

**CORPORATE GOVERNANCE PRACTICES AND INVESTMENT PERFORMANCE: A CASE
STUDY OF SELECTED PENSION SCHEMES IN TANZANIA**

By

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To Faculty Board

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ABBREVIATIONS

CEO	Chief Executive officer
DG	Director General
DB	Defined Benefit
EPF	Employee Provident Fund
FIA	Fixed Income Assets
GSIS	Government Service Insurance Scheme
ISSA	The International Social Security Association
IOPS	International Organization of Pension Supervisors
KPIs	Key Performance Indicators
MIC	Management Investment Committee
NSSF	National Social Security Fund
NPF	National Pension Fund
OECD	Organization for Economic Cooperation and Development Countries
PSPF	Public Service Pension Fund
PPF	Parastatal Pension Fund
SSS	Social Security System
USA	United States of America
U.K	United Kingdom
UNDP	United Nations Development Programme

ABSTRACT

Sustainability of pension funds depends on investment performances. The best corporate governance practices is indeed the key issue influencing investment performance of public pension schemes. This study was designed to analyze performances in relation to corporate governance practices. The objective of this study is to determine the effect of corporate governance practices on the performance of the pension scheme. The study focused in three selected pension funds in Tanzania, namely, the Public Service Pension Fund, National Social Security Fund and Parastatal Pension Fund. Theoretical and empirical studies of this work relied on the relationship between corporate governance practices and performance of pension schemes. The study used both primary and secondary data as the means of collecting data with a comparative case study orientation. Published financial statements and other desk materials were collected principally from case public pension schemes. In addition, Interviews were also made with responsible top management and officials from planning and investment departments of the funds.

The study found the relationship between the corporate governance best practices and investment performance, Social Security Regulatory Authority controls and monitor the investment in these selected pension scheme but it should not limit the pension schemes to invest outside the country as this is the only way to diversity the local risks.

stakeholders and employees should be actively involved in the conduct of good corporate governance practices as this is the only way successes could be achieved in its effect on the performance of pension scheme in Tanzania

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CHAPTER ONE

Introduction

1.1. Background of the Study

The history of public pension funds can be tracked back from the origin of mankind of formal employment and assurance companies. Because the earnings of employees were at one stage so meagre that they hardly covered current expenditure, in early days it was often the case that, when people were no longer able to work, there were no alternative sources of income. As a result of this problem, most governments instituted pension and provident funds were charged with duty of providing old-age pensions on attaining a certain age and other benefits. Today, most governments in the world compel their citizens to save for retirement. Until the late 1980s, a majority of publicly-managed pension schemes were financed in Pay-As-You-Go systems (Palacios and Pallares, 2000)

Since 1990s system of financing of social security schemes in the world has dramatically changed from old system of Pay-As-You-Go to Pre-funding systems. Today, more than fifty countries have built up reserves to cover some (partially funded) or all (fully funded) of their pension liabilities. It estimated that stock of pension assets, including voluntary pensions, is now as much as fifty percent of the world GDP (Palacios and Pallares, 2000). Huge investments made by pension funds implicitly also mean that employees had become controlling shareholders of most of corporations. The growing tendency by pension funds to draw retirement benefits out of the funds raises the question of pension funds investment and sustainability to be critically emphasized (Bernard, Andrea and Alexander, 2001). Thus, efficient management of these reserves is of vital importance both to pension systems and economies involved.

Since independence in 1961, the Tanzanian government has been taking steps to be in line with international efforts to institute sound social security systems. For example, in 1964 the National Provident Fund (NPF now NSSF as amended in 1997) was established. The National Provident Fund protects civil workers and parastatal employees not covered by other schemes; the Parastatal Pension Fund (PPF) was established by the Act No. 14 of 1978 for parastatal employees; the Local Authority Provident Fund (PSPF) which was established in 2000, for

public service sector employees; the National Insurance Health Fund (NIHF) and the Government Employees Provident Fund (GEPF).

In 1991, the need for transforming the pension system was apparently noticed, and government retreated from directly intervening into pension funds following remarkable reforms in the country's financial sector. Since then, studies were made to come up with best system to improve social security systems in Tanzania. For example, the change from the NPF to the National Social Security Fund (NSSF) by the Act of 1997 that become operational in 1998 was the outcome of the ILO Report (December 1995) for the study conducted from March 1991 to December 1995.

Meanwhile, introduction of market based investment criteria, making investments decision without direct interferences from the government, and shifting their funding modalities from conventional Pay-As-You-Go system to pre-funded systems, have remarkably changed pension funds in the country. For example, Defined contribution scheme as pre-funding techniques, which is currently followed by major pension funds in Tanzania, in itself poses a challenge to management of these funds to be extra-ordinary efficient if they are to be sustainable and produce expected return to their member. Otherwise member contributions will be at risk.

Corporate Governance is indeed a key issue influencing performance of public corporations but it is also a key issue affecting the performance of any pension scheme. Palacios (2001) argues that "many of the issues raised in public pension fund management are similar or even identical to those that apply to private pension funds." Indeed, the asset management, performance measurements and custody services in most of organization for Economic Cooperation and Development (OECD) countries are provided externally.

Corporate governance in many pension schemes tends to be exercised and affected through tripartite Boards, (that boards constituted by employees, employers and government). These often non-professional boards have often been subject to substantial government pressure and therefore performance has suffered, (Impavido, 2002).

Studies of funds management and governance structures in social security schemes is of high priority in African countries as they contribute to addressing the more important problems of poverty during the retirement age. The investments of most pension funds in Africa have

registered negative real growth rates (Impavido, 2002). The International Social Security Association (ISSA) attributes underperformance of pension funds to a number of reasons including macroeconomic factors, unfavorable market conditions, poor portfolio planning, and limited expertise and investment opportunities.

Impavido (2002) linked poor performance to undue political interference in the investment decisions of public funds. He argues that, governments have often imposed on financial intermediaries, explicitly mandate are absent, governments have often relied on their power of coercion to ensure sufficient demand for their debt to finance public expenditure or demand for other securities to finance well connected enterprises and public enterprises. Generally, there is political intervention in most of investment of pension funds in Africa (Diop, 2002).

Tanzania is among one of the African countries that strive to ensure good corporate governance practices in its various systems. It must be remembered that the contributions received in the pension funds are people's money and therefore the regulatory body for pension funds should make sure that each pension fund invests in a correct manner and also should ensure good corporate governance practices in these funds investment.

It is thus, noticed from the above that all major formal pension funds in Tanzania are public managed reserves. For viewpoint of pension systems reforms, it is important that issues of corporate governance and performance to be rigorously studied in Tanzania. Otherwise labor market, financial market, pensions systems and country's economy at large would be at risk in future.

1.2. Statement of the problem

Some few cases of mismanagement and fraud in pension scheme have put pension fund governance in the spotlight of public interest (Mayners 2001). Pension fund governance has taken centre debate in other countries like Germany, the Netherlands and the U.K. The public and political debate on pension fund governance is often centered on the misuse of pension assets. However, pension fund governance has much broader scope and includes overall management, organizational design and decision-making processes. Taking such a holistic view, the Organization for Economic Cooperation Development (OECD) has adopted guidelines

containing twelve fundamental principles and aim at setting international standards for the governance of pension funds.

Empirical studies found serious pension governance lapses across the world. Stewart and Yermo (2008) document the ineffectiveness of the pension governance body in Hungary in enforcing stakeholder's rights; Clapman *et al* (2007) show evidence of the lapses in USA; Amachtsheer *et al* (2006) document the same problem in Australia, Canada, New Zealand, UK and USA; Dias (2006) disclose the problem in Brazil, and Rusconi (2008) unveil the problem in South Africa.

Financial sector reforms programmes that were adopted in Tanzania in 1990s have led to remarkable changes in the country's financial sector. One aspect of these reforms comprises a retreat of the government from intervening in operations of the financial institutions, and licensing of the private banks and non financial institutions

This situation of changing economic environment in Tanzania compels pension funds to determine how they can best adapt to these economic changes. These efforts of trying to adjust to economic changes are not only inevitable, but also of interest in performance investment efficiency of these funds in the light of reforms. As it were, public pensions funds are compelled to the cost-effectiveness, efficiency and prudent investment.

It is therefore, noticed that both aspects have not been subjects of sustained research in Tanzania. This study therefore thought to be necessary to examine these corporate governance practices and their influence to investment performance of public managed pension funds.

1.3. Research objective

The primary objective of this study is to examine corporate governance practices in the pension funds in Tanzania. In addition, the study will highlight the extension to which corporate governance practices influence pension funds investment performance. It will also identify other factors that influence performance of the public pension funds.

1.4. Specific objectives

This study will be governed by the following specific objectives

1. Examine features that explain corporate governance practices in pension funds in Tanzania
2. And examine whether these practices are followed by pension selected public pension funds in Tanzania.
3. How corporate governance practices influence the investment performance of the pension fund.

1.5. Research Questions

1. What are the features that explain corporate governance practices in pension funds in the country?
2. Are these corporate governance practices followed by pension funds in Tanzania?
3. Is there any relationship between corporate governance practices and investment performance of the schemes?

1.6. Significance of the Research

The findings from this research will be expected to address the governance practices and their relation to performance of public pension funds making process of corporate pension schemes. This should be of relevance to wider and diversified audience such as:

- Participants in public pension schemes are likely to be interested in knowing the risk to which there are exposed,
- Policymakers and pension reformers are likely to be interested in addressing the design of pension schemes, governance issues, and performance as well as in improving the performance of public pension funds as part of their effort to instill and financial and fiscal discipline throughout the economy,

- Pension managers are likely to be interested in understanding the variables that influence their investment portfolio and how they perform as far as other comparable funds are concerned,
- Academicians are likely to be interested in analyzing the aspect of governance in the private sector that is transferable in the economy,
- This study makes several contributions to the literature on corporate governance and pension funds. Most importantly, it adds to the scarce literature on corporate governance of pension funds by documenting some factors that impact their investment and economic performance,
- This study provides also new evidence on the impact of board structure and characteristics on pension fund performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Theoretical and empirical studies of this work relied on the relationship between corporate governance practices and performance of pension fund. It makes a preliminary attempt to identify corporate governance practices and distil governance guidelines aimed at reducing the political risk that is associated with public pension funds management. It also points out other factors that influence the performance of the pension funds.

2.2 Key terms in Governance

Governance is defined by Carmichael and Palacios (2003) and IOPS (2007) as the “system and processes by which a company or government manages its affairs with the objective of maximizing the welfare of and resolving the conflicts of interest among its shareholders.” The authors thus suggest that pension governance is about transparency, conflict resolution and prudent management of the organizational resources that contribute to value addition. Qureshi and McKay (2007) indentify three broad approaches of viewing pension governance in the context of multi-national companies namely: decentralized governance where the pension governance is exercised in different pension plans in the same country, compliant governance, which implies following the law and efficient governance, which refers to making financial and operational efficiency gains. Quresh and McKay (2007) recommend the efficient governance option as it acts as a complacence to other approaches. In other words, efficient governance should enable pension plan to achieve compliance with the pension law and control of the decentralized units that eventually contributes to increased efficiency in operations.

Effective pension governance ensures that potential conflicts of interests arising between the pension plan administrators and the ultimate beneficiaries of the fund are solved amicably (Stewart, 2009; Useem and Mitchell, 2000; Yang and Mitchell, 2005; Yermo, 2008). Accordingly, Teisseire (2009) and Clark (2006) conclude that pension governance defines

accountabilities, establishes authority levels, specifies mechanisms of enhancing compliance with the law and enables provision of accurate, timely and reliable financial information to the stakeholders.

In other perspective, Arun and Turner (2002) contended that there exists a narrow approach to corporate governance which views the subject as the mechanism through which shareholders are assured that managers will act in their interests. However, Shleifer and Vishny, Vives (2002) and Oman (2001) observed that there is broader approach which views the subject as the methods by which suppliers of finance control managers in order to ensure that their capital cannot be expropriated and that they earn a return on investment.

Parakash (2003) has categorized corporate governance into four key components which include accountability, transparency, predictability and participation as detailed below.

Accountability means the capacity to call officials to account for their actions. According to Parakash (2003) effective accountability has two components “answerability” and “consequences”.

Answerability is the requirement to respond periodically to questions concerning one’s official actions. There is also need for “predicable and meaningful consequences”, without which accountability is only a time consuming formality.

Transparent entails the provision of complete, reliable, timely, relevant information that is understandable and at low cost to enable members and stakeholders assess the efficiency and effectiveness of those they entrust to govern.

Practicability implies that there are clear laws, regulations, rules and procedures which are known in advance; uniformly and effectively enforced. Most importantly, the application of those laws, rules, procedure and any economic regulations must be effective, fair and uniform.

Participation implies the active involvement of the governed-being consulted and engaged in the formulation of governance procedure and rules and allowed to provide a feedback on the operational efficiency and quality of the services and means of monitoring and evaluating performance.

Parakash (2003) insisted that the instrumental nature of governance implies that the four governance pillars are universally applicable regardless of the economic orientation, strategic priorities, of policy choice of the government in question.

2.3 Theoretical Framework

Theories are sets of concepts and generalizations arranged to explain and predict possible and probable relationships among phenomena. They are also formulations and principles of behavior through which knowledge about human interactions can be increased. They are found on observation and analysis. Theories, as forms of explanation increases knowledge about what is happening in and around the corporate organizations and their governances.

Many theories have been developed in relation to pension reform across the globe. In this study, three of them will be discussed: utility and preference theory, life cycle theory, and the productivity theory of pension, which are practically relevant to investigate the effect of corporate governance practices on the performance of pension schemes in Tanzania. Each of them is briefly explained subsequently. This is because of the attaching benefits. The benefits include reduction in income tax of the employee and the retirement benefits such as: social security from the employer's contributions, and interest earnings and dividend earnings on pension fund investment or assets that are not taxed. Other benefits include the prospect of future enhanced and acceptable pension benefits, from awards or increases that may be offered by the government from time to time. Yet another benefit is an insurance cover of sorts against risks that pension provides.

The supply side of this theory posits that employees' gain from pension tends to raise the level of workforce productivity and reduce labour costs. This is because the employers' investment in the training of the workforce, improved conditions of service, provision of adequate resources, and so on, are greatly off-set by the workforce's improved output or productivity. There is also the perspective that the supply side to the theory serves as an incentive for personnel to remain in the organization for a long time.

2.3.1 Discussion of the Theoretical Framework

Utility and Preference Theory is rather weak or strong as a subjective decision/ choice since it may be rightly argued that one of the merits of the Utility and Preference Theory is the fact of

the admission of qualitative rather than heavily quantitative content. It is also easily appreciable, interpretable, and understandable by administrators.

The theory of Life Cycle believes that sustainable corporate governance practices on the performance of pension scheme can grow huge financial resources for further investment earnings which can cause significant redistribution of income, leading to increased wealth to pension participants.

In the Productivity Theory of Pension, it argues that the organization tends to gain because large workforces enhance high productivity and attachment to the organization.

2.3.2 Theory Implication

If the pension funds in Tanzania follow corporate governance best practices, it is expected to enhance the performance of pension schemes. This is because the theory has an implication on the power of huge income creation and redistribution to participants or contributors, which leads to increased wealth. Hence, the performance of a pension scheme through the use of corporate governance best practices has the power to change or affect the life cycle of the pensioner. However, the reliability of the Pension Fund Administration, the regulatory bodies and security agents must make use of corporate governance best practices and as well to ensure that the pension scheme plays its role effectively.

2.4 Empirical literature review

The majority of the existing literature on pension fund governance is dedicated to the development and description of best practice solutions and concepts for pension funds. In contrast, there is only limited empirical research on the relation between governance and performance of pension funds.

Ambachtsheer, Cappelle, and Scheibulhu (1998) and Ambachtsheer and Ezra (1998) were among the first to investigate the statistical relationship between governance quality and investment performance. They developed a questionnaire that asked pension fund CEOs to score statements about their governance quality. The authors report a positive correlation between the resulting “CEO score” and investment performance. Ambachtsheer, Capelle, and Lum (2007) and Smbachtsheer (2007) corroborate these findings with a newer data sample, the findings are subject to some important caveats. The proxy for governance quality, the “CEO score”, is based

on self-reported scores. It remains unclear whether the causality runs from the perceived governance quality to investment performance. It could also be the other way around with good (bad) achieved investment performance leading to perceived good (bad) governance quality. Thus, the perceived governance quality does not necessarily correlate positively with the effective governance quality. Finally, there is a tendency in surveys of this nature to rate on high side. As a result, the “CEO score” is likely to give a biased view of the effective quality of pension fund governance. (Bebchuk and Cohen, 2004; Bebchuk et al., 2004; Eruteya et al., 2008; Ovbiagele and Ekwu, 2010) also conduct study on the relationship between the investment performance and corporate governance and found that governed firms have higher firm performance in any country. Mariassurita and Luc (2007) in a study of pension reform, ownership structure and corporate governance in Sweden, found out that firm performance improves if large independent private pension funds and public pension funds increase their equity stakes in the firm, but not if smaller pension funds and pension funds related to financial institutions and industrial groups increase their shareholdings. Augusto (2009) studied pension reform and corporate governance in Chile, and found that companies where pension funds have been invested are under close public scrutiny because of corporate governance and that capital market growth has also had positive consequence on corporate governance. Also, Pablo et al. (2011) used ordinary least square method to determine corporate governance, stock market and economic growth in Brazil. By the methodology adopted, there are evidences that companies who adopt better practices of corporate governance have better performances (collect more benefits) in the economic growth cycle than those companies that do not adopt them.

Some authors investigate how the investment performance of pension funds is related to particular governance variable such as composition of board of trustees. Yang and Mitchell (2005) investigate the effect of several organizational and structural pension fund features on the investment performance. They find evidence that the composition of the board of trustees as well as the reporting practices influence the investment performance of public pension funds. Mitchell and Hsin (1994) confirm that the composition of public pension fund boards is significantly associated with the performance. Useem and Mitchell (2000), in contrast, find no direct relation between the governance qualities the governance quality and the investment performance. However, they show that governance has a direct effect on how pension funds invest their assets. The investment strategy, in turn, directly affects the investment performance. The authors

conclude that governance quality indirectly affects the investment performance of pension funds. Finally, Besley and Prat (2003) apply agency theory to find the optimal governance structure of defined benefit pension plans. They analytically prove that the pension fund governance matters.

Due to the lack of a standardized and objective metric that measures the governance quality of pension funds as well as the lack of data, many authors confine themselves to developing best practice recommendations for pension fund governance without providing empirical evidence. Ambachtsheer and Ezra (1998), Ambachtsheer (2007), and Brandenberger and Hilb (2008) provide comprehensive governance frameworks for U.S and Swiss pension funds. They cover all aspects of pension fund governance such as organizational coherence, staff performance evaluation, investment controlling and communication. The OECD guidelines for pension fund governance are less concrete and practical. In return, the twelve-point guidelines are not country-specific and mark therefore, the first initiative to set international standard for the governance of pension funds. The Guidelines propose a governance structure with shared responsibility and built-in checks and balances, such as regular reviews by an independent party. Clapman (2007) identifies several governance-related problems in U.S. pension funds and recommends best practice governance principles to deal with them. He provides recommendations for and optimal board composition and proposes clear lines of authority as well as regular staff performance evaluations. Board composition and its decision-making capacity is also seen as crucial by Clark, Caerlewy-Smith, and Marshall (2006) and Clark, Caerlewy-Smith and Marshall (2007). Finally, Clark and Urwin (2007) propose twelve principles of best practice such as organizational coherence, effective and performance-linked compensation practices, and decision-making systems that function in real-time not calendar time.

In summary, the extent to which corporate governance practices affect investment performance of pension scheme has been widely studied. A good percentage of researchers revealed that corporate governance best practices have the capacity of enhancing the performance of firms.

2.5 An over view of the pension funds in Tanzania

2.5.1 Introduction

The total effective labour force in Tanzania Mainland is estimated at 20.6 million people, of which 5.4 percent are covered by the existing social security schemes. Approximately 77 percent of the labour force is employed in the traditional agriculture sector, 9.3 percent in the informal sector, 2.4 percent in the government, 3.5 percent are domestic workers, 0.4 percent are employed in the parastatal sector and 8 percent in other sectors. The total number of contributing members is about 913,799 OECD/IOPS Global Pension Statistics (2011).

Currently there are six formal institutions providing social security services which include pension and social health insurance in Tanzania Mainland: Public Service Pension Fund (PSPF), covering central government employees under permanent and pensionable terms; Parastatal Pension Fund (PPF) for employees of parastatal institutions, Local authorities' Pension Fund (LAPF), National social security Fund (NSSF) covering government employees and self employed persons and the National Health fund. With the exception of the GEPF, all pension schemes are operating on pay as you go defined benefit basis. Under the current system, the provident funds continue to operate for insured persons who leave employment before retirement age and who remain out of work for at least six months.

All pension funds under this study are public owned and created by the acts of parliament, and the government is their guarantor. NSSF is covered under the National Social Security Act No. 28 of 1997. PPF is covered under the PPF Act No. 14 of 1978 and the PSPF is covered under the public Service Retirement Benefit Act no 2 of 1999. Pension funds are supervised by different ministries. For instance, NSSF is supervised by Ministry of Labour, Employment and Youth Development; PSPF and PPF are both supervised by the Ministry of Finance.

2.5.2 Investment policies of the schemes

In making investment decisions, pension funds are guided by investment policies. These policies are prepared under funds management supervision and reviewed and approved by the Board of Trustees of the respective fund. The key issue that are taken into account in the preparation of an

investment policy are; safety, yield, liquidity, diversification prudence and social economic utility.

Management and investment administration of funds investment is almost similar to all the three funds. Finance and Investment committee of the board oversees all the investments decision made by fund. In all cases, the fund's management meets once every week at the Management Investment Committee (MIC) to discuss and make some new investments, given enough funds available for the investments. The Directors General are empowered by the Board to make such investment like Government securities, fixed deposits and commercial papers given that they do not exceed the limit under their respective investment policies. However, new investment proposals must seek the respective Boards' approval.

The pension funds investments are guided by common principle of high yield, liquidity, social economic viability and safety. The safety in particular is very important and gets high value through diversification. Tanzania in particular, with its narrow financial instruments and capital market provides limited investment options and no safer avenues to these funds for the diversification of their investment portfolio mixes. Furthermore, the law does not allow the pension funds in the country to invest abroad despite the fact that the government has already liberalized the economy. Thus the pension funds have to invest only in Treasury Bills, Treasury Bonds, Real estate, equities listed and a few unlisted (with high selections), fixed deposits and a few corporate bonds.

2.5.3 The NSSF Profile

The Government in 1967 established the National Provident fund (NPF) as a compulsory individual saving scheme, with a view that it would be a good foundation for the establishment of an international accepted social security scheme. In 1990/91, UNDP and ILO granted the government through the project URT/90/003, which aimed at transforming the provident fund into NSSF which was enacted by the National Social Security Act No. 28 of 1997 and made operational in 1998. The contribution rates are 10% for the employee and 10% for the employer, making a total of 20%.

The NSSF covers the private sector, informal sector, some government ministries and departments whose employees have non-pensionable terms. The funds administer benefits like; Old age, invalidity, maternity, health care, survivors and employment injuries/ occupational diseases benefits. Investment of the fund is guided by the investment policy that describes clearly the investment avenues and limits.

In the second half of the 1990s, the National Social Security Fund of Tanzania (NSSF) was investing in personal loans and huge residential and commercial building despite financial guidelines from the Bank of Tanzania requiring that social security funds to be used to purchase liquid assets (Impavido, 2002).

Investment Policy Objectives

The objective of the Investment Policy is to guide the Board of Trustees in its investment decision-making. The policy aims at maximizing 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 yielding investments and to avert, prevent and minimize 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.

Objectives of the Investment of the Fund are to:

- i. Maintain time value of money;
- ii. Enhance the capacity of the Fund to pay meaningful benefits to its members;
- iii. Generate income to meet administrative expenditure;
- iv. Support social and economic utility; and
- v. Support social and economic well-being of NSSF members.

2.5.4 The profile of PPF

The government in 1978 established the PPF to provide for pension and other benefits to all employees in the parastatal organizations, companies under Companies Ordinance (1971), where the government is majority shareholder and any other private company upon being published in the government gazette by the ministry of Finance, Similar to NSSF, the membership is

mandatory. Like other funds, the contribution rate is 20%, whereby the employee contributes 5% or 10%, while the employer contributes 15% or 10% respectively.

Following economic restructuring in the country, PPF has been experiencing unfavorable membership trend (Seleman 2004). The numbers were dropping due to the retrenchment process in which most of the parastatal organizations have been restricted and others completely phased out. In 2001 the Government amended the PPF Act No. 14 of 1978 to allow for member from private and informal sector to join. This was a big challenge but also an opportunity to PPF as the fund had to design and formulate strategies to encounter competition and penetrate into the private sector.

Investment policy of PPF

1. Capital Preservation, growth and appreciation,
2. Hedge against inflation,
3. Maintain optimum liquidity level to meet current obligations,
4. To have balanced portfolio in order to avoid strains in times of obligations,
5. Opportunity cost of capital.

2.5.5 The profile of PSPF

Before 1999, employees under the central government were not contributing to any pension fund. As a result, the government was responsible to cover the entire burden of paying retirement benefits to its employees. From July 1999, the government established the public Pension fund (PSPF), which is a contributory scheme, established under the public service retirement Act No. 2 of 1999. The fund covers employees of the central government and its executive agencies established by the acts of parliament, whose terms of employment are permanent and pensionable. The membership is mandatory and the contribution rate is 20% where by the employers contribute 15% and employees contribute 5%.

Despite the major responsibilities of collecting monthly contributions and payment of benefits, the fund has a challenging risk of maintaining the value of the collected funds by investing in various available investment opportunities with a view to earning income. Therefore, like other

funds, PSFP is guided by an investment policy which provides for investment avenues and limits, with the same guiding principles of high yield, liquidity, social economic viability and safety.

Investment policy of PSPF

- i. Optimize the return to the Fund consistent with a prudent level of risk;
- ii. Ensure that there are sufficient resources to meet the Fund's pension Liabilities;
- iii. Ensure the suitability of Fund's assets in relation to the needs of the Fund;
- iv. The Policy aims at achieving the best possible overall return on investment at an acceptable level of risk.

2.5.6 Governance and Management structures of the funds

The boards of trustees are the supreme bodies appointed to manage these funds. The pension funds' boards are tripartite, with representatives from employees, employers and government. The NSSF Board of Trustees is defined in the NSSF Act No. 28 of 1997. The PSPF Board of Trustees is defined by the act establishing it; the retirement benefit Act No.2 of 1999. Likewise, the PPF Act No.14 of 2001 defines the PPF Board of Trustees.

Currently, the chief executive officers (CEOs) of these funds are directly appointed by the president except the PPF Director General who is recruited by the Board and endorsed by the president. The Boards' chairperson for PPF and PSPF, as defined in their respective acts, is the permanent secretary to the minister of Finance. The NSSF Board chairperson is appointed by the president.

In all cases, the board is in charge of the investment policies, while investment committees are responsible for more detailed decisions, monitoring and evaluating the investments of the funds. Management of day to day activities is the responsibility of the CEOs.

Generally the issue of good management of public pension funds should not be undermined because various studies have shown that mismanagement of public finances is associated with lack of good corporate governance.

2.6 Pension Governance Structures

A pension plan's governance structure defines and separates operational and oversight responsibilities of the stakeholders (OECD, 2009). As such the responsibilities of the internal trustees and members should be clearly stipulated in the trust deed. The separation of duties should reflect on the risks that the pension plan is exposed to. Moreover, pension plan should have governing bodies charged with the responsibility of managing the pension plan and the protection of the best of the interests of the beneficiaries (RBA, 2010). OECD (2009) recommends a two-tier board involving a managing and a supervisory board. Principally, the governing board should have member nominated trustees, sponsor nominated trustees, a custodian, and actuary, a fund manager and a fund administrator while the supervisory board should be composed of persons independent the governing board. The entire members in the board should have clearly articulated responsibilities with well documented means of solving conflicts of interests amongst themselves. The governing board should be accountable to the pension plan members, beneficiaries and the regulating authorities. The membership to the board should be subject to minimum suitability standards of integrity, competence, experience and professionalism in the governance of the pension plan (OECD, 2009). The governance structure is vital because the pension plan beneficiaries and the administrator do not have the same contractual ability in terms of skills, knowledge and information (Hess and Impavido, 2003). RBA (2010) lists the responsibilities of the governing board as follows.

- Setting out pension plan's goals, mission, policies and creation of a reflective investment strategy;
- Monitoring administration of the pension plan to ensure that key objectives are achieved;
- Selecting and remunerating external trustees,
- Ensuring that the pension plan complies with the law,
- Monitoring performance of the pension plan's investment,
- Sending appropriate and timely communication to members of the pension plan.

The governing body is the entity with highest level of governance authority as defined by the terms of the law or other regulations. In western common law, it usually takes the name of Board of Directors or Board of Trustees, In Tanzania it is also referred to as the Board of

Directors/Trustees. Its identification should be independent of any nominal label, but strictly related to its role and responsibilities.

2.7 Code of Governance for pension Plans

Governance entails four main tenets namely; leadership (setting the strategic direction of the organization and setting up structures to accomplish the objectives), stewardship (guarding resources that belong to others), monitoring (receiving and reviewing measures of performance and hold the assignees accountable) and reporting (accounting to the principals). Attempts to develop a governance code for pension funds have revolved around these tenets. The initiative includes Clapman *et el* (2007), Ambatchsheer (2007) and CFA (2008). In summary, key specifics that emerge from the initiatives forming the code of governance for pension system are; board composition, leadership, continuous education of the board, liability insurance for the board, avoidance of conflicts of interests, communication with the stakeholders, formulating and implementing effective systems of control, monitoring and performance of service providers, clear definition of roles of the stakeholders, outsourcing key functions and having a performance measurement system.

2.8 Who are public pension fund stakeholders

To develop an understanding of the appropriate governance structure of public pension plans it is necessary firsts to identify the stakeholder groups and their interests. The three key stakeholder groups relevant to this analysis are the fund participant, the government, and the taxpayers. The fund participants group includes active members (the current contributors), retired members (those currently receiving benefits), and survivors and dependents of fund participants. The membership of this group can be broad or limited, depending on whether the pension fund is a national scheme or a specific civil service group. This stakeholder group clearly has the most direct interest in the pension system's performance (Mitchel, 2002). In the United States and the United Kingdom, the law governing private pension funds requires that the fund be managed solely in the best interests of participants and beneficiaries. This stakeholder group has an interest in the amount of their beneficiaries. This stakeholder group has an interest in the amount of their benefit, in the assurance that they will receive those benefits at a future date, and in the size of their contributions to the fund.

A second stakeholder group is the government, which has an interest in the administrative costs of running the plan and in the performance of the pension fund's asset, as these factors influence the amount of the government's contribution for pension fund plans. As an employer (in the case of civil service plans), the government is interested in the financial health of the plan for its impact on the stability to recruit new employees and retain existing employees (Mitchell, 2002). In addition, the financial health of the plan can have an impact on pay and benefit negotiations with employee representatives. The government, however may desire to use the plan's assets to further other government objective, such as making investments to help the local economy.

Finally, taxpayers are natural stakeholders of any defined benefit (DB) public pension fund and any defined contribution scheme with minimum return guarantees. In a DB plan, the beneficiary is given set retirement benefits based on a formula that considers years of employment, salary, cost of living adjustment, and other factors. The pension fund sponsor must make sure that the assets of the fund are sufficient to provide for current potential liabilities (ie., the payment of benefits to retirees). In this situation, the taxpayer bears the ultimate obligation to maintain adequate funding levels. If a pension fund obtains sufficient market returns through investment, the government may lower its contribution to the fund, which means it may direct lower taxes or use those funds or other projects. If market performance is poor and liabilities exceed assets, the government will have to use taxpayer money to increase the plans assets; this will result in either an increase in taxes or fewer available funds for other government services. Funding problems in civil service plans can have other effects for taxpayers: for example, significantly underfunded pension plan can reduce property values, due to the expectation of future tax increase, or reduce or credit ratings of local government (Mitchell, 2002).

2.9 Public Pension Funds Performance

In the public sector, performance is indicated by providing information of the efficiency and effectiveness of programs designed to address issues of public interest. These issues may include the quality of services; public safety and healthy; and many other environmental, social and economic issues. As a result, performance indicators are a useful means of considering efficiency and effectiveness in all organizations.

Once an organization has analyzed its mission, identified all its stakeholders, and defined its goals, it needs a way to measure progress toward those goals. The measurements are known as key performance indicators (KPIs), Yamabana (2004).

KPIs are quantifiable measurements, that reflect the critical success factors of an organization and these differ across organizations. A business may have as one of its KPI as the percentage of its income that comes from return customers. All organizational KPIs must reflect the organization's goals, related to its success, and must be quantifiable.

Table 1: Examples of KPIs in an Organization

Performance Dimensions	Types of Measures
Competitiveness	Relative market share and Position Sales growth, Measure customer base
Financial Performance	Profitability, Liquidity, Capital Structure, Market Ratios
Quality of Services	Reliability, Responsiveness, Appearance, Cleanliness, Comfort, Friendliness, Communication, Courtesy, Competence, Access, Availability, Security
Flexibility	Volume Flexibility, Specification and Speed of Delivery Flexibility
Resource Utilization	Productivity, Efficiency etc
Innovation	Performance of the Innovation Process, Performance of individual innovations.

Source: Lin Fitzgerald, Robert Johnston, Stan Brignall, Rhian Silvestro and Christopher Voss, (1997) Journal; "Performance Measurement in Service Business"

KPIs in Social security schemes

In order to plan a set of social security indicators, it is indispensable to understand the objectives of social security and analyze its key elements in an organized way.

Social security scheme functions well under three conditions, namely:

- i. Well established Legal framework that is in line with sound social security principles which included wide coverage and appropriate benefit level.

- ii. Presence of efficiently functioning governance of management complying with the established legal frame work. This practically implies efficient contribution collection benefits disbursement and controlled administration costs,
- iii. Sound financing system that guarantees the scheme's sustained operations which include affordable level in the national economy, appropriate contribution level, and efficient investment.

2.10 Governance and Performance

A relatively large body of the literature from different authors such as Ambachtseer (2001), Iglesias and Palacios (2000), underlies the importance of governance for the performance of public pension funds, for instance, Iglesias and Palacios (2000:35) observed that the worst returns are produced by publicly managed pension funds in the countries with poor economic performance records. Among public funds, many countries impose a minimum quantitative floor for assets to invest in governance paper. Additionally politicians are often allowed to have a say in the investment policy of social security funds. Obviously, these policies can greatly reduce the credibility of the macroeconomic stance in countries with poor record of economic stability. For instance, in the Philippines, the social Security System (SSS) and the government Service Insurance System (GSIS) are offered tax-free government bonds that remains tax free to the extent that they are not subsequently traded effectively, hence forcing the two social security institutions to hold these assets until maturity. In Singapore, the central provident fund is required to invest a large share of its assets in non-marketable government securities. In the Philippines, SSS and GSIS were often instructed to provide direct lending to industries to which commercial banks refused to lend,(Iglesias and Palacios, 2000).

In Mexico, as well as in the Philippines, a large share of pensions' contribution have to be invested in housing. The real returns on the assets of these "specialized" institutions have been rather disappointing (Impavido, Musalem and Vittas, 2001). Also, as discussed in Mitchell (2002), the Malaysian Employee Provident Fund was used to keep insurers solvent, and the Korean Pension Fund was forced to lend two-third of its assets to the ministry of Finance for social purposes. The Korean investment companies (mutual funds) have received loans from the central bank with the mandate that they must support the stock market. Most of African social security plans are required to invest in mortgage loans and often asked to be direct developers.

The Alaskan retirement system lost around US\$80 million from its housing investment (Mortgages and real estate) when the price of oil fell and with it the value of properties and the availability of borrowers to repay the loans (Impavido, 2002).

Even countries without explicitly social mandate for pension funds, often limit investment abroad with the intention that local savings should be used to develop the local economy. Fontaine (1997) surveyed the Chilean experience with foreign investment by pension funds and concluded that there are no good microeconomic reasons to treat international investment by pension funds differently from local investments. Instead, foreign investments by pension funds should be subject to the same rules of diversification applied to domestic investments. According to Impavido (2002), policymakers should allow foreign investment by public pension schemes in order to diversify away local risks. Countries that need to impose foreign investment restrictions on the stock of contractual savings assets (public or private) because of balance of payments concerns are countries that have unstable macroeconomic environment. These countries need to stabilize their economies first. The pension funds in Tanzania are not isolated either, they are prohibited to make investment abroad, and this is a policy issue.

Ambachtseer (2001) found out (in private pension schemes) that organization performance is strongly collated with governance indicators. In his study, fifty private pension executives were asked to list the most important drivers of organization performance. Six out of the eleven performance drivers identified are statistically significant at the 5% level and belong to the category of good governance.

In summary, governance has a significant impact on the public pension performance. The overall picture somehow is inconsistent and mixed. Evidence from developing countries, indicates that the poor governance (that is the inability to isolate fund management from political risk) is important determinant of poor performance.

2.11 Public Pension Governance Standards

2.11.1 Implications for the Governing body of public pension fund

Public pension funds clearly need a strong governing body. Compared to corporations, for which there are available a variety of external and internal control mechanism, for public pension the board essentially the only available control.

2.11.2 Role and Responsibility of the governing body

A pension fund should be governed and monitored by individuals who have accepted the responsibility to keep the shareholders' objective for the business clearly in mind. Hence, pension governors should be responsible for the performance of the fund. They may not necessarily be required to devote their full-time and attention to the pension plan's affairs, and they are not expected to manage the plan on a daily basis. However, they are expected to oversee the business and affairs of the plan. Ongoing management of large plans should be delegated to a senior manager or group of managers who are responsible to and report to the board on a regular basis. In other words, governing, functions and responsibilities should be clearly separated from managing functions and responsibilities. Different individuals should belong to each of these groups, (Iglesias and Palacious, 2000).

The governing body can be divided into separate committees with separate responsibilities, such as for investment, auditing, human resources and compensation, and governance. Government bodies should have a process for evaluating their own performance and that of their committees. In particular, the investment committee should establish both an investment policy and an implementation policy covering issues such as asset allocation and active versus passive management (Impavido, 2002).

Management fiduciaries should be responsible for the day to day operation and execution of the policies established by the board, and they are bound by their fiduciary responsibility. They should be constituted as independent from the board but still report to the board through a chief executive officer. This is typical of large funds. However, smaller funds might decide to outsource specific functions, such as asset management, to external providers in an effort to reduce the large sunk costs of many aspects of pension fund management. Notwithstanding outsourcing arrangements, integrated management is essential. Even though oversight is separated from management, the presence of a CEO ensures that the pension fund is managed as an integrated business entity (Impavido, 2002).

In summary, the governing body should represent the best interests of the stakeholders. For public pension funds, these stakeholders include, among others, the government, plan

participants, beneficiaries, taxpayers, and eventually other government agencies. The responsibility of the board should be to review and approve policies and strategies, provide oversight of management, and compensate management according to its performance. Management should be responsible for all aspects of the ongoing operation of the organization within the approved policies, strategies, plans, and budgets. It should implement policies, strategies, annual business plans, and budgets and present them to the Board for approval.

Hence the board may have control over a wide variety of decisions with respect to the fund, including the setting of actuarial assumptions, investment of fund assets, setting of benefits and other decisions that relate to the management of the fund. In this sense, the governing body of pension fund is more involved in the running of organization than is a corporate board of directors. Where a corporate board may assist in the general setting strategy, it serves mostly to provide advice to management and to monitor management's behavior on behalf of shareholders. In public pension funds, the board typically takes on an active management role, including delegation to professional managers, in addition to monitoring the pension fund staff.

In the United States, the board typically has authority over investment decision, For example, a sample of state and local pension funds in 1998 showed 88 percent of funds to have investment authority. For the remaining 12 percent, investment decisions were most likely made by a state investment board that is separate from the board of trustee (Hess and Impavido, 2000).

One of the key roles of the board is to develop and investment strategy that maximizes returns at a risk level tolerable to the fund's stakeholders and that provides sufficient liquidity to meet benefit payment requirements (Mitchell, 2002). To establish a strategy that is right for the fund, the board must decide how to allocate its assets and who will manage the funds: should it outsource to a private firm or employ the fund's own staff to conduct investments.

2.11.3 Accountability and Information Disclosure

Without a system of accountability, governance cannot be improved, In general, separation between ownership and management dictates that the governing body (The board) should report to the fund stakeholders, and management should report to the board. This principle should be supported by a strict system of internal control that regulate the activities of fiduciaries and commitment to public transparency and reporting (Igleasias and Palacious, 2000).

Two functions should be instituted to ensure accountability: auditing and custody. Although auditing can be provided internally, it should be provided externally as well. The financial activities of the fund should be audited on a regular basis. The auditor should be required to verify that the fund activity complies with all relevant regulations. The auditor also should conduct a periodic actuarial evaluation of liabilities and provide an analysis of funding levels. Obviously, custody should be provided externally only by an independent financial institution. The main function of the custodian is to carry out securities movement and control. The assignment of custody responsibility to an entity other than the asset manager is an efficient way to ensure the physical and legal integrity of the assets and to oversee the transactions of the asset manager. For public pension plan, an ideal custodian would be truly independent central bank. These internal controls and disclosure rules are commonly in place in institutions with a good system of governance (Igleasias and Palacios, 2000).

The Namibian Pension fund (GIPF) generally complies with these principles of accountability and disclosure. The GIPF has also engaged an investment consultant, who advises the board and the investment committee on the selection of asset managers and also the investment strategies and policies. The board has an audit committee. However, actuarial evaluation of liabilities and analysis of funding levels are not done externally. Even if external procurement were made, The Namibian regulations would prevent the GIPF from using the services of firms not incorporated in Namibia (Impavido, 2002).

As for the Irish National Pension Reserve fund, has included in its statute all regulations on disclosure applying to Irish private pension plans. These include a requirement for a detailed annual report with information focusing on expenses and charges, investment performance, and clear statements on how investment performance compares with the investment strategy and objectives. Valuations of the fund are performed at regular intervals, both independent evaluations and independent assessments of the investment performance. Finally there are requirement for an annual audit of the accounts by the controller and auditor general (Impavido, 2002).

The OECD guidelines propose disclosure of information to active plan participants and beneficiaries. This is supported by Impavido (2002). The author postulates that all plan members

should receive information on the objective of the fund, its agenda to achieve the stated objectives, and the rights of the plan members.

2.11.4 Structure and qualifications

Corporate governance research suggests that large boards can be less effective than smaller boards. Jensen (1993) and Lipton and Lorch (1992) find a negative size effect in board of seven or more members. Yermack (1996) corroborates these findings. For pension funds, Impavido (2002) postulates that the number of board members should be limited to maximize the effectiveness of the board. However, since all stakeholders such as employers, unions and old age beneficiaries wish to be represented in the board of trustee, there is a natural trade-off between representation and expertise. I agree with Clark, Caerlewy-Smith, and Marshall (2007) and postulate that members of the board should be selected for their expertise. In case the board or the investment committee does not have the sufficient expertise, direct access to external know-how is of great importance. This is supported by the OECD guidelines and by Clark, Caerlewy-Smith, and Marshall (2007).

In many countries, the governing bodies of public pension funds are populated with representatives of interested parties. This usually means the government, as plan sponsor or employer, some form of representation of private sector employers, and some form of representation (usually unions) of contributors. For instance, the governing body of the Korea National Pension Fund follows this model. The fund Operating committee, the governing body, is composed of twelve representatives of the insured and seven government representatives (Han, Sung-Yun, 2001).

The Namibian governing body (GIPF) is composed of nine members, three appointed by the office of the prime minister, three appointed by recognized labour union, and three appointed by the public service commission (Hango and Jensen, 2001).

The governing body of the Indian Employee Provident Fund (EPF) is composed of thirty seven members; the minister of labor, the central provident fund commissioner, five federal government representatives, five state government representatives, ten employer representatives, and ten employee representatives (Rao, 2001). The chief executive officer of the EPF is also on board of governors, violating the principles of separation between governing and managing

fiduciaries. What comes out of this structure is the presence of discretion and varieties in structure of governing bodies of public pension schemes (Rao, 2001).

In general, due to the absence of proper incentive mechanisms in the appointment procedures of governors/trustees, these tripartite Boards can be directed by fiduciaries not necessarily fit and proper for their role. Indeed, the main concern about tripartite Board is their lack of independence. In many developing countries, the politicization of representatives on the board often means that funds are invested imprudently and not necessarily in the interest of beneficiaries, But rather in the interest of sponsors. Even in more developed countries, it is possible to link the difference in performance between the private sector pension funds and public pension funds to the composition of their respective boards of governors (Impavido, 2002). Mirchell and Hsin (1997) argue that a possible explanation as to why the investment portfolios of U.S. public pension plans yield consistently lower rates of return than portfolios of the private sector pension fund is that the two sets of funds operate under different rules. Private sector funds are managed by professional and qualified governors, with a clear economic mandate, while public pension funds are managed by staff responding to economic as well as political pressures. It is thus hypothesized that the better performance of private pension fund results from professional nature of their governing fiduciaries.

Mitchell and Hsin (1997) then tested the hypothesis on relationship between presence of active employees and retired beneficiaries in Board and performance. They found that the presence of retired beneficiaries on the governing body is associated with lower returns and conclude that either the type or the inappropriate selection of governors negatively affects performance consequently.

Mitchell and Hisn (1997) came up with two questions on: What are the appropriate qualifications for governors? And how can independence of governors from political power are ensured?

They urged the prudence (and logic) should demand the following from a governor of public pension plan:

- Governors should understand financial markets, risk management, and actuarial principles,

- Governors should be prepared to study and understand the promise and policies of the pension plan,
- Governors should clearly understand their conflicts of interest and commit to resolve them in favor of the plan's beneficiaries,
- Governors should enunciate and follow an appropriate code of conduct, behave only in an ethical fashion, and clearly understand their fiduciary duties and
- Some basic criteria should be used in selecting governors so that persons without the moral status required by the position are excluded. Thus governors should not have been convicted of any criminal offence or have received significant civil penalties in relation to the administration of a pension plan or its governing body or they should not have been involved in insolvent or bankrupt companies.

MacNaughton (2001) discusses the Canadian experience on the impact of governing structure and pension funds. The twelve members of the board of the Canada Pension Plan Investment are selected for their investment and business expertise in areas such as economics, accounting, actuarial science, finance, investing, banking, and business in general. The requirement, for relevant expertise and experience is set out in legislation. This is quite different from most of the public pension funds around the world, which typically are governed by nominees or representatives from government, unions, and employers. For example, MacNaughton (2001) Proposes a governing body and structure consisting of qualified and independent governors, a transparent and credible mechanism for appointing governors and an open and transparent process in which the sponsor consults independent bodies, such as the parliament or other expert committees.

Narsaw (1976), on the other hand proposes use of external experts such as first class firm of stock brokers to fill in experiential gaps on the governors' side. Narsaw views are that, most governors must not be investment analysts but were expected to exercise common sense that will help them in assessing what is happening.

2.11.5 Role of Regulation in Performance of Pension Funds

Specialized regulatory bodies for regulating public and private pension funds are essential components of corporate governance. The role of regulatory bodies is to enhance opportunities for the private sector participation, and strengthen competition or contestability through appropriate licensing tariffs policy and tariff revision mechanisms based on principles of visibility and automaticity. In developing countries, Governments set up old age benefit schemes to provide social protection and to generate development capita. Governments generally grant tax concessions and differing tax on contributions and exempting social security schemes investment income. Thus, Governments have an interest in all aspect of operation of the social security schemes they have established.

In comparison with other institutional investors, pension funds are highly regulated in developed countries. For instance, in the United States, the 1974 Employee Retirement Income Security Act (ERISA) is the principal instrument for government Regulation of pension funds, the securities and Exchange Commission (SEC), The internal Revenue Service (IRS), And the department of Labour govern rules of operation and required information disclosure (Impavido, 2002). In USA the following regulatory changes have made an impact upon Pension Fund investment.

- In 1979, the introduction of the “prudent man (Investor)” rule allowed pension funds to begin to diversify into higher-risk investments.
- In 1980, the “safe Harbor” regulation enabled pension fund shift investment into venture capital by limiting the institution risk borne by the pension fund.
- In 1988, courts ruled that pension funds were obligated under ERISA to vote corporate proxies in a manner consistent with the fund’s governance requirements.

In the USA, each pension fund has specific operating and investment guidelines that are established during the incorporation process and are periodically updated based on shareholder resolutions, trustee actions, and some government guidelines. Voting procedures of any pension fund can be altered by employee vote or a change in voting guidelines administered by the Board of Director, (Impavido, 2002).

2.11.6 Disclosure of Interest by Directors

On appointment and on continuous basis, all directors should in good faith disclose to the Board for recording any business or other interest that is likely to create a potential conflict of interest.

2.11.7 Investment strategy

The implementation of the investment strategy requires in a first step a clear regulation of the investment process. For this purpose, pension funds normally define investment regulations. Brandenberger and Hilb (2008) provide an overview of the key elements of best practice investment regulations. Best practice investment regulations should cover objectives and general principles, investment organization, investment guidelines, and controlling and reporting. In addition, investment regulation should govern accounting, loyalty in asset management, and the exercise of voting rights. Furthermore, the implementation of the investment strategy requires detailed investment reasoning, as proposed by Clark and Urwin (2007) and Monk (2007)

2.12 Other Factors Influencing Pension Fund Performance

Corporate Government is not the only factor that can influence performance in pension funds, Selemani (2004) has pointed out that private pension funds performance focus on strategic asset allocation, He argues that in public pension funds, these discussions are largely determined by mandates and restrictions imposed on public pension fund management. Assets allocation decisions are largely political and have little to do with application of portfolio theory. Furthermore, public managers tend to use criteria that ignore the concept of risk.

Mwamoto (2003) found that poor performance in pension funds is caused by funds failure in their assets allocation over the years to comply with their respective investment policy. Igleasis and Palacios (2000) assert that political influence continues to put undue influence on pension funds.

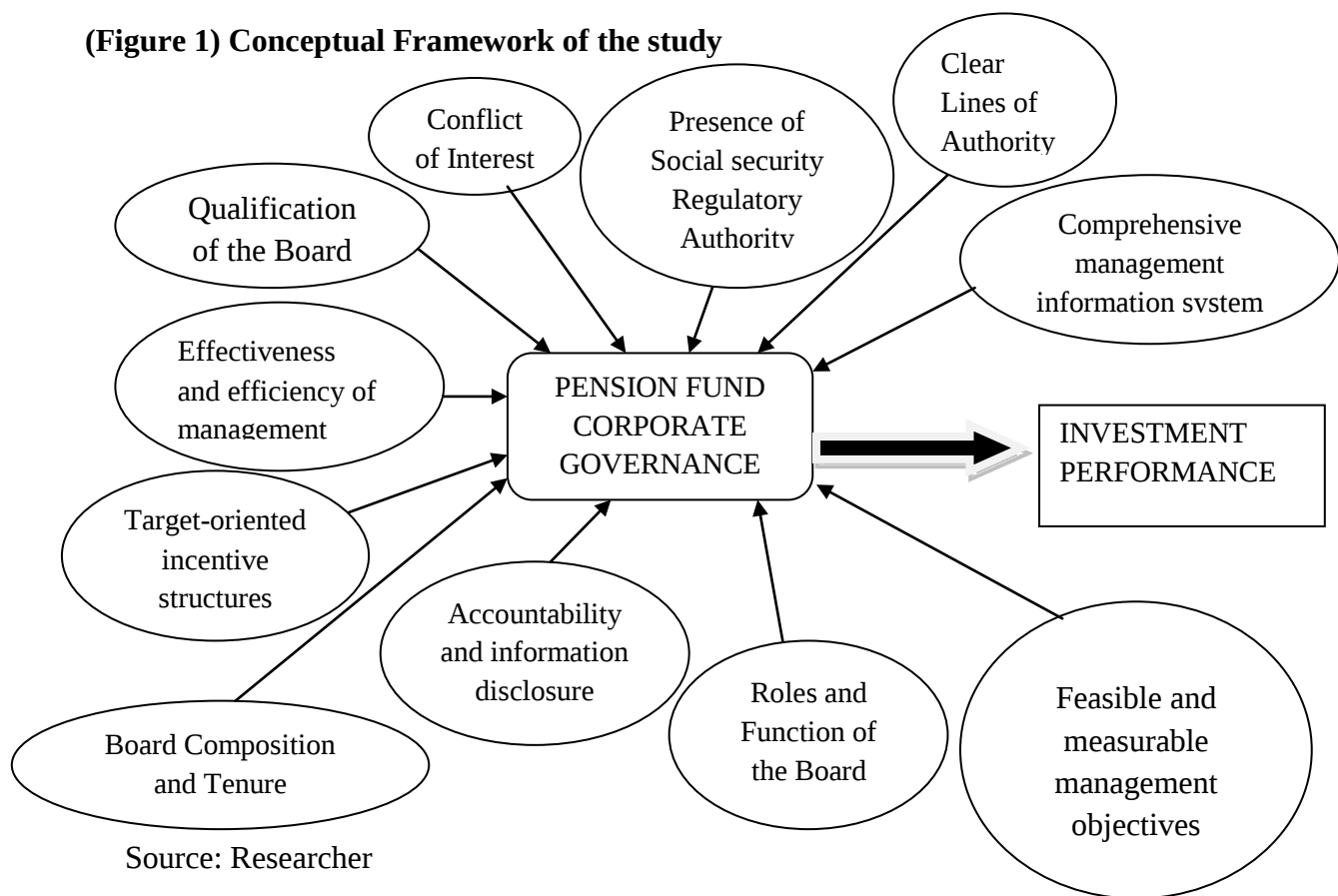
The issue of time value of money due to inflation is not also considered in pension schemes in Tanzania. Studies on future earnings of security members given time value of money were made and suggested that, the potential of the fund to diversify in banking business with an aim of improving members' benefits could enhance and improve the interest rate credited to members' accounts, (Baruti, 1997). The UNDP report (1993) showed that the NPF's rate (In Tanzania) of

return for members account was improved and would reach 15% although this rate was below the inflation rate by then.

2.13 Conceptual Framework

Based on the literature already discussed in this chapter, this study will adopt the following Conceptual Framework:

(Figure 1) Conceptual Framework of the study



The government constructs the basic legal framework underpinning corporate governance in pension funds. Since the government is the guarantor of pension funds and also determines formation of the Funds' Board of trustees, then there is a big chance that it may influence Funds' decision making. The governing body, in this case, Board of Trustees plays a major role in the performance of pension funds. It establishes policies and strategies which focus on achieving the Funds' goals.

Clear lines of authority minimize misunderstandings and give rise to an efficient decision making process. Clapman (2007) and Clark and Urwin (2007) confirm that clear lines of authority are principal component of good governance. Similarly, the OECD guidelines postulate clear identification and assignment of responsibilities. To comply with good governance, Pension funds therefore require organizational regulations that clearly identify and assign the most important areas of responsibilities of the different pension fund bodies. In addition the researcher concur with Brandenberger and Hilb (2008) and state that the most important responsibilities should to be detailed in a function chart.

Board composition is perceived as one of the key issues by many authors (e.g., Ambachtsheer (2007), Clark (2007), Clark, Caerlewy-Smith, and Marshall (2007)). To comply with good governance, a board of trustees must consist of adequately qualified and experienced individuals.

It is highly imperative to safety of retirement income that the board of trustees approaches and solves problems in a timely manner. This requires that target deviations are identified and understood as early and as fast as possible. Therefore, Brandenberger and Hilb (2008) state that a comprehensive management information system is essential for pension fund. An information concept builds always the basis of a management information system. Brandenberger and Hilb (2008) provide an excellent overview of information and data that should be provided by management information system, they proposed the following management information be made available on a monthly basis: estimate of current funding ratio, effective asset allocation, performance of total assets, Policy return, Performance per asset class, performance of perspective benchmark indices per asset class, performance per mandate , and performance of the respective benchmark indices per mandate. For the sake of clarity, this information should be available in a consolidated report.

Cost is important because they reduce the rate of return on investments (Bikker and de Dreu (2006)). Therefore, Pension funds should have transparency on the development of their administration and asset management costs. To facilitate a better assessment of the cost-efficiency, administration and asset management costs should additionally be benchmarked against other comparable pension funds.

The OECD guidelines propose regular assessments of pensions involved in the operation and oversight of the pension funds. However, regular assessments require measurable management objectives. Hess and Impavido (2003) provide examples of potential board objectives such as improvement of the funding ratio, size of the investment return, and reducing administrative costs, in addition, a job description defining general tasks, functions and responsibilities is recommended for the chief executive officer. Based on the job description, the pension fund should define binding objectives for the chief executive officer preferable on a yearly basis.

Management objectives alone are not sufficient to encourage good decision making. In line with the OECD guidelines, we believe that target-oriented incentive structure is required to comply with good governance.

CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is an approach the researcher uses in the study to investigate a problem. Methodology refers to the philosophical basis on which the researcher is founded (White, 2000). According to Kothari (2008), research methodology is an approach researcher use to investigate the problem based on the philosophical basis on which the research is found. The study was conducted through qualitative approach. Qualitative approach helps research to know how the respondents view and understand the world and construct meaning out of the experience (Silverman, 2004). Bryman (2008) provided that qualitative research is much more accountable to provide a great deal of descriptive details when reporting the result of the research.

This section presents the methodology that was used to conduct the study. The research design, Research area, population of the study (unit of enquiry), sampling procedure and sample size, type of data to be collected and data collection methods, and parameters of interest used.

3.2 Research Design

Research design is the overall pattern in which the study was conducted. It describes what and how the data were analyzed and interpreted in order to provide good answer to the basic research questions. White (2000) also defines research design as a general term that covers a number of separate but related issues associated with the research. It is the arrangement of conditions for collection and analysis of data in manner that aims to combine relevance to the research purpose with economy procedure (Kothari, 2004).

The study is confirmatory from three major pension funds in Tanzania namely PSPF, NSSF and PPF. Hair et al. (1995) suggest that confirmatory studies are those seeking to test (confirm) a prespecified relationship,

3.3 Source of Data

Three pension funds schemes were studied, namely Parastatal Pension Fund, National Social Security Fund and Public Service pension fund, The study took place in the headquarter of the selected schemes this was for ease of accessing historical data, and officials responsible for investment decisions for the three pension funds. To the extent the research was more of a library research, the libraries of NSSF, PPF, and PSPF were the most important source of secondary data.

3.4 Population of the study

The population for this study encompassed the management teams, investment and planning staff and contributors (members) from the three selected schemes.

3.4.1 Sampling Design

Stratified random sampling and purposively sampling will be used for this study. The study will group the target population into relatively homogeneous subgroups then random sampling will be applied within each stratum. Simple random sampling will ensure that there no bias among the respondents as all the respondents have equal chances of being selected to participate in the study hence simple random sampling technique has been deemed suitable for the research study. In selection of the staff and officials from the selected schemes researcher used purposively sampling. The criteria for selecting the respondents in this group based on their experience, knowledge and participation in the scheme activities. Also, they were considered crucial in providing the relevant information to enrich the study

3.4.2 Sampling size

Due to limited resources, time and money, it was not possible to collect data from the all members of the schemes under study. A convenient and manageable sample size of 30 members from each scheme was identified for the study and all top management officials and investment committee team of the selected schemes were taken in the study. The sample size took into consideration the study's sampling design.

Table 2: Sample Size

Pension scheme	Management of the scheme	Investment and planning team	Members/Contributors
NSSF	3	4	30
PSPF	2	3	30
PPF	3	3	30
Total sample size	8	10	90

3.5 Data Collection Techniques

Methods of collecting data are conditional upon two important factors; the material under study and the type of information required. In this study, data collection was done from both primary and secondary sources. Secondary sources included published materials, pension schemes financial reports, and other previous relevant research reports. Primary sources included personal interview and questionnaires. The selection of data collection techniques geared toward eliminating subjective bias in obtaining information on what is currently happening. Also, the researcher intended to get accurate and in depth information related to the research problem.

3.5.1 Personal Interview

Personal interview refers to semi structured interview (mix of more or less structured questions) where the interview is guided by a set of questions and issues to be explored. This type of interview is conducted to the management of the schemes, investment and planning teams and the beneficiaries of the selected schemes. It is a two ways systematic conversation between the informant and an investigator who initiates conversation for obtaining information relevant to a specific study.

3.5.2 Questionnaires

Self administered questionnaire method was used. Questionnaire is a schedule of questions in which respondents fill in answers (Ndugunru, 2007:94). The researcher delivered the questionnaires to the potential respondents with request to complete them at their convenience,

and after a day or two the researcher collects them. In the study questions 90 in total were distributed with the questionnaires and lucky enough 87 were returned. And for the case of the officials of the scheme total number of 18 questionnaires was distributed. Type and number of questions distributed is attached in appendix A

Questionnaire method as the method of primary source of data collection has the following weaknesses:

- The response rate of questionnaires was low hence the resulting sample is not a representative one,
- It was difficult to determine degree of representativeness of a sample obtained by the questionnaires,
- Information on the personal characteristics of the respondents of the respondent and his environment was not secured,

Although the method has some limitations, the researcher had the responsibility of planning a well focused questionnaire whose questions asked covered adequately and in sufficient detail all the various aspects of the research problem under the study. The method facilitated the collection of data at minimum cost and gave respondents chance to provide their views on the corporate governance and investment issues. The types of questionnaires used were structured to comprise both closed and open ended questions. Open ended questions captured free responses from respondents. Despite the fact that the close ended questions lack expressiveness, they give an opportunity to the researcher to guide the respondents in being more objective as well as consuming less (Kothari, 2003).

3.5.3 Documentary Review

There is no single source of information that can provide a comprehensive and complete perspective on the study (Merrian, 1998). So, it is important for a researcher to employ multiple sources of data so as to get a wider spectrum of information of the study. In that way, therefore published and unpublished materials were used in collecting information to supplement the primary data. The documents were obtained from the offices of the respective schemes, on the World Wide Web (WWW) and to other related sources.

According to Ndunguru (2007), the documentary review allows the comparative study to be carried out, provides opportunity for research replication, permits improvement of measuring certain variable; and in terms of cost, it is considerable cheaper than the primary data.

The method enable the researcher to access some specific information which can be used for reference purpose. Also, the information can be used as a sole source of information for the research under the study. Information also may be used as benchmark against which the findings of research may be tested or compared.

3.6 Data Processing, Analysis and Presentation

Data analysis will first be analyzed according to descriptive information following the research questions. Descriptive statistical analysis will be employed, this enable the researcher to reduce summarize organize, evaluate and interpret the numeric information. Descriptive statistics will be used because they are easy to analyze and convenient for the researcher and the study. The findings will be presented by use of tables, and percentages because they are also easy to use and analyze.

CHAPTER FOUR

PRESENTATION OF THE FINDINGS

4.1 Introduction

This chapter summarises the results of the study by presenting the data. The work is organized into two categories; first it presents internal information obtained from the investment and planning staff, and the management team; second it presents external information obtained from the stakeholders.

4.2 Internal information

As pointed before, the study dwelled on the three pensions fund in Tanzania namely the NSSF, PPF and PSPF.

4.2.1 Ownership

Pension funds under this study are publicly owned. These funds were established by the acts of parliament and are sustained by member's contributions.

4.2.2 Board of Trustees composition and Tenure

Board member's composition is given under the respective pension funds act as follows:

The National Social Security Act 1997 defines the members of NSSF Board as follows;

- a) A chairperson who shall be appointed by the president,
- b) Three representatives from the association of Tanzania Employers (nominated by the association and appointed by the minister for finance),
- c) Three representatives from the Tanzania Federation of trade Unions(Nominated by the federation and appointed by the minister for finance),
- d) Three representatives from the Government (Appointed by the minister for finance),
- e) Person holding or acting as principal secretary to the ministry responsible for social security matters, who shall be an ex officio member (The ministry responsible in the ministry of labour, Employment and Youth Development).

The PPF Act No 14 of 1978 as amended by Act no 25 of 2001 defines members of the Board of Trustees as follows

- a) Chairperson who shall be permanent secretary in the ministry of finance,
- b) Not less than four and not more than eight other members appointed by the minister for finance.

The PSPF Act 1997, part VI section (25) defines the Board of Trustees of PSPF as follows:

- a) Chairperson who shall be permanent secretary of the Ministry of Finance.
- b) The permanent secretary to the civil service.
- c) The attorney General.
- d) The governor of the bank of Tanzania.
- e) The secretary general of the Trade union of Government Employees.
- f) The treasury register
- g) Three other members appointed by the minister being:
 - Two representatives from the Trade Union of Government employees, of which one shall be a woman,
 - One representative from the civil service.

Tenure of office has been stipulated in all respective acts to be three years and the members are eligible for renewal.

Composition

Governing bodies of public pension funds comprise representatives of interested parties. This usually means the government, as plan sponsor or employer, and some form of representation (usually unions) of contributors. In all cases, the Boards have that structure (tripartite Boards). Good corporate governance practices recommended that an ideal board: the chairperson should be a non executive member and the composition of the board should consider gender balance, geographical distribution, ethnicity, age, occupation, experience, and education of the directors.

From the acts, except for the PSPF, the NSSF and PPF membership structure of their Board does not indicate a specific post. However in the PSPF Act No.2 of 1999, the membership structure of 6 board members is defined according to their position/posts. Only three members who are

representatives from Trade union and civil services can be appointed by the minister and do not directly target a specific position.

Due to the nature of the Board's composition and the structure of the three pension funds, it was observed that, the NSSF Act of 1997 second schedule stipulates the nomination and appointments of the board members to be made amongst person with experience in social security, financial matters or administration. The PPF act 1978 has delegated the appointment of Board member s to the minister for Finance. Therefore the issue of professional qualification is left upon the discretion of the minister. According to the information obtained from interviews and annual reports, the PPF Board of Directors comprises of lawyers, economists, accountants and social science professionals. On the other hand, PSPF Act 1997 section 52 defines the composition of its Board members by their job positions. Furthermore, the PSPF Act recognized gender in the Board of trustees. PPF and NSSF acts did not emphasize on gender despite that, in practice, all the three Boards have male and females representative.

Tenure

From the literature it is recommended that the Board should have fixed service period, normal not exceeding five years, with provision to renew subject to regular performance appraisal. In all cases, the tenure of office is three years subject to reappointment. However, given the fact that six members of PSPF Board are selected by the virtue of their positions, the applicability of the tenure of office may be questionable.

Stakeholders Views

From the stakeholders views, professional qualification play an important role in performance of the pension funds. For instance, 70% of the stakeholders argued that in the area of investments, the investments committees should have knowledge of financial markets, and actuaries, which will enhance better performance.

4.2.3 Appointment of the Chief Executive Officers.

The chief Executive Officers of the pension funds in Tanzania are denoted as Director General (DGs). In all the three cases, the President of Tanzania appoints the DGs of the pension funds. Proper recruitment procedure, following the Public Procurement Act (2004) whereby the post was advertised and an interview is carried out, Three names are proposed by the Board and submitted to the president for appointment. The practice where DG are appointed by the president might have some political reason rather than for their managerial skills (except in cases where the president is appropriately advised through a well constituted search team). In this view, this practice may significantly contribute to inefficiencies and mismanagement of the pension funds' operation. Another governance issue is the tilting of the lines of accountability, where the DG is recruited by the governing board the same is directly accountable to the same with DG and Board Chair being appointed by the president. The lines of accountability become masked, unclear resulting into lack of clear governance patterns.

4.2.4 Board Meetings

Ordinarily, the Board meets four times a year, however, extra-ordinary meetings are allowed where need arises.

Since the board delegates the day-to-day management of the Fund to the Director General, then Board of Directors is not expected to be involved in the same. Forums at which they dispense their functions and responsibilities are therefore periodic meetings of the Boards and Board committees. The Boards use these forums for interpreting organizational goals and objectives, determining and issuing policy guidance to management and charting out the road map for goal attainment.

A Board can only fulfill its responsibilities if it meets regularly and collectively with a clear agenda and recorded decisions outcomes. Regular Board meetings are therefore an essential aspect of good corporate governance practice.

Effective participation in Board meetings presumes that;-

- Individual members are fully conversant with the mandate and the organizational goals and objectives as set out in the respective enabling legislations.

- Individual members are already familiar with the way the organization carries out its business and the framework on which this is done.
- Members are fully prepared by way of studying thoroughly all board or committee papers and preparing in advance, their questions, remarks and general line of action.
- Members have working knowledge of primary financial statements such as the statement of performance of the pension fund and the statement of profit and loss for the same.

In practice, however, the above presumptions are theoretical. The findings show that the Board of Directors receives Board papers for review one or two days before the meetings and sometimes critical expenditure-related matters are introduced on the day of the meeting as a subsidiary agenda. This practice denies member the opportunity to digest and think over important issues as they are required to merely “rubber-stamp” the recommendations “tailor-made” by the management, or make impulsive decisions.

4.2.5 Roles, Functions and Responsibilities of the Board

The responsibilities of the board are similar in all the three funds, these include:

Policy-making and strategic role

The board is responsible for determining and approving corporate strategy and guidance and exercising oversight functions over the chief Executive and management. It is responsible for approving and reviewing the overall corporate strategies, policies and structures of the organization. The Board plays this important role by critically examining the fund’s future direction. Majority policy decisions taken by the board are normally logical extensions of the corporate strategic plan. These include:

- Investment decisions;
- Long-term and short term financing decisions;
- Decisions relating to terms and conditions of services for the staff; and
- Approval of management structures.

To exercise appropriate governance in policy decisions, the board is expected to serve as a check on the operating power of the Chief Executive. This study finding revealed that, in pension fund, these policy decisions are usually based on recommendations of the management from whom the

board receive adequate documentation and analysis in advance of the board meeting at which the decisions are to be made.

Monitoring Management's Performance

The board as already mentioned, is responsible for the proper management of the affairs of a pension fund. It is also accountable for the financial affairs of the fund. Ideally, therefore, the board is expected to evaluate management's ability to develop and implement plans as well as scrutinize management's performance in relation to the stated objectives, (Impavido, 2002). The Board is expected to do this by making periodic reviews and approval of strategic plans, approving the annual budgets, analyzing and discussing both financial and operational management reports and reviewing the audited financial statements.

The role of the board here is clearly that of monitoring managerial performance and ensuring that management has put in place effective internal control system; evaluating the CEO; evaluating its own effectiveness in preventing conflicts of interests; and balancing competing demands on the organization.

In practice, mainly owing to the caliber of persons appointed in most of these Boards, the role of the board in monitoring the performance of the management has been effectively carried out. For example, the financial statements of PSFP must be audited and approved by the Board before they are signed on their behalf and presented to the minister for finance and finally to the national assembly. The PPF Board of directors has been evaluating performance of the CEO on annual basis. The management teams of PPF, PSPF and NSSF present to the Board the performance reports on investment on quarterly bases and projections for the following quarter. The investment performances reports are evaluated against their respective projections and variances are explained.

4.2.6 Board Committees

The pension fund acts permit the funds to establish committees consisting of members of the board to deal with such matters as the Board may specify. The common committees in pension funds are:-

- Audit committee, which provides a direct point of contact, independent of management, between the board and the organization's internal and/or external auditor,
- Investment and Finance Committee, which deals basically with financial matters such as budgets, quarterly financial and operational reports. It also oversees all the capital investments made by the Funds,
- Staff Welfare and Disciplinary Committee, which deals mainly within matters relating to recruitment, dismissals and remuneration of staff of the Funds.

The mentioned committees exist in all the three pension funds under study

4.2.7 Succession Plans

Successions plans exist in the management level of all the three pension funds. The study finds showed that in most cases pension funds takes the following measures to implement succession plan:-

- Continuously improve job filling for key positions through broader candidate search, land faster decisions,
- Checking the actual pattern of job filling and whether planned individual development has taken place. Analysis of the gaps or surpluses revealed by planning process,
- Active development of longer-term successor through ensuring their careers progress, and engineering the range of work experiences they need for the future,
- Strategies for skill development of those skills which will be needed over the coming years.

For instance, PSPF experiences job rotation system in officers level, of which in a way enhances succession. Succession plans enhances performance since they provide continuity of the Funds activities under a situation where there is a gap of personnel.

4.2.8 Communication with stakeholders

NSSF, PSPF and PPF conduct scheduled seminars with its stakeholders (members) annually. They hold regional and national seminars. NSSF have seminars for big employers (in terms of contribution) as well. In addition the Fund communicates to its stakeholders through trade fares

participation and other media example, televisions, radios, printed materials and internet (website)

4.2.9 Accountability and Transparency

Accountability

The board of pension fund is responsible for the proper management of the affairs of the Fund. Just as a limited company is owned by shareholders and managed by directors, the Government represents the public who are the owners of pension fund. Thus, the Government through respective Acts of parliament appoints Board of directors to manage these corporations on its behalf as the trustee of the public.

The directors have, therefore a collective responsibility in the management of a pension fund. They have the absolute responsibility for the performance of a fund in meeting its stated objectives and obligations as a public body, and are fully accountable for this outcome to the responsible Minister. However, this doctrine of collective responsibility and accountability does not appear to be practiced in pension funds. From the study result, it seems Directors appears to have assumed that the Director General is fully and solely accountable to the Government since he/she is normally appointed by the president to run the day to day operations of the fund. As a corollary, Directors General may also assume to themselves the supreme status thereby wholly taking over powers of the Board. As a result the management may sometimes operate on their own without proper guidance and delegation from the Board. The study finding shows that, because some of the Board directors are appointed on either by the provision of their governing Act or discretion of the responsible Minister rather than on merit of their knowledge and experience, sometimes lack the necessary skills, knowledge, and experience to provide proper stewardship and control of the pension funds.

Transparency

The pension funds management teams present regular reports to the board of trustees for decision making. The PSPF Board of Trustees receives quarterly investment performance reports, and annual audited financial reports for discussions and decision making, likewise PPF Board of Trustees.

However, the study findings show some areas where things are done with limited transparency. These include recruitment of middle and lower staffs (officers) have been carried out without proper job advertisements and interviews, therefore not reflecting national outlook. In time, procurement procedures were not followed; particularly tendering procedures in awarding of contracts. However, of late the Government has been strict on procurement procedures and therefore adherence to proper procurement procedures is now a mandatory.

The collapse of some state owned firms was mainly due to mismanagement and abuse of corporate power attributable to lack of accountability and transparency in managing the affairs of the corporations. Since Tanzania pension funds are publically owned, they need due care to ensure that they do not follow the same line as other public corporations that ended up in failure.

Transparency improves governance and inspires confidence in the product and company alike. To achieve this, the consistent review of policies which guide pension funds is important, as is the public dissemination of accounts and quality reports.

4.2.10 Regulation of Pension Funds

In the year 2008, the Government introduced a regulatory oversight in social security sector by establishing the Social Security Regulatory Authority (SSRA) under the provisions of the Social Security (Regulatory Authority) Act No. 8 of 2008. This authority starts to operate in 2010.

According to the act which establish the authority, it explain the main duties and functions of the authority as follows;-register all managers, custodians and schemes, regulate and supervise the performance of all managers, custodians and social security schemes, issue guidelines for the efficient and effective operation of the social security sector, protect and safeguard the interests of members, create a conducive environment for the promotion and development of the social security sector, advise the Minister on all policy and operational matters relating to social security sector, adopt and promulgate broad guidelines applicable to all managers, custodians and social security schemes; monitor and review regularly the performance of the social security sector, initiate studies, recommend, coordinate and implement reforms in the social security sector, appoint interim administrator of schemes, where necessary, to facilitate extension of

social security coverage to non covered areas including informal groups; and to conduct programmes for public awareness, sensitization and tracing on social security.

Since establishment of this authority corporate governance and performance of the security funds have been improved this is due to the fact that the authority ensure the fiduciary responsibility. In particular, the authority ensure that each Fund have defined members. This harmonizes member recruitment among the Funds. The regulatory authority would also put in place investment benchmarks, guidelines and principles necessary to fulfill.

4.3 Funds Performance

The funds' investment performance indicators used in this study are the return on investments (ROI). From the funds financial reports the following was the performance for five years from the year 2006 to 2010 (Table 3, 4 and 5). The investments are categorized under three major groups as follows:

- a) Properties which include all the buildings for rent.
- b) Equity which includes shares acquired from listed and unlisted companies
- c) Fixed income Assets (FIA) which includes the government securities, fixed deposits, loans, commercial papers and corporate bonds.

Table 3: NSSF Performance Schedule from 2006 to 2010; Figures in Million Tzs

Property	2006	2007	2008	2009	2010
Amount Invested	108,292.55	182,908.64	198,558.00	200,440.72	251,538.26
Income	3,959.60	4,871.15	9,117.65	9,443.68	11,636.35
ROI	3.7%	2.7%	4.7%	4.7%	4.7%
Equity					
Amount Invested	96,911.50	61,047.41	62,988.00	69,303.87	77,999.77
Income	5,238.52	4,897.59	5,090.32	3,887.60	27,651.99
ROI	5.4%	8%	8.1%	5.7%	35.5%
Fixed income asset					
Amount Invested	325,448.59	426,323.97	596,135.15	759,461.59	887,086.47
Income	27,308.63	34,026.75	40,515.64	71,122.48	56,937.49
ROI	8.4%	8%	6.8%	9.4%	6.4%
Annual Inflation Rate	5.61	6.25	8.4	11.83	10.50

Source: NSSF annual reports 2006 - 2010

Table 4: PPF Performance Schedule from 2006 to 2010; Figures in Millions Tzs

Property	2006	2007	2008	2009	2010
Amount Invested	52,220.21	50,527.63	58,185.19	85,914.78	89,257.01
Income	5,407.39	5,568.69	5,562.81	6,349.52	6,526.06
ROI	10.4%	11%	9.6%	7.4%	7.3%
Equity					
Amount Invested	22,337.93	27,022.47	55,302.95	88,963.33	87,057.57
Income	3,291.14	3,440.47	4,063.74	2,117.40	4,057.86
ROI	14.7%	12.7%	7.3%	2.4%	4.7%
Fixed Income Asset					
Amount Invested	192,116.62	240,148.00	314,094.57	348,600.73	452,209.31
Income	16,030.13	21,982.74	31,366.91	34,072.54	34,733.91
ROI	8.3%	9.2%	10%	9.8%	7.7%
Annual Inflation Rate	5.61	6.25	8.4	11.83	10.50

Source: PPF annual reports 2006 - 2010

Table 5: PSPF Performance Schedule from 2006 to 2010; Figures in Millions Tzs

Property	2006	2007	2008	2009	2010
Amount Invested	0.00	1.78	3.86	13.51	31.05
Income	0.00	0.00	0.00	0.00	0.00
ROI	0.00	0.00	0.00	0.00	0.00
Equity					
Amount Invested	12.28	86.97	94.43	44.15	110.48
Income	3.03	4.42	4.25	2.37	3.09
ROI	24.7%	5.2%	4.5%	5.4%	2.8%
Fixed Income Asset					
Amount Invested	29.98	168.26	223.92	610.93	639.97
Income	2.68	40.01	54.24	54.51	61.50
ROI	9.9%	23.8%	24.2%	8.9%	9.6%
Annual Inflation Rate	5.61	6.25	8.4	11.83	10.50

Source: PSPF annual reports 2006 - 2010

The pension funds' performance on property investments of NSSF and PPF shows that the PPF outperforms the NSSF. The NSSF performance in terms of real rates of return is negative since the inflation rates for the covered period has been ranging from 5% to 10%. This can be explained by the fact that PPF rents are all pegged on US Dollars and therefore the fund hedge itself against exchange rate fluctuations. However, the PSPF have some investments but there is no income yet due to the fact that these investments are in its initial stage i.e. work on progress.

Equity and FIA has so far been performed well for all pension funds. Investment decision in listed equities and FIA (except for the loans) are done by the management of the funds, that means Directors General and their management teams.

4.4 External Information

This part presents other stakeholders views regarding their understanding of their schemes and the whole issue of corporate governance. The stakeholder refereed to her are the contributors of the respective pension funds. From each fund, 30 informed members were interviewed. (By word informed here mean the members who have an education level for first degree and above).

4.4.1. Members' awareness and service satisfaction

In terms of awareness and service satisfaction 48% of respondents were aware on the benefits offered, followed by 32% who were aware on investment made. The rest of the results are as shown in table 5 below.

Table 6: Members' awareness on benefits, investments and performance

ORGANISATION	BENEFITS OFFERED	INVESTMENT MADE	FUNDS PERFORMANCE
PSPF	50%	30%	31%
PPF	40%	25%	10%
NSSF	55%	40%	40%
Mean response	48%	32%	27%

Source: Field work.

44% of respondents were aware on the benefit satisfaction, customer handling and funds social responsibility (table 6). Higher percentage on benefits offered were observed from NSSF respondents (55%), followed by 40% of respondents from PSPF who were aware on customer care and social responsibility.

Table 7: Member satisfaction on benefits, customer handling and fund' social responsibility

ORGANISATION	BENEFIT OFFERED	CUSTOMER CARE	SOCIAL RESPONSIBILITY
PSPF	27%	40%	40%
PPF	50%	25%	21%
NSSF	55%	25%	39%
Mean response	44%	30%	33%

Source: Field work

4.4.2 Board Information

In all the three cases more than 60% argued that the nomination process of the Board of Trustees is not transparent to the public. More than 70% in both cases agreed with the fact that establishment of regulatory body enhance performances, responsibility and accountability and compliances to rules and regulations. However, majority did not agree to the fact that pension fund regulatory body will minimize political interventions with the funds' operations. More than 80% were of the view that the composition of Board has to take into consideration the professional qualifications of the trustees.

CHAPTER FIVE

DISCUSSION OF THE FINDINGS

5.1 Introduction

The pension funds are vested with public money, sincerely hoping that those charged with the responsibility of managing the funds would live up to the public's expectation. This study was focused on answering three research questions as follows:

- i) What are the features that can explain corporate governance practices in the pension funds in the country?
- ii) Are these corporate governance practices followed by the pension funds in Tanzania?
- iii) What are the effect of corporate governance practices on the investment performance of pension scheme?

In answering the first and the second questions, the study has found out the practice of corporate governance and its impact to investment performance in pension funds as follows:

5.2 Role, Functions and Responsibility of the Boards

The pension funds Boards of Directors have been discharging roles, functions and responsibilities well, as far as the investment performance are concerned. The board has been evaluating investment performance on quarterly basis. The Boards have also been setting the strategic plans, approving the budgets and participating in the appointment of senior management officers. According to Iglasios and Palacios (2002), roles, functions and responsibility of the board rest with the governors of the pension funds (For this case, the Board of Directors) although they may not necessarily engage themselves into day to day management. This has been consistent with this study regarding the manner which the pension funds Board in Tanzania have been carrying out their duties and responsibilities. The PSPF Act No.2 of 1999 part 6, section 53 to 55 has clearly shown the duties, functions and powers of the Boards. PSPF Board of Trustee oversees the performance of the Fund. However the management of the day to

day operations of the fund is carried out by fund management under Director General. Likewise, PPF Act No.14 of 1978 part 4 section 18 and 19 and NSSF Act No. 28 of 1997 have stipulated the duties and functions of the Board of which the study has found to adhere to.

The NSSF, PPF and PSPF Boards have established Boards' committees in respect of the matters relating to investments, management and administration. For instance, it was recorded that the PPF and PSPF have Finance and Investment Committees which analyze investment proposal after the Funds' investment team and the entire management has done a thorough analysis on these proposals. If this committee is convinced that the project is viable then the proposal will be presented to the full Board approval. This practice is consistent with Ambachteer (2001), who found out that organization performance is strongly correlated to governance indicators. He showed clear allocation of responsibility and accountability for funds decision between the trustee and pension investment team.

Therefore, it can be seen clearly that some of the corporate governance practices exist in our pension funds. The link between investment performance and the corporate governance exists. The investment performance indicator used is ROI, which is impacted by the investment decisions made by the Board of Directors through its investment committee; which in turn, depend mainly on analysis and recommendations submitted to them by the management. The role of the Board to monitor investment performance through quarter review of performance reports enhances improvement in investment performance. This observation is consistent with the study done by Useem and Mitchel (2000), who were looking at an impact between governance and performance measured as annual rate of return.

5.3 Appointment of the chief Executive and Senior Managers

The board should appoint the C.E.O and senior management team and set remuneration appropriate for these appointments. It should ensure that there is an adequate training programme in the corporation for the management and employees; and a succession plan for senior management. The PPF has been adhered to this standard when it advertised through the media the position of its DG and followed proper recruitment procedures. The PPF Board nominated three names and submitted them to the president for approval. The other funds though their

respective acts require the appointment of the DG to be done by the President. This practice may be subjective depending on the caliber of the person in the President Office. The Board is therefore forced to accept the CEO who might not be their choice and yet he/she is supposed to be evaluated by the same board. According to the study of the Private sector Corporation Trust (2002), the said practice is inconsistent with the governance standards. Since the board is entrusted to oversee all the pension fund activities then it is ideal for it to recruit the person it thinks fit to act on their behalf. If the funds do not perform well due to lack of skills and/or incompetence of the DG, then the Board is answerable, but at the same time the Board does not appoint the DG who is involved in the day to day management of the Fund. The senior management team positions are being appointed by the Board through proper recruitment process.

5.4 Board Composition and Qualifications.

The pension funds' Board in Tanzania have representatives from all interested parties which are employers, Government and employees. This structure also features in other pension funds Boards outside Tanzania, like the governing body of the Korean National Pension Fund, Namibian Governing Body (GIPF) and the Indian Governing body (EPF). Mitchell and Hins (1997), argued that the tripartite Boards lack independence. Corporate governance public owned organization like pension funds should ensure a combination of skills and competencies of those entrusted to oversee the public money (Mitchell and Hins, 1997). Therefore it was expected to find combination of skills for the Board members of our pension funds. In practice it was found that the PSPF Board membership is defined according to their job positions except for three members who representatives from the trade unions and the civil service who are appointed by the Minister of Finance.(PSPF Act No. 2 of 1997 section 52). NSSF Board is composed of members of members with various experiences including social security, financial matters or administration (NSSF Act No. 28 of 1997 sec 53(3)). The PPF Board comprises of members appointed by the minister for Finance (PPF Act No. 14 of 1978 sec 17(3)). Therefore, the Act did not provide laid down procedures or criteria used for appointing a member in PPF Board of Directors. In this view, a Board member may be appointed due to political considerations and may be lacking some necessary skills and experience. However, the combination of skills for the Board is observed in only one pension fund Act; the NSSF act which specifically stipulated the need for professional experience. The PSPF and PPF Boards may have the mix of skills in their

Board of Directors by default, depending on caliber of Minister for Finance in office if at the particular time; he/she might consider this situation. Mac Naughton (2001) is of the opinion that, the structure of the governing body should consist of qualified and independent governors, and an independent body such as parliament of experts committees should be engaged in the selection process. Interviewed stakeholders have shown concern of the skills of the Board and the manner of transparency in appointing them. Moreover, the Board composition and qualification of the Board members have a significant impact on the investment performance. The investment managers and the entire management teams of the pension funds normally evaluate the project proposal before presenting them to the Boards' investment committees. Despite that the investment teams for these funds are people with enough expertise to evaluate and investments, the Board are expected to scrutinise the proposals and ensure that only viable investment are taken aboard. Inadequate skills and qualifications may results to the Funds making poor investment decision. Mitchell and Hsin (1997) found that Board composition of public pension Board is significantly associated with performance.

5.5 Accountability and Information Disclosure

Corporate governance principles in pension funds call for accountability and information disclosure. Accountability has been enhanced in our pension funds in the sense that the Board reports to stakeholders. In this case the Government stands on behalf of the stakeholders and the management of the Fund reports to the Board. This system is supported by the systems of internal controls which the funds have put in place. To ensure accountability, the funds have audit functions internally as well as externally. The external auditors who give the final report of the funds operations are appointed by the Board and/or Government. In this view, the management becomes accountable to the Funds operational performances, This practice is consistent with Igleasias and Palacios (2000), who suggested that without a system of accountability, governance cannot be improved. In their study they showed a striking correlation of accountability and returns of fund relative to deposit rates.

5.6 Conflict of Interest

Corporate governance requires disclosure of interest by the directors. The PSPF and PPF have the same Board chairperson who is defined by the respective acts governing these funds. The two pension funds Boards are chaired by the permanent secretary to the ministry of Finance. Due to the competitive nature of the two funds in terms of investment opportunities, it is questionable whether the Board chairperson can make a rational investment decisions for the two funds when it comes to competition in investment opportunities. Furthermore the chairperson is a member (contributor) to the PPF; this practice has been inconsistent to guidelines for good corporate governance in state owned corporations (Private sector Corporate Governance Trust, 2002).

5.7 Tenure of Office

In all three cases, the tenure of office is three years, subject to renewal. This is clearly stipulated in the respective pension funds acts and also is in line with good corporate governance standards which require director's service period no to exceed five years. (Private sector Corporate Governance Trust, 2002). However this practice is inconsistent with the PSPF Act No. 2 of 1999 which defined the board members by their positions and at the same time contradicts in section 57 which stipulates that tenure of office is three years eligible for reappointment. The argument here is that, since the membership has been defined by his/her position then he/she will remain to be member unless the job position ceases.

5.8 Pension Fund Regulatory Body.

The government introduced regulatory oversight in social security regulatory authority under the provision of social security (Regulatory authority) Act No. 8 of 2008. This authority starts to operate officially on 2010. One of the main duties as mentioned in the act is to monitor and review regulatory performance of the social security sector.

Sustainability of pension funds and improvement of benefits depend on the investment income. In developed countries like USA pension funds are highly regulated. In 1979, US regulatory body made changes and allowed pension funds to diversify into higher risk investments (Impavido, 2002). It can therefore be argued that investment performance has improved with the presence of pension funds regulatory body which regulates investment issues among others but

pension funds in Tanzania do not have off-shore investment. This has brought limited investments opportunities to our pension funds.

One of the investments principles of pension fund is diversification. However, prohibiting the pension fund from investing abroad is against the diversification principle. Fontaine (1997) surveyed the Chilean experience and concluded that foreign investments should be treated to the same rules of diversification applied to domestic investments. And without diversification, pension funds may not enjoy the maximum returns on investments. According to Impavido (2002), policy makers should allow foreign investment by pension funds in order to diversify away local risks.

5.9 Other factors

Other factors which may influence the investment performance of the pension funds are as follows;-

5.9.1. Market Conditions

Interest rates

The fluctuating interest rates on FIA like interest on fixed deposits accounts, government securities, corporate bonds interests and loans.

Rent and fluctuations

Since new investors in estate are increasing, the estate market becomes more competitive and as a result the prices to rent the properties become competitive. Investment in properties takes a long time to recover the initial investment and needs a close supervision on following up the rental income. It was observed that PPF property investments perform well compared to NSSF property investments. The difference can be explained by the administration of estate and rental itself in which PPF has quoted its rent prices in US Dollars.

Inflation

Recently inflation rate in Tanzania has kept on increasing. It was 5.61% to 8% for in the year 2006 to 2008, but it has increased up to 11.83% in 2009. This increase has affected the return in investments in real terms for all the pension funds.

Withdrawal of pension contributors

Among the most impactful effects have been the increase rate of premature pension contribution withdrawals and therefore as a result of decline in contributions by pensioners and as a direct result of unstable employment and lower real wage growth. Essentially, more persons have been withdrawing their pension contributions and at the same time are earning the same or less, which in deed affect their ability to contribute to pension funds. This is further compounded by high levels of unemployment and a shift from formal to informal activities, as more persons attempted to conduct side small and medium businesses to either supplement their income or replace that which they had lost in the hostile job market.

Country wide, there are several challenges that pension funds face and which must be dealt with if they are to return to pre-crisis levels of achievement. These challenges are an aging population, lack of diversification in investments, inadequacy of funds and the inability to predict contributions and benefits by pensioners. The number of premature withdraws have tremendously increased due to the prevailing socio-economic factors.

Lack of aggressive efforts on public education to educate members to retain their contributions once the employment ceases so as to benefit from the pensions offered by the Fund. Non performance of the loan portfolio due to the non complying borrowers and the prolonged legal action procedures once the defaulters are taken to court. The existing of unfair competition in the process of registration of new members whereby some social security funds use unethical means to induce registration of members. And tax on Fund's income which is said to reduce the financial capacity to pay meaningful benefits to members.

CHAPTER SIX

CONCLUSION AND RECOMMENDATION

6.1 Introduction

This chapter summarises the discussion of the findings, gives recommendations and highlights on the areas for further research.

6.2 Conclusion

There are three major pension funds in Tanzania namely, PPF, NSSF and PSPF. Governance practices in these pension funds include composition of the Board of Directors and their qualifications, roles, functions and responsibilities of the board, conflicts of interest, accountability, transparency disclosure and the role of the regulatory body. The Boards play their roles by making periodic investment performance reviews, Participate in appointing senior manager and attending to regular scheduled Board meetings. However, the PSPF and NSSF Boards do not play the role of appointment the DG since their respective acts require the appointment to be done by the president. Appointment of Board members is not transparent since the appointment process is normally carried out by an individual and normally the minister responsible for the fund. The study has found a relationship between the investment performance and the corporate governance standards. This relationship has mainly featured in three characteristics of corporate governance as follows; existence of regulatory authority; roles, functions and responsibilities of directors; and composition and qualification of the board of directors.

There is need, however, to recognize that without responsible, creative and innovative boards, Pension funds will not be efficient. The need for good corporate governance in these corporations, therefore, is more critical than ever before.

6.3 Recommendations

In order to enhance accountability of pension funds, and ensure that they operate not only efficiently but effectively in achieving their mandated objectives the following elements of effective corporate governance are suggested:

6.3.1. Legal Framework

An appropriate legal framework is needed to attain clear definition of the roles of stakeholders, Boards and CEOs and the related framework of authorities and responsibilities of each level of corporate governance.

6.3.2. Appointment of the Chief Executive officers

There should be a professionally managed process of appointments and dismissals of Boards and CEOs to enhance contestability.

6.3.3. Operational Issues

The pension funds should strive more to let their members be aware of the benefits offered and also informed of the investment issues. The fund should also increase the quality level of customer handling. Since the pension funds are kind of monopoly in the country that means the members have no choice of the fund to contribute to (PSPF's case), therefore the pension funds members handling might not have an impact to the operations

For governance, public pension funds should assess the performance persons managing pensions' funds, conduct regular reviews of employee compensation mechanisms, identify, monitor and correct conflicts of interests, implement adequate risk measurement and management system and be proactive in dealing with the major risks facing funds.

Consideration should be given to regulations, excessive reliance on current market values when determining pension contributions should also be avoided, limiting contribution holidays and excessive waiver of pension contributions, stability of long-term contribution patterns and incorporating flexibility into funding should strongly be encouraged.

Achieving sustainability can be done through by the generation of adequate returns to meet business daily obligations, improving efficiency in public pension products and service delivery,

increasing capacity through enhanced training opportunities and building credibility and expertise.

The responsibility of standard-setting should not remain solely with the newly established Social Security Regulator Authority (SSRA). The existing public pension schemes such as Parastatal Pensions Fund (PPF), National Social Security Fund (NSSF), Local Government Pensions Fund (LAPF), Public Service Pension Fund (PSPF), national health insurance fund (NHIF), and Government Employees Provident Fund (GEPF) should continually attempt to improve governance beyond what is stipulated and try to surpass even industry best practices, as regulation is too often reactive in a business that requires one to successfully act proactively in a fast-paced and stochastic environment.

Social Security Regulatory Authority (SSRA) should allow the pension schemes to invest outside the boundaries as this is the only way that will lead to diversify the local risks.

Finally, directors and the management should be equipped with requisite corporate management skills like special training programs. Well trained managers on good corporate governance will always be keen on giving reliable, accurate and precise information to stakeholders and the public.

6.3.4. Composition and Qualification of the Board of Directors

The board of Directors composition is influenced by the whole process of appointing them. The appointment procedures of our pension funds are guided by the Funds' respective acts. Consequently, the Acts have left most of the appointment responsibility to the Minister responsible, in which there may be some political influence. It therefore, suggested that appointment of pension funds board of Directors be done by and independent with the body like a regulatory authority.

Generally all stakeholders and employees should be actively involved in conduct of good corporate governance practices as this is the only way successes could be achieved in its effect on the performance of pension fund in Tanzania, also pension funds should adopt minimum standards in disclosing corporate governance practices, such disclosure will provide other stakeholders transparent picture of the level of corporate governance practices.

6.4 Areas for further Research

The result of the study pointed out a number of issues which need further research. These issues are

- Relationship of corporate governance to other pension funds performance indicators such as contribution ratios and registration ratios.
- An overview of corporate governance practice in public institutions versus private institutions.
- A comparative study of the operational performance, focusing on benefits payments for these three pension funds.
- And also more research is needed in order to reveal and confirm the impact of the different governance factors, using different institutional frameworks and methodologies to address the potential endogeneity concerns between governance measures and performance.

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APPENDICES

Emanuel Mkilalu, Currently pursuing his Masters of Science in Accounting And Finance at the university of Mzumbe, is carrying out his field research work on Corporate Governance Practices and Performance in Pension Funds.

His study aims at investigating governance practices in the pension funds and their effect on investment performances. This research is considered to be of interests to the funds' stakeholders including those in charge of governance in Pension Funds, management and policy makers alike. It is expected to contribute towards the understanding the relationship between corporate governance practices and performance in the pension funds. The study findings are expected to provide useful information that might guide the decision making process in Funds management, particularly on the best way to manage funds recourses for better performance and to the satisfaction of the variety of stakeholders specifically the contributing members.

You are kindly requested to answer to the few questions posed in this questionnaire to facilitate him in the completion of the envisaged academic work.

Appendix A

QUESTIONNAIRE DESIGNED FOR PENSION FUND MEMBERS/CONTRIBUTORS

Basic Information

1. Kindly indicate your level of understanding to the following Pension Funds issues by checking in the appropriate box

Particulars	Excellent	Good	Fair	Little	None
Types of benefits offered					

Type of Investment being made by the fund					
Investment performances of the Funds					

2. To what extent are you satisfied with the following activities in your pension Fund?

Service	Excellent	Good	Fair	Bad	Very Bad
Types of investment made					
Types of benefits offered					
Members/customers handling					
Corporate Social responsibility					

3. The following statements indicate corporate governance practices in pension funds.

Kindly indicate your level of agreement or disagreement in the following statements

5 Strongly agree, 4 Agree, 3 Neither Agree nor disagree, 2 Disagree, 1 Strongly disagree

- i. The nomination process of the Board of Directors/Trustees of Pension Funds is transparent and public. ()
- ii. Establishment of Pension Funds regulatory body enhance the following
 - Performance ()
 - Responsibility and accountability ()
 - Compliance to predetermined rules and regulations ()
 - Minimize political risks ()
- iii. The board of Directors/Trustees should have a reasonable knowledge on financial markets, risk management and actuarial principles. ()
- iv. Audit committee enhances efficiency in the pension funds performances ()

- v. The board in an independent body with members different from the Funds' management team ()

4. The following are the factors that may influence corporate governance in Pension Funds.

Kindly indicate your level of agreement or disagreement to each of the factor

5 Strongly agree, 4 Agree, 3 Neither agree nor disagree, 2 Disagree, 1 Strongly disagree

S/N	Factor	5	4	3	2	1
i	Government interference in investment decision making process					
ii	Competence of Funds body for pension Funds					
iii	Existence of Regulatory body for pension Funds					
iv	The extent to which management is held responsible and accountable					
v	The mix of Board members skills and composition					
vi	Board members qualifications					
vii	Performance evaluation of Funds management					
viii	Investment information disclosure to the public					
xi	Investment performance disclosure to the public					

5. The following factors affect investment performance of pension Funds. Kindly indicate your level of agreement or disagreement to each of the factor

5 Strongly agree, 4 Agree, 3 neither agree nor disagree, 2 Disagree, 1 strongly disagree

S/N	Factors	5	4	3	2	1
i	Limited investment opportunities					
ii	Inflation					
iii	National Investment policy that prohibit investing abroad					
iv	Interest rates					

v	Underdeveloped capital market					
vi	Corporate governance					
vii	Political interests					
viii	Competency of investment managers					

6. What other factors do you think will improve investment performance in Pension Funds.....

.....

.....

.....

.....

7. What do you think should be the role of the Government in the Pension funds?.....

.....

.....

.....

Appendix B

QUESTIONNAIRE DESIGNED FOR PENSION FUNDS INVESTMENT INVESTMENT STAFF

1. Does the Fund have an investment strategy?.....

If answer is Yes, which parties are involved in the strategy development.

- i. The board
- ii. The chief executive

- iii. All department heads
- iv. Everybody in the management position including the board and the CEO

2. Which parties are involved in strategy review process?

- i. The Board
- ii. The chief executive
- iii. All departmental heads
- iv. Everybody in the management position including the board and the CEO

3. How frequent is strategy review taking is taking place?.....

4. Does the Fund have an investment policy?.....

If yes which parties are involved in the policy setting?

- i. The Board
- ii. The chief executive
- iii. All departmental heads
- iv. Everybody in the management position including the board and the CEO

5. Is there any use of external specialist in investment appraisal process?.....

If yes, under what circumstances does the fund engage an external specialist?.....

.....

6. How frequent is policy review taking place?.....

7. Is there a regular reporting to the board on matters relating to investment?.....

If yes, what types of report are these? And how frequent is the reporting taking place?.....
.....

8. Please indicate procedures used to ensure that the funds have enough cash to meet the benefit payments at any particular time
.....
.....

9. What are the means, which ensures contributions, are coming in time so as to provide funds for investments?
.....
.....

10. The following are factors that may influence corporate governance in Pension Funds.
Kindly indicate your level of agreement or disagreement to each of the factors

5 Strongly agree, 4 Agree, 3 neither agree nor disagree, 2 Disagree, 1 strongly disagree

S/N	Factor	5	4	3	2	1
i	Government interference in investment decision making process					
ii	Competence of Funds key staff/Managers					
iii	Existence of Regulatory body for pension funds					
iv	The existent to which management is held responsible and accountable					
v	The mix of Board members skills and composition					
vi	Board members qualification					
vii	Performance evaluation of Funds management					
viii	Investment information disclosure to the public					

xi	Investment performance disclosure to the public					
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11. The following factors affect investment performance of Pension Funds. Kindly indicate your level of agreement to each of the factor

5 Strongly agree, 4 Agree, 3 neither agree nor disagree, 2 Disagree, 1 strongly disagree

S/N	Factor	5	4	3	2	1
i	Limited investment opportunities					
ii	Inflation					
iii	National Investment policy that prohibit investing abroad					
iv	Interest rates					
v	Underdeveloped capital market					
vi	Corporate governance					
vii	Political interests					
viii	Competency of investment managers					

12. What do you consider as the five most influencing factor in making investment decision in your fund?

.....

13. Describe the investment portfolio of the Fund

.....

APPENDIX C

QUESTIONNAIRE DESIGNED FOR MANAEMENT

1. How is the board appointed?

- i. By the vote of majority shareholders
- ii. By the vote of all shareholders
- iii. By the old board when a new one is coming into office
- iv. A head hunt by the chairperson
- v. Other process (Please specify).....

2. Please describe the induction programs for new Board members

.....
.....

3. What is the composition of the board in terms of Professional qualification?

- i. Lawyer (give number _____)
- ii. Social security specialists (_____)
- iii. CPA (_____)
- iv. Engineers (_____)
- v. Economists (_____)

- vi. Other professions (List and give numbers)_____
4. How effective do you consider the board to be in exercising the following so as to achieve the pension funds objectives
- (1) Very effective (2) not very effective (3) effective (4) below average
- i. Strategic Focus (____)
 - ii. Ethical issue (____)
 - iii. Policy guidance (____)
 - iv. Decision making (____)
5. How frequently does the board meet?_____
6. Kindly list and briefly explain the manners in which the fund communicate to its stakeholders_____
7. Does the Board assess the performance and effectiveness of:
- i. Itself? (1. YES 2. NO)
 - ii. Individuals members? (1. YES 2. NO)
 - iii. The chief Executive (1.YES 2. NO)
- If yes how frequently is this done?
- 1. for itself_____
 - 2. for the chief executive_____
8. Are reports made from these assessments?
- i. Yes
 - ii. No
9. At what levels are the reports discussed?

- i. Board meeting
- ii. AGM
- iii. Special meetings
- iv. Other (indicate)

10. Are there continuous members' skill development programmers for the Board?

- i. Yes
- ii. No

11. If there any training programme for the management and other staff?

- i. Yes
- ii. No

12. Does the fund have a succession plan for the senior management?

- i. Yes
- ii. No

13. If yes, briefly explain how it

works_____

14. What are the key performance indicators that the funds' has in

plance?_____

15. In what circumstance does the fund seek professional

advice?_____

16. What are some of the funds social responsibility?

17. Will there be any value added by putting in place a regulatory body for pension funds?

If the answer is Yes, please give brief explanation

What issues do you think should be regulated by pension fund regulatory authority?_____

18. Kindly state the factors you take into account in the investment decision making process of the fund

19. Kindly state the factors that influence investment performance of the fund
