, Politicized Investments and Mafuta House projects respectively.)

NHIF investments are made in accordance to section 33(d) of the NHIF Act, which stipulates that investments of the Fund shall be restricted to short term securities, interest bearing deposits and securities. Income from investments forms the second major source of the Fund's income, the fund is required by the law to invest in short term investment such as Treasury bills and Fixed deposits. The NHIF investment policy follows four investment principles which govern the investment of Health Insurance Funds; these are safety, yield, Liquidity and economic and social utility.

Investment income is in the form of interest earned on short term investments, whereby short term government securities (Treasury bills) form a bigger proportion, followed by fixed deposits, as per the portfolio mix. Investment Portfolio MixFor the case of avoiding incurring unreasonable risks and loss, the Fund allocates invested funds into different portfolio categories such as Treasury Bills and Fixed Deposits as well as commercial paper and non-fixed investments. It is the policy of the Fund to diversify its investment portfolio to avoid risk or loss resulting from over concentration of assets in a specific maturity, specific issuer or class of securities, unless the securities are risk free.

Due to prudently investing members' funds as per the requirements of the Act and the Investment Policy, the trend of investment income has been increasing from year to year.

However, the researcher found out that the boards of trustees of the funds makes investments policies and approve all investments decision. The boards are found in tripartite system while government remains with a big stake.

Regarding investments in the real estate, some praises are given by different stakeholders including politicians on the Social Security Funds' efforts in escalating number of high – rise and new style buildings. The modern Buildings are in turn, decorating and charging the skyline of the big cities. The argument like 'in terms of social security, this type of investments is probably the best because it ensures a safe use of funds and maximizes the chances of appreciation of benefits'. Exclusive interview reported on Daily news Tuesday 3, 2004 by BOB Karashani – NSSF's staff also justify such investment in the real estates.

Investment in real estates is safer and good in a current situation of limited investment options provided. They are not politicized, and pressurized by the government. They should also strategically thought of in terms of competitors – how to get customers (tenants) because real estate investment is seen to be safer avenues even to the aggressive private investors who have stronger marketing capabilities. Otherwise, the so called beauties of the cities will be unsafe investment avenues at beneficiary viewpoint. The major reason is that they will remain vacant due to lack of customers because of high rental charges and they will in turn put money of beneficiaries at jeopardy/risk and lower returns of the pension funds.

5.4 Investment Portfolio Pattern

The annual allocation of funds for different classes of assets in the investment portfolio is as follows:

Table 5.1: Allotment of Investible Fund and Portfolio Selection

Risk/Return class	Investment category	Allotment (%)	Total Holding (%)
	Short term investment 35%		
A	Money market -treasury Bills -fixed Deposit/commercial papers	 20 15	 35
	Long term Investment 65%		
C	Bonds -Government Bonds -Cooperate Bonds	15 10	25
D	Loans -Governments and Corporate loan -Others, SME and landing through financial institution	 10 2	 12
E	Real Estate	8	8
F	Equity -Listed Company -Unlisted Company	 5 2	 7
G	Housing Financing	5	5
H	Infrastructure	4	4
I	Emerging Markets	4	4
Total		100	100

Source: Field Data 2013

NB; Emerging Market refer to any other investment opportunities that may emerges in domestic economy

The definition may extend to offshore investment as soon as the capital account is liberalized as NSSF investment policy stated together with investment guiding principle, Table 5. 15 above show the selection of the NSSF investment pattern with its risk class, the table shows long term investment and its percentage that is 35%

which is money market and long term investment which cover 65% of NSSF investment and its include among other investment such Bond, Loans, Real Estate, Equity, Housing Financing, Infrastructure and emerging market.

5.5 Management Choices of Portfolio for NSSF Investment

The study found that for the NSSF to invest there some factors influence and guiding the fund to choose which kind of investment portfolio are good to invest. It has revealed that the basic criteria guiding NSSF investments are as follow; those principals also used as strategies to control the investment risk or business risk for the NSSF investment activities.

5.5.1 Safety

Safety means the certainty of recovery of the invested capital and yield thereon. NSSF invests in areas which guarantee unlimited security for the Fund’s resources. Since the funds invested are members contribution the money should be safe and secured to bring trust to the members, so those projects ensure safety has been given a priority.

5.5.2 Yield

In order to compete with other funds such as PSPF and PPF, NSSF must have good increments for the member’s contribution hence investing to the projects that have high yield it’s another priority toNSSF investment management. High yield obtain from investment help NSSF to be able to offer meaningful benefits to members. That means investments undertaken by NSSF, as far as possible; provide positive rate of return, to maintain the value of members’ funds.

5.5.3 Liquidity

This study found that NSSF it’s have the short term financial obligation to meet, hence its must ensure that a certain portion of invisible funds are invested in assets which are easily converted into cash to meet those obligation. So for that case they choose liquidity as one of the guiding factor for the portfolio choice. That means the ease with which an investment can be turned into cash.

5.5.4 Socio-Economic Utility

NSSF invests in areas that fulfill conditions of economic or social utility to the country especially in areas which create employment and contribute to national economic developments. It has stated by its policy simply because the funds come from community and the money it belong to them they have to benefit whether it's direct or indirect.

5.5.5 Maintenance of Asset Value

NSSF investments are directed to areas which ensure positive returns to maintain the value of the Fund's assets.

5.5.6 Diversification

The study find that for the need of keeping safe the members contribution NSSF is ensure their investment are of low risk, by doing so they diversify their investment paten as strategy of minimise risk.

5.5.7 Proportion of Investments Funds

In each particular financial year the Fund sets aside at least 75 per cent of its investible funds for investment purposes. The remaining 25% is used for benefit payments and administrative and capital development expenditure. All these are done to make sure the fund increase its portfolios, members are getting their contribution and there is more benefit year after year.

5.6 Profitability of Social Security Fund

The profitability of the NSSF has been assessed in this study through computation of overall return on assets (ROA), capital growth and assessing the administration cost and compared to other fund i.eNHIF. In assessing the rate of the return on asset NSSF have average 18% for 2003-2008 outperformed by NHIF 36%. Also the average return of NSSF was 6% and NHIF 7% outperformed the FDR (3%). The capital growth as it has shown in table 4. 12NSSF increased by 15% in 2004, 20% in both 2005 and 2006 while the years 2007 and 2008 the rate has increased to 25%. This shows consistency in the capital growth by NSSF than NHIF. Administration cost has been out of the international standard of the social security fund especially for NSSF but it does not give negative profit of the fund.

Generally can be concluded that the funds are doing better on the investment areas, simply because since 2003 they had never get loss what again I could suggest is the profit gain from investment should go together with the increase of the members benefit.

5.7 The Riskiness of the NSSF Investment

This study finds that most of the NSSF investments are in long term investment such as Bonds (Government Bonds, Cooperate Bonds), Loans (Governments and Corporate loan, Others, SME and landing through financial institution), Real Estate, Equity (Listed Company, Unlisted Company), Housing, Financing, Infrastructure and Emerging Markets, that cover 65% of the NSSF investments and short term investment such as Money market (treasury Bills, fixed, Deposit/commercial papers) which cover 35%.

As the selection have been done those highly risk project are given low percentages when it comes to investment choices so as to reduce risk of the members fund and those with low risk investment project have given highly percentage i.e 65%. The other risk encountered by NSSF investments is inflation as it reduce the value of the loan and other invested assert as a national problems its solved nationally but also study find that NSSF does not concentrate much on the project associated with inflation problems.

5.8 Suggestionon Improvement of Investment Management of NSSF

The objective of the Investment Policy is to guide the Board of Trustees in its investment decision-making. The policy aims at maximising income from various investments of the Fund, protecting them, safeguarding and promoting the interests of the members of the Fund by directing investments into safe, high yield ininvestmentsandto avert, prevent and minimise any loss to obtain an optimum rate of return which is consistent with the safety and liquidity criteria. It also aims at improving social and economic welfare of the members of the Fund and the nation as a whole.

The investment activities also have its objectives of the Fund as to: Maintain time value of money, Enhance the capacity of the Fund to pay meaningful benefits to its members, Generate income to meet administrative expenditure, Support social and economic utility; and Support social and economic well-being of NSSF members.
However in connection with the objectives number five the NSSF should increase the benefit of its members as the much as they get profit from its investment,

Also the investment management should make sure their not politicized by politician instead they should concentrate to manage the investment pattern according to the guiding principal they have.

CHAPTER SIX

CONCLUSION, RECOMMENDATIONS

6.1 Introduction

This chapter concludes the study and offers some recommendations that will enhance efficiency management of the publicly managed Social Security Funds in Tanzania and it provide areas for further research.

6.2 Conclusion

In chapter one explained introduction, problem statement objectives and significance of the study while chapter two its gives the review of the different literature explain in details the concept of social security funds and gives some experience from other countries. The chapter also introduces the formula used to calculate the performance of the investment, risk and administration expenses not only that but also it gives overview of the social security funds in Tanzania by using NSSF as a case study.

Chapter three it's about research methodology that has been used in conducting the study. The research designed was cross- sectional and descriptive, with sampling population of the NSSF officials and its members while method that has been used to collect data are interview, questionnaire, documentation review and observation and both primary and secondary data has been collected and data has been analysed in such a way that they comply with research objectives. The main tool which was used for data analysis was Microsoft Excel, Calculations for percentages, measures of central tendency. Tables, figures and charts were used to provide a quick picture of different situations observed from the collected data.

Chapter four was aimed at presenting the data collected from the field and analysis while chapters five discuss those findings from chapter four. In general social security funds apart from its primary rules of pension benefits to its members has been used in supporting the country economy by investing in different development projects such as infrastructure, power generation, education and good governance.

The Tanzanian Social Security Funds are not efficient as compared to the international benchmarks. The first reason is that they continued to generate negative Sharpe's ratios and the second reason is that the funds administration costs were still too high. Although the statistical results showed that there was no significant difference between the alternative investment vehicles' yields and the Social Security Funds' return, the funds administration fees were significantly higher.

NSSF investment managed according to its policy as the study found, most of the investments are of the long term and few about 35% are of the short assist also directed by the National Social Security Regulatory Authority. This gives opportunity to invest in low risk project. However the institution has been get political interfere to invest in the project that does not qualify and goes with funds policy. This situation put in risk members contribution since it will have negative impact if the situation will still the same for some years.

Those criteria that influence the choice of portfolio are in standards of the investment management the challenge they have is to maintain and make sure every investment project are pass through them and not otherwise. On profitability the NSSF its shows their doing well even though they are not consistency its might be because of the challenge they have such as inflection and political forces. While the number of pensioners increased, the new and active contributors equally grew in size. Taking other expenses the fund might incur in into consideration, the fund will still have substantial funds which if properly invested will enable it to meet its obligations in the long term and get profit.

Other Schemes such as NHIF working without the substantial funds available such as NSSF, and having to find their own clients as well as being subject to the same economic factors such as inflation etc. are performing relatively better than NSSF in the same environment. This situation needs to be checked and appropriate measures taken to ensure an improvement in performance.

General It has been risk to invest in Tanzania due to its unstable currency and inflation but the NSSF has used its investment policy to protect its portfolio and have risk free investment. This has been successful despite all the challenge like other institution faced. As what study found the more improvement is to reduce the administration cost to meet those with international standards, NSSF should be political free and encourage more members to join the funds

6.3 Recommendations

6.3.1 Appointments of members of Board of Trustees

There should be proper incentive mechanisms in the appointed procedures of governors, these boards can be directed by fiduciaries that necessarily fit and are proper for their role. There should be a legislation in place that ensures the appointment of competent qualified and independence that would otherwise not be available to the 'tripartite' boards and it will also reduce the politicization of the representatives on the boards that would therefore lead the funds to invest imprudently and not necessarily in the interest of the beneficiaries but rather in the interest of the sponsor's other public policies. How can this be achieved? It is through:

(i) Members of the trustee boards should be selected on the basis of their investments and business expertise. Experience should be set out in legislation.

(ii) A transparent and credible mechanism is put in place for appointing and electing them. The sponsor should also consult independent bodies such as parliament or other expert committees.

6.3.2 Investment Limits

The government should allow the funds to invest especially in this era of liberalized capital accounts that a country follows. However, funds should be allowed to invest more in the international instruments when the covariance between the returns in Tanzania and foreign market is negative. The foreign investments offer an opportunity to re insure and facilitate the problems of the limited capacity of local financial market. The offshore investment would also provide an opportunity to diversify fund's portfolio mixes against the political and spatial risks, despite the existence of challenges of managing international investment portfolio such as exchange risks. In addition, it would also provide an alternative solution to the problem of limited investment option, and domestic market saturation.

In the researcher's opinion, the investment limit in the offshore market should explicitly be started and increased up to 5% of the pension investible funds instead of the current situation of covering such investment category under emerging markets.

6.3.3 An Overall Supervisory Body

The establish of Social Security Regulatory Authority to which all Social Security Funds report and regulated should make sure ministry and government should not intervene the Social Security fund. The authority also should ensure best practices in the Social security sector, which is fragmented in Tanzania. Finally, researcher also recommended that implementation of the National Social security policy should be expected to harmonize the sector.

The National Social Security Fund has the mandate to invest employees and employers contributions in order to pay adequate post-employment benefits such as pension. However, in recent times it has been reported that inadequate returns generated from their investments have undermined the profitability and utility of the scheme. Such of that investment are Machinga Complex, Bunge Hall and Mabibo Hostel. This and other factors such as increases in pensions contribution pay out, increases in private pension fund management, low enrolment, lack of contribution by some private companies and small & medium scale enterprises highlight the need for good investment decisions and returns by the scheme to maintain the confidence of the people.

6.3.4 Returns and Volatility

The funds should institute some ways to improve their returns with some measures including cost reduction strategies and outsourcing some of the facilities whenever possible. However, the current measures to diversify their portfolios should be continued with a view to return improvement, stabilization and risk reduction. Although the biasness towards specific assets vividly evidenced that the Social Security Funds investments policies need a reformulation to fit the realities into practice. However, this it will not pose a problem anymore as the funds have already taken measures to restructure their investment portfolio mixes since 2001.

6.3.5 Membership Growth

The Social Security Funds in Tanzania have to take specific measures to intensify the marketing campaign to enhance the public awareness which is currently low. It will enable the funds to reverse the current challenge of slow/negative growth in the number of members.

6.3.6 The Case for Investing Social Security Trust Funds inEquities

Two main arguments have been used to support the notion of investing social security trust fund reserves in equities. The first is to level the playing field with respect to other retirement plans, and the second is to enhance intergenerational risk sharing. The conclusion that emerges from this review is that investing the social security trust funds in equities is a feasible strategy that is desirable on economic grounds. It would improve the distribution of risks across generations. The young are currently exposed too little of the risk associated with equities since they have accumulated few assets to invest in the stock market. The wealth they do hold in the form of claims on social security benefits is free of market risk since the assets are invested in Treasury securities. Allowing the trust funds to invest in equities, in a system with a guaranteed replacement rate and a target trust-fund ratio, would shift some of the equity risk to the young, since they would face higher payroll taxes if the market performed particularly poorly in such a shift in investment policy might entail.

6.4 Area for Further Studies

In future researches on the performance of investment in social security funds there are areas where can provide room for further research such as investing social security fund in equities, The risk appetite of pension funds andan assessment of the returns on employee pension fund investments and their impact on future benefit payments.

REFERENCES

Agarwal, M. (2010). “Hedge Fund Investing,” (http://www.marketoracle.co.uk/Article16817.html), (accessed 2013 July 20).

Avrahampour, Y. (2006) “A Recent History of UK Defined Benefit Pension Provision and Management,” (http://www.google.com.gh/search?), (accessed 2013 July 20).

Baruti, E (1997) ; ‘The Role of National Pension Funds as a Non Bank Financial

Baxter and Crucini, 1993 saving and investing correlation Baxter, Marianne, and Urban Jermann, “The International Diversification Puzzle

Blake, D.Timmerman (2002) ‘Performance Benchmarks for Institutional Investors; measuring, Monitoring and Modifying Investment Behavior’ in Knight J. and S.Satchell (eds), Performance Measurement in Finance ; Firms, Funds

Brief History of the State Pension. www.incipit.co.uk/state-pensions (accessed 2013 August 15).

Carducci and Wong, 1998. Financial risk tolerance and additional factors that affect risk taking in everyday money matters

Catalan, M. (2004) “Pension Funds and Corporate Governance in Developing Countries: What Do We Know and What Do We Need to Know?” (http://www.saisjhu.edu/bin/y/p/PaperWBPensionCGFeb2004.pdf), (accessed 2013 July 21).

Dissertation, University of Dar es salaam.

Flows and Long-Term Economic Growth: Micro and Macroeconomic Perspectives.” History of Pension Plans. www.investmentandincome.com/retirementinvestments/history of pension plans.html (accessed 2013 August 15).Human Development Network, Social Protection MBA Desertation, University of Dar es Salaam.

Institution on the transition to market economy’, Unpublished MBA

Mwamoto, R.T (2003) ‘An Analysis of Investment Performance of Pension Funds Tanzania; A comparative study of PPF and NSSF, Unpublished MBA Desertation, University of Dar es Salaam

National Health Insurance Fund, Tanzania (2003 – 2008) ‘Annual Financial Reports’

National Social Security Fund, Tanzania (2003 – 2008) ‘Annual Financial Reports’ NSSF Investment Policy 2001

Rose Peter S (1988) ‘Money and Capital Markets (The Financial System in the Economy)’ Security Activities and Statistics, Prague, 2 – 4 June Security In African Countries’. Social Security Documentation

Singh, (1991), “Emerging Stock Markets, Portfolio Capital

Srinivas, S.P and Yermo, J (1999) ‘Portfolio limits in mandatory pension schemes, Human Development Network, Social Protection Working paper series, World Bank, Washington D.C

Stanko, D. (2002) ‘Performance Evaluation of Polish Funds’ Mimeo, Osaka University, Graduate School of Economoics

Stewart F. (2007) “Pension fund investment in hedge funds,” (http://www.oecd.org/dataoecd/4/46/39368369.pdf), (accessed 2013 July 22).

Tanzania; A comparative study of PPF and NSSF, Unpublished than you Think,” *American Economic Review,* 87(1), 170-180, 1997.

Veld and Veld-Merkoulova (2008). The risk perception of the individual investor journal of economic psychology

Vives A. (1999) “Pension Funds in Infrastructure Project Finance,” Volume 10

Ward A. (2011) “Danish pensions invest in giant offshore windfarm,”

Whitehouse E. (2007). Pensions Panorama: Retirement – Income Systems in 53 Countries.

World Bank. Working paper series, World Bank, Washington D.C*World Development,* 26(4), pp. 607-22.

www.ft.com/cms/s/0/7740d04c-5c9c-11e0-ab7c-00144feab49a.html), (accessed 2013 February 18).Women in Tanzania’ Gender and Social YolivyKlmp, L.

APPENDICES

Appendix1: Assessment performance of Investment in Social Security Funds , Questionnaire

This research study to determine thepattern of portfolio selection for the NSSF investment,factors influencing the management choice of portfolios, the profitability of the investment, risk on investment and to suggest improvement in investment management of NSSF.

All the information you will provide in this questionnaire will remain strictly confidential. Your cooperation is well appreciated. Thank You.

Instruction:

Please mark your answer with an "X" and explain where is needed.

Section A: Personal Demographic Information

1. Which of the following age category are you?

   (i) Below 25 ( )

   (ii) 26-41 ( )

   (iii) 42-49 ( )

   (iv) Above 50 ( )

2. Please indicate your gender

   (i) Male ( )

   (ii) Female ( )

3. What is your position in Institution managements

   ____

   ____

   ____

Section B: INVESTMENT MANAGEMENT

1. What is the pattern of the portfolio selection for the NSSF investment?

2. What are the factors used to determine the management choice of portfolio for NSSF?

3. Does the investment of NSSF make profit?

   How?

4. What are the risky do the NSSF encounter in their investment management?

5. What are the improvements measures should NSSF take to improve its investment management?

Section C: Members of the NSSF

1. When did you join to NSSF?

____

____

____

2. Do you think Investment management team of NSSF is making the right choice to use your fund concentrating on the investment portfolio in real estate, Treasury Bills or in some medium scale joint ventures?

   (i) Yes ( )

   (ii) No ( )

3. Is there any risk to for your funds to be invested on long term project?

   (i) Yes ( )

   (ii) No ( )

   How

   ____

   ____

   ____

4. Is there any improvement measure you could suggest so as to improve the investment management or portfolio of NSSF?

   ____

   ____

   ____