

**Pension Fund Investment in Ethiopia, Opportunities and Challenges
(The Case of Ethiopia Social Security Agency)**

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Abstract

This study was undertaken to assess the practices and challenges of pension funds investment in Ethiopian Social Security Agency and Private Organization Employee Social Security Agency. The primary data were collected from thirty six key informants who had specialized knowledge about the pension funds investment of the Agency. This was supplemented by secondary data. The researchers used a mixed approach study where the quantitative data show existing pension funds investment practices of the agency quantitatively and the qualitative data shows the opinion of respondents regarding pension fund investment practices at ESSA & POESSA and related issues. The study result shows the agency's investment activities have been influencing by implicit and explicit government intervention, especially, the invested pension fund in one way or another has been used as a captive source of finance for the government. In addition, underdeveloped financial market, limited expertise in the area, low market return and low understanding about the fund from officials have been challenging the investment of pension funds in ESSA and POESSA.

I. Introduction

1.1 Background of the Study

Globally, many people need help to sustain their life and to fulfill their necessity. Especially, as they become old in age and their ability to generate income weakens the reliance of citizens on government increases. Government, on the other hand, should prepare a way to help citizens. In essence, unless one take a libertarian view, it is the role of the government to ensure that people do not reach old age being poor (Aaron ,1998; Diamond 1995).

Pension fund was first established in the United States in 1759 to benefit widows and children of church ministers. It was not until 1875 that the American express company established the first corporate pension fund. By the 1940, only 400 pension funds were in existence, mainly for railroad,

banking and public utility industries. In addition, since then the industry has boomed (Abebe, 2003).

Pension funds may be defined as forms of institutional investors, which collect pool and invest funds contributed by sponsors and beneficiaries to provide for the future pension entitlements of the beneficiaries (Davis, 1995a). They provide means for individuals to accumulate saving over their working life so as finance their consumption needs in retirement, either by means of lump sum or by provision of an annuity, while also supplying funds to end-users such as corporations, other households via loans or government for investment or consumption (Davis, 2000). Now a day, pension funds participate in financial intermediation. According to Davis (2000), pension funds are analyzed as financial intermediary. Their growth complements that of capital markets and they have acted as major catalysts of change in the financial land escape.

The African social security institutions have grown and their contributions to national economy have become more significance. As a result, the subjects of the investment of the assets of social security institutions have become topical (Musege, 1997).

In Ethiopia, there is pension fund contribution by employees of organizations. It is worth investigating how fruitfully this fund is being used by employers before releasing beneficiaries. However, the cardinal of this exercise is to unravel the facts regarding how effectively the pension fund is managed by those responsible of custodianship of the same.

Efficient pension fund investment can have many advantages. More importantly, it gives the institutional investor the chance to sustain its fund, there by enhance the income of pensioners they would receive in their retirement period. Moreover; it can contribute for the development of the financial sector as a whole and for emerging firms in particular. According to Gebrehiwot (2007), the importance of investing pension funds described as; pension funds can even afford to invest in young companies still developing their product/ services (venture capital) and support growing companies throughout economic cycles (expansion/ merchant banking capital) and lease companies. They are also better placed to buy the private equity interests of investors forced to sell in a market where ready buyers scarce as in the case in Ethiopia.

Unlike the countries with a developed pension system, it is hard to say that this perception is largely shared among the policy makers in Ethiopia since we do not see any policy that support the investment of the funds and their confidence in pension funds as a tool for development of financial sector. Hence, the focus of this study is on current practices and challenges of pension fund investment of ESSA and Private Organization Employee Social Security Agency (POESSA).

1.2 Background of the Organization

1.2.1 Short History of the Ethiopian Social Security Agency (ESSA)

Ethiopian social security system has developed gradually in response to a variety of social, economic and political factors. After the Battle of Adowa in 1996, Emperor Minilik the second allotted land for war veterans including the survivors of those who lost their lives in the war. Although this laudable piece of the act can be considered as to have marked the beginning of a short of social security service in Ethiopia, it was not without flaws of its own. There was no law to ensure its enforcement, it lacked uniformity in application and, surely, not even one involved benefited equally as the room for favoritism was wide open as it was not to be claimed as legal right.

In the 1930s with the appearance of modern institutions and the development in bureaucratic machinery as well as the growth in the number of paid officials in all spheres of government operations, the need for a pension law was being discussed in the parliament. By then, Ethiopia was invaded by fascist Italy and all national efforts of economic and social development came to end. Right after the end of the war, the government tried to compensate the injured and the families who lost their breadwinner by giving out land and money payable annually.

This development led the coming in to force of public servants' pension decree No. 46/1961 (amended by proclamation No. 209/1963), which laid the foundation for the first establishment of the Ethiopian pension scheme. Initially, this scheme covered the government civil servants and the military. Later, as a result of the Ethiopian Revolution, as workers employed in the government undertakings, which were previously in private holdings, were

included in the scheme. The extension of the scheme, along with other expansion of the public service sector, resulted in the growth of the scheme.

1.2 Statement of the Problem

The social security organizations collect contributions in order to carry out their mandate to provide benefits and to build up reserve funds. The current financial practice is to invest funds that are not immediately needed and try to obtain the best possible rates of return (Diop, 2000).

The 2003, International Social Security Association (ISSA) report that covers African countries including Ethiopia points that, the investment of most of SSIs in Africa have registered negative real growth rates. This under performance is attributed to a number of reasons, including macro-economic factors, unfavorable conditions, poor portfolio planning, limited expertise and limited investment opportunities.

The Ethiopian Social Security Authority was established with the objective to “strengthen and expand social security programs” in the country. It had given the authority to invest the social security funds in “profitable and reliable investment activities” and to own property (proc. No 38/1996). The authority was re-instituted as an autonomous federal agency having its own juridical personality to enable it to perform its duties efficiently and hence its name is changed to the “Ethiopian Social Security Agency” (ESSA). It has been given the power and duty to invest the social security fund in profitable and reliable investment activities (proc. No 345/2003). As a result, the “Social Security Agency investment office” is instituted to handle the investment activities.

The pension plan of Ethiopia is part of the social insurance system of the nation based on collection of monthly pension contribution processing and payment of claims for retirement pension, invalidity pensions, and survivor’s pensions and lump sum payment. Meeting the lifelong social protection requirement of beneficiaries requires growing amount of fund while the contribution of employees periodically serving as a main source of the fund, the institution responsible for administering the funds which is ESSA has also been investing.

However, information is lacking on practice of the agency, investing the funds, managing the investment, and investment linkages with the other issues; among policy makers, and stockholders. The aim of this study was, therefore, to study the existing practice, opportunities and challenges of ESSA and POESSA.

Research Questions

The study addresses the following research questions:

- ✓ What are the challenges of pension fund investment in ESSA and POESSA?
- ✓ What are the opportunities for pension fund investment in the agencies?
- ✓ How the current regulation and administration of pension fund investment looks like in the agencies?
- ✓ What is the effect of pension fund investment on the benefits of pensioner?
- ✓ What is the role of pension fund investment in agencies financial performance?

1.2 Objective of the Study

General objective

The general objective of the study was to investigate the opportunities and challenges of pension fund investment in Ethiopian context.

Specific objective

Specially, the paper was designed to:

- Investigate the challenges faced by the pension fund investment office;
- Identify the available opportunities for pension fund investment ;
- Examine the existing pension fund investment practice in Ethiopia;
- Asses how the pension fund is significant for the pensioners;
- Analyze to what extent pension fund investment influences how the financial performance of ESSA and POESSA?

1.3 Significance of the Study

Generally, the purpose of the study was to assess the practices and challenges of pension funds investment. Understanding the investment practices of the agencies with all their challenges has academic as well as

policy relevance. That is, it likely contributes to the body of knowledge by bringing empirical evidences of the practices and challenges of investing pension funds. Thus, the paper has the following importance; it gives information about the pension fund investment to the public;

- ❖ It shows the challenges and significance of pension fund investment;
- ❖ It notifies the benefit of pensioners from the pension fund investments;
- ❖ Address to the public how the pension will affect the economy;
- ❖ It contributes to the previous researches that is made in this area;
- ❖ Other researchers use it as a bench mark for their future study;

2. Research Design and Methodology

2.1 Research Design

The research was designed to investigate the challenges and opportunities of pension fund investment in ESSA. It describes the insight of the pension fund investment. A descriptive research design was used to describe the existing practices and eventually determine the challenges the investment of pension fund in ESSA. This in turn helped to come out with the prevailing facts.

2.2 Population and Sampling Technique

Currently in ESSA, there are varieties of departments. From those departments, we chose the pension fund investment department. We selected this department because of it had a direct relationship with our study. In addition to this, individuals with better information could give better information. In this area, we got only 12 employees directly who had contact with the investment practice. Additionally, we add employees from private organization for our research question because the public and the private institution both had the same investment policy, strategy and the areas that the pension fund investment were in the same area. In the private organization, there were 25 employees who worked in the investment area. Finally, 37 employees were used as a sample based on census sampling method.

2.3 Data Type and Source

In order to accomplish the study objectives, both primary and secondary source of data were used:

Primary source

The primary data was obtained from semi structured interview and questionnaire

- Interview was conducted with the staff of ESSA investment office.
- Questionnaire was distributed to the staff of ESSA investment office.

Secondary source

The secondary data was collected from “Negarit Gazeta” and other relevant literatures. In addition, the agency’s report on pension fund investment activities and statically abstracts were used as a secondary data.

2.4 Methods of Data Collection

The method that was used to collect both primary and secondary data was based on personal interview and questionnaires. Secondary data was collected from document analysis of periodical reports, unpublished and published documents which have accuracy and relevance to the research intention.

2.5 Data Analysis Methods

The data was summarized using simple descriptive analysis and presented in tabular form where necessary. This involve describing the opportunities and challenges of pension fund investment using data obtained from the primary and secondary sources. In addition, comparison was made with some other countries practice.

Limitation of the Study

The study has some limitations due to the following reasons;

- ✓ The agency had no clear and organized secondary data regarding the pension fund investment (like guideline, strategy, policy, and objective).
- ✓ The area is new, have limited practical experience and the public has limited awareness on its management. This made difficult for obtaining appropriate and representative sample.
- ✓ It was impossible to meet higher officials of ESSA for interview and discussion.
- ✓ Had there been financial capacity and time, the comparison of pension fund investment with Africa countries would have been on primary

data. basis through interview, questionnaire and physical observation from some the countries.

2.6 Organization of the Paper

This study attempted to analyze the prospects and challenges of pension funds investment in Ethiopia. The study is organized in four chapters. The first chapter introduces the background of the study, the rationale behind the study, statement of the problem, the objectives of the study, significance of the study, the research methodology, and limitation of the study. The second chapter addresses the review of theoretical and empirical literatures, the third chapter deals with the analysis of the data collected. The final chapter presents the summary of findings, recommendations and conclusions.

3. Data Presentation, Analysis and Interpretation

This chapter presents the data collected from questionnaires and semi structured interview, Also it shows the analysis and interpretation made from the data in an attempt of spotting out the basic finding of the research. In order to undertake this study, 37 questionnaires were distributed to the respondents, out of these 36 have been collected. The respondents were employees of ESSA and POSSA organization.

3.1 Respondent Profile

From the 36 respondent, 21or (58.33%) were females and the rest, 15(41.67%) were males. Out of these respondents 24 or (66.67%) were BA/BSC holders in accounting, finance and economics. The rest are MA holders or above in accounting, management and economics. 50% of the respondents had work experience of 5 or up to 5 years. 33.33% of them served for 5-15 years, 16.67% of them had work experience of more than 15 years. The respondent were selected based on judgmental sampling techniques for respondents with better information were expected for giving relevant information.

Table 3: Respondents' Profile

Questions	Variable	Frequency	Percentage
1. Sex	➤ Female	21	58.33
	➤ Male	15	41.67
	➤ Total	36	100
2. Education level	➤ BA/BSC	24	66.67
	➤ MA/ Above	12	33.33
	➤ Total	36	100
3. Years of service	✓ Less than 5 years	18	50
	✓ 5-15 years	12	33.33
	✓ Above 15 years	6	16.67
	✓ Total	36	100

Source; (own survey 2009)

3.2 Analysis of the Study Findings

3.2.1 Investment Policy and Guidelines

3.2.1.1 ESSA's and POESSA's General Principles on Pension Fund Investment

According to ESSA and POESSA outlines, there are four general investment principles for its investment purpose. The pension fund investment manager was expected to apply these while dealing with investment issues of the agency. Consider the following four principles:

1. Safety– invests with minimum or no risk investment. The safety principle lies on the fact that the pension fund is a trust fund and they need to be invested in care and diligence. However, the value interpretation given by agency for safety principle doesn't meet the finance theories that detect. There is no risk free investment. Even risk free assets may not be risk free as long as inflation rate is there.

2. Yield - allocates the investment in the area where the investment return is maximum. This principle goes with the allocation of the pension fund on investment area that gives maximum yield, this in turn demands the involvement of some risk.

3. Liquidity – allocates investment in the area where some of the investment can be converted in to cash. Not only does the pension fund require safety concern in its investment, but also it requires liquidity as soon as it need.

Pension funds required liquid assets, since they have the liability that is due over time, and

4. Harmony with the Public Interest – allocates investment for the best economic and social interest of the public. The investment practices of the agency revealed that investments are made taking aforementioned principles underlining investment of pension funds. However, it was found to give more weight to safety among the others.

As per the data gathered from the questioner, there was an investment guideline that gave description/ guide on the way how the fund should be invested and also they had investment policy. The current Directorate Director of the investment and fund management also firmly confirmed that THERE was an investment guideline that was approved by the Board of Management in 2000 E.C.

Table 4: Investment Policy and Guideline

Questions	RESPONSE	Frequency	Percentage
3. Is there any investment guideline that guides how the fund should be invested?	➤ Yes	36	100
	➤ No	0	0
	➤ Not sure	0	0
	➤ Total	36	100
4. Is there any pension fund investment policy?	➤ Yes	30	83.33
	➤ No	0	0
	➤ Not sure	6	16.67
	➤ Total	36	100

Source: own survey, 2009.

As shown in the above table, all the respondents answer that the agencies had guidelines that guide how the fund should be invested. In question No.5 of the same table, 83.33% of the respondents argued that there was pension fund investment policy in the organization but the rest respondents didn't have information about the policy.

Table 5: The Existing Policies are Detailed and Exhaustive

9. The existing policies about pension fund investment are detailed and executive.	• Strongly agree	12	33.33
	• Agree	9	25
	• Disagree	6	16.67
	• Strongly disagree	0	0
	• No opinion	9	25
	• Total	36	100

Source; own survey, 2009

As indicated in the table 5, 9 (25%) of the respondent expressed their perception that the current policy of pension fund was detailed and exhaustive, 12 (33.33%) of respondent granted strong support to the confirmation that the current policy of pension fund was detailed and exhaustive; 9 (25%) of respondents remained neutral without supporting the current policy of pension fund was detailed and exhaustive. Yet it was also applying to point out that 6 (16.67%) of respondents had expressed their disagreement on current policy of pension fund were detailed and exhaustive.

3.2.2 The Current Investment Performance of the Agency

Good enough, all the respondents declared that the agency measures performance of its investment activities periodically and disclosed to the public. As per respondents, since the agency’s investment funds in assets that were regarded as in risk free government securities.

Table: 6; Investment Performance of the Agency

5. Does the agency measures the performance of its investment activities periodically and disclosed to the public?	✓ Yes	36	100
	✓ No	0	0
	✓ Not sure	0	0
	✓ Total	36	100

Source; own survey, 2009

As shown in the table 6, all respondents argued that the agency periodically measures its performance and the organization disclosed the information to the public by different methods like newsletter, magazines and other unpublished materials.

3.2.3 Financial Market aand Investment of Pension Fund

This question was about whether pension fund investment could be feasible in the absence of stock exchange market, the types of assets available for pension fund investment in the absence of stock exchange market, and the benefits to be bring about for pension fund investment if stock exchange market was established in Ethiopia.

Table7: Pension Fund Investment and Stock Exchange Market

Questioner	RESPONSE	Frequency	percentage
6. Do you think investment of pension fund is going to be feasible in the absence of stock exchange market?	• Yes	18	50
	• No	15	41.67
	• Not sure	3	8.33
	• Total	36	100

Source: own survey, 2009

As it is shown in the above table, 50% of the respondents said that it was possible to have a feasible pension fund investment in the absence of organized stock exchange market. As the respondents replied, the following assets was going to be feasible investment opportunities even with the absence of stock exchange market, real estates, bonds and shares of government corporations, shares of companies under formation, banks and insurances, engaging in construction business, participating in agriculture industry, giving services just like small financial institutions and even establishing its own bank to give financial service. As some of respondents said, there were investment opportunities that could not await the formation of stock exchange market in Ethiopia. 41.67% of the respondents said pension fund investment could not go ahead unless there was an organized stock exchange market; the number of alternative assets available for investment would be too limited; liquidity of shares and bonds of private companies would be in question which implies investment in such areas would be too risky for pension fund to invest and the minority of the respondents were not sure if the investment of pension fund was going to be feasible in the absence of stock exchange market.

Even though the respondents had given different responses regarding pension fund investment feasibility in the absence of stock exchange market, all of them agreed on the advantages brought by the formation of stock exchange market for pension fund investment. They said the establishment of organized stock exchange market in Ethiopia would increase the asset types available for investment, increases the liquidity of the already invested assets, mobilize capital, and reduces risk.

3.2.4 Pension Fund Investment and Committee

Table 8: Investment Committee

Questions	Responses	Frequency	Percentage
8. In pension fund investment, a separate committee is necessary	❖ Strongly agree	12	33.33
	❖ Agree	15	41.67
	❖ Disagree	3	8.33
	❖ Strongly disagree	3	8.33
	❖ No opinion	3	8.33
	❖ Total	36	100

Source; own survey, 2009

To check whether a separate committee was necessary in pension fund investment, respondents were asked to express what was in their mind. Based on the response, Table 8, indicates that 15 or (41.67%) of the respondent had agreed on the necessity of separate investment committee. 12 (33.33%) of respondent granted strong support on the necessity of separate investment committee whereas 3 or (8.33%) of the respondents remained neutral without supporting the necessity of separate investment committee while 6 (16.66%) disagreed about the necessity of forming separate investment committee.

3.2.4 Challenges Faced By the ESSA in Its Pension Fund Investment Activities

As it was revealed from the questioner, there are some challenges faced by ESSA and POSSA in the pension fund investment activity. The followings were the utmost challenges identified in the ascending order;

1. Government intervention
2. Limited investment
3. Low market return
4. Absence of financial market
5. Limited experts
6. Low understand in fund investment

The majority of the respondents provided that the government intervention as challenges of the agency's investment activities. They argued that the government intervention was expressed explicitly by the government representative that dominate the management board more specifically the pressure always came from MOFEC. Its pressure was explicit whenever the minister dictated the agency to shape investment strategy in accordance to

MOFEC programs specially the intervention was becoming demanding in recent times as the Ethiopian inflation become high. MOFEC pressured the agency to channel its large amount to purchasing Treasury Bill. Some respondents argued that the second challenge of the agency was limited investment.

3.2.6 The Effect of Investment Performance on Financial Earnings of Pensioners

The agency invested the pension funds aiming to sustain the fund and benefit the society. Behind these determined objectives and the whole idea of investing the fund, there was interest and benefit on pensioners, contributors, employers and government. To understand the effect of investment of financial earning of pensioners, respondents were asked how the profitability of the agency's investment affected the financial earning on the pensioners.

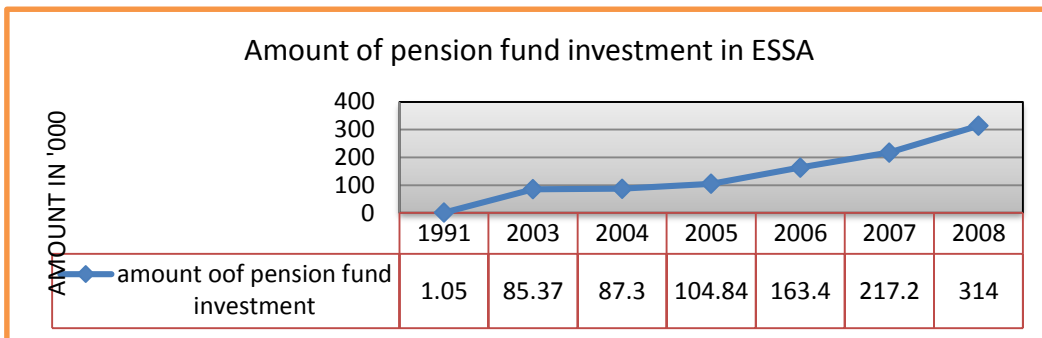
Table 9: The Effect of Investment on Financial Earning of Pensioners

Item	Frequency	Percentage
The agency profitability has no relation with pensioner's income	18	50
The government add some amount of money to the pensioner's	10	27.78
No answer	6	16.67
Not related with the question	2	5.56
Total	36	100

Source; own survey, 2009

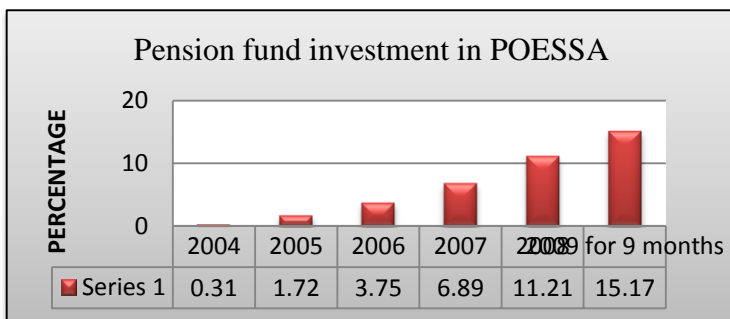
To check whether investment performance of the agency affected the financial earning of pensioners, respondents were asked to express their opinion. Based on the table 9, 18(50%) of the respondents said the profitability of the agency had no relation with the pensioner's because the pensioner's income was predetermined by law based on their salary amount and their service year, 10 or (27.78%) of respondents said the government, sometime or in two-year interval, added some amount to the pensioners, 6 (16.67%) respondent had no answer on this issue while the other 2(5.56%) of respondents answer did not match with question.

3.2.6.1 The Trend and Amount of Pension Fund Invested (1991-2008 EC)



Source: own survey from the agency’s published material.

Figure 1: Amount of Pension Invested in ESSA



Source: (From the agency published material)

Figure 2: Pension Fund Investment in POESSA

Table 10: Does the Invested Fund so Far Earn a Sufficient Yield

10. Does the invested fund so far ear a sufficient yield? If you disagree what is the reason.	✓ Strongly agree	6	16.67
	✓ Agree	3	8.33
	✓ Disagree	15	41.67
	✓ Strongly disagree	3	8.33
	✓ No opinion	9	25
	✓ Total	36	100

Source; own survey, 2009

As per Table 10, out of 36 respondents, 6 (.67. %) voted 'strongly agree' that ' the invested fund is sufficient yields' , 3 or (8.33%) of the respondents, voted 'disagree' on the same issue, 15 or (41.67%) respondents voted ' disagree' again for the same issue whereas 3 or (8.33%) respondents voted 'strongly disagree' on the point. The remaining, the ret 9(25%) were neutral.. For the respondents who ranked 'disagreement', their reason was that the investment

areas are limited and the investment is made on the Treasury bill which has a low return.

Table 11: The Impact of Pension Fund Investment in the Agency’s Financial Performance

Item	Variables	Percentage
The organization performance is profitable because of pension fund	23	63.89
The organization is not profitable	7	19.44
The organization will be profitable in near further	6	16.67
Total	36	100

Source: own survey, 2009.

As per the above table, 63.89% of the respondents said the organization performance was profitable because of the pension fund, 19.44% of respondents said due to very small interest the organization was not profitable while the rest of respondents said that because of the drastic growth of pension collection the running (operational expense) of the agency was covered and the profit of the investment would be in near future.

Table 12: Profit from the Investment of Pension Fund

Years	Profit from the investment of pension fund (in millions) in POESSA.	Profit from the investment of pension fund (in millions) in ESSA.
2003	-	85.37
2004	0.92	98.23
2005	12.2	104.84
2006	31.63	163.38
2007	62.64	217.2
2008	107.79	258.20
2009 for 9 months	119.31	-

Source: from the agencies published material.

3.2.6.2 The Amount of Pension Fund Collected from Contributor

In ESSA and POSSA there are two sources of funds. These are the regular contribution of employees and employers and the return from investing excess of cash from pension contributions over benefit payments. Currently, the rate of regular contribution is 18% of the civil servants’ pension fund and 25% in the military and police service pension fund. The employee’s share in both case is 5%, for the first year and then increasing to 6% for the second year, 7% for the third year and above while the rest 7% for the first year, 8% in the

second year, 9% in third year and 11% for the fourth and above years contributed by the public office in the case of civil service pension fund.

The public office in the case of military and police service pension fund contributes 18% for the first year, 20% for the second year, 22% for the third year and 25% for the year four and above.

Table 13: The Rate of Pension Fund Contribute from Civil Employees and Employer

Years of service	Employees	Employers	Total
1 st year	5%	7%	12%
2 nd year	6%	8%	14%
3 rd year	7%	9%	16%
4 th year and above	7%	11%	18%

Source: from the organization published material.

Table 14: The Rate of Pension Fund Contribute from Military and Police Service Employees and Employer

Years of service	Military and police service	Employers	Total
1 st year	5%	7%	18%
2 nd year	6%	8%	20%
3 rd year	7%	9%	22%
4 th year and above	7%	11%	25%

Source: from the organization published material.

Table 15: The Amount of Collection (in billions)

Years	Total amount of collection in POESSA.	Total amount of collection in ESSA.
2003	-	2.4
2004	0.41	3.92
2005	1.45	5.01
2006	2.18	6.13
2007	3.42	9.6
2008	4.67	12.66
2009	4.24	-

Source: from the organization published material

The amount of Pension Fund Paid for Pensioner

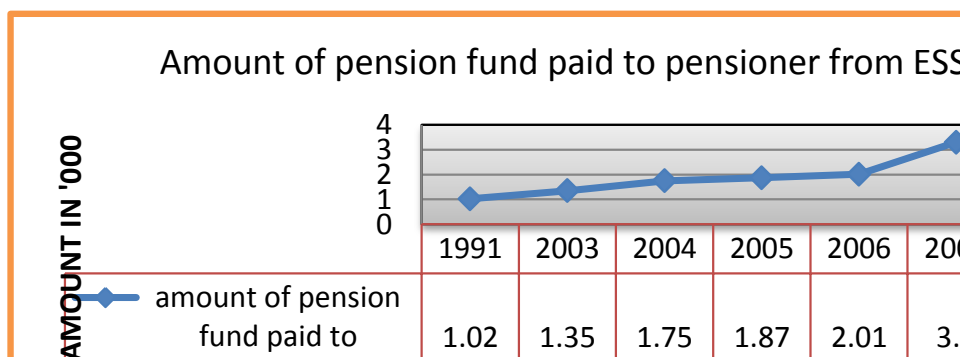
Benefits of the Pension Scheme:

- Old age pension
- Sickness pension
- Work injury pension
- Survivors pension

Benefit Amount:

- ❖ Old age and Sickness Benefits - for ten years’ service, an employee is entitled to 30% of the average salary paid in the last 36 months of employment. An additional 1.25% will be added each year for service spanning more than ten years.
- ❖ Work Injury Benefits – not considering service years and age, the injured will be entitled to 47% of his/her monthly salary received before the month during which the injury occurred.
- ❖ Survivors Pension - Out of the pension entitlement of the deceased:
 - Spouse will be entitled to 50%
 - Children will be entitled to 20%
 - Parents will be entitled to 15%

Figure 3: The Amount of Pension Paid for Pensioner



Source: from the agency published material

Table 16: Profitability of the Investment Fund

Item	Variables	Percentage
Based on the treasury discount rate	26	72.22
Very high profit	9	25
No answer	1	2.78
Total	36	100

Source: own survey, 2009.

As per the above table, 72.22% of the respondents said that the profitability of the investment depended on the Treasury bill discount rate which was 1.01% actual with 91days bill of FV 100 Birr of 0.3 Birr at discount rate while 25 percent of the respondents said that profitability was very high whereas only one person had no answer.

3.2.7 The Current Regulation of Pension Fund Investment

Table 17: The Current Regulation of Pension Fund Investment

Item	Variables	Percentage
Current pension fund regulation is directed by minister of finance	30	83.33
No answer	5	13.89
Not related	1	2.78
Total	36	100

Source; own survey, 2009

With regard to the current regulation of pension fund investments in Ethiopia, 83.33% of respondents said that current pension fund regulation was directed by minister of finance that have declared the pension fund applied to Treasury bill auction. Only 13.89% had no answer to this question while one respondent answer was not related to this issue.

4. Summary, Conclusions and Recommendation

The chapter is devoted to the highlights of the study and conclusion derived from the finding. The chapter ends with recommendation that were made on the basis of the findings.

4.1 Summary

Ethiopian Social Security Agency is reinstated as an autonomous federal agency on June 29th, 2006, proc. No. 495/2006. It is accountable to the Prime Minister. The objective of the agency is to strengthen and expand social security programs. It has given the power and duty to invest the social security funds in profitable and reliable investment activities.

The study was undertaken to assess the opportunities and challenge of pension funds investment in Ethiopia. Primary and secondary data sources were used to gather the necessary information. The primary data collected from 36 respondents that had direct contact with pension fund investment activities of the agency. This was supplemented by information from secondary source like

basic concept and definition about pension and plan funds, classification of pension plans and investment consideration for different types of pension plan were stated in the review of related literature. Practices of pension fund investment in some other countries were briefly discussed in chapter two. In connection to this, attempts were made to assess the opinion of those 36 respondents most of whom were part of the agency's pension fund investment decision. The opinion of the respondents toward the pension fund investment was collected and documents, as related issues, were also reviewed.

As previously reported in the study 36 respondents were selected to complete the questionnaires. The gathered data were presented, analyzed and then the following findings were obtained. As seen in the findings the agencies assigned some amount of fund each year for investment purpose. Although the amount of fund showed an increasing trend in recent years after a steady growth for some years, there was no specific formula or way of assigning the fund.

In addition to this, the study findings indicated that the agencies had been investing only in treasury bills, government bonds and time deposit. Other assets like shares, real estate and loan had insignificant share in all the investing period of the agency. Hence, a major critique of this study is seen in the attainment of unsatisfactory return on pension funds investment because of less diversification and inefficient investment practices. Due to this, confidence cannot be maintained on it in sustaining the fund, and meeting the investment objectives. From this point of view, it would appear that the fund was not utilized as its potential and it would appear less useful for agency, nation and beneficiaries unless and until measures are taken for better investment of the fund.

The finding showed the necessity of tripartite representation on the board of management regarding pension funds investment. It also showed the necessity of a separate investment committee charged exclusively with the responsibility of administering the investment activities.

As seen in the findings, through it was found to be undetailed and no exhaustive; it showed the existence of investment guideline and policy that direct how the funds should be invested. Moreover, the investment activities of the agencies were not found to be the existing guideline.

The study finding also showed that the current financial market development of the nation constraints the diversification potential of the agency. Moreover, the study showed that the profitability of the agency's investment has no effect on the financial earnings of agency's employees. It assured that there is no linkage at all between the employees and investment performance, however, it has a direct effect on pensioner's financial earning.

4.2. Conclusions

The respondents were assumed to be knowledgeable to the opportunities and challenges of pension funds investment. The following were conclusions of the majority of findings.

The majority of the respondents pointed out the government intervention for the major challenges of the agency's investment activities, limited investment, and low market return, absence of financial market, and limited experts as per their order. Pension fund obligated to invest in accordance to non – financial objective, almost always face serious political obstacles that hamper their ability to invest effectively and their asset allocation was systematically biased towards targeted investments and lending to government at low yield. Pension fund recorded poor performance of investment because decision was influenced by government intervention by pressuring the agency to invest large amount of fund on assets like treasury bills. As result, the agency had been gaining insufficient yield.

Even though all of the respondent had agreed on the benefits to be brought about by the establishment of the stock exchange market for pension fund investment in Ethiopia ,41.67% of them said the investment would not be feasible in the absence of stock exchange market while 8.33% of respondent were not sure, whereas 50% of them replied that pension fund could be feasible on agriculture , construction, real state, education, bonds and shares of government corporation like telecommunication, electric power corporation etc. Right now, there are untouched investment opportunities that can't wait the establishment of stock exchange market; as a result, in the absence of stock exchange market pensions fund investment can still be feasible.

The study shows that 16.67% respondents rated strongly agreed on invested fund so far near a sufficient yield, 8.33% agreed, 41.67 strongly disagreed, 8.33% disagreed and 25% have no opinion. The finding indicates that the

yield on the pension fund investment was not sufficient whereas the current pension fund undertaken on the treasury bill which revealed overall nominal returns were very low, finding also showed that high concentration of fund on treasury bill which showed low market return and agency prioritizing on safety more than profitability and could be the reason for the insufficient yield on pension fund investment.

The respondents had shown different opinion about the agency profitability in relation with pensioner's income. 50% of them said no relation between them, 27.78% of them said there was direct relation between them. 5.56% of them had no answer and the rest 5.56% gave unrelated answers; as a result, proper management of the pension fund would be profitable. This also means contributing role to economy, developing the country, improving the living standard of pensioners and capital mobilization so the profitability of the agency has direct effect on pensioners' income.

As 75% of respondents said, a separate pension fund investment committee was necessary. In some other countries, practices and international guidelines suggest for the representation of stakeholder other than government representative in the board of management and a separate investment committee. On contrary, in Ethiopia, the board of director of management is completely dominated by the government representatives that are officials and have influence on investment matter of the agency. And there was no investment committee which was exclusively responsible for the pension funds investment issues. The agency had an investment guideline; however, it seems that no care was taken to make the guideline more comprehensive. And detail the current investment activity of the agency were not according to the formulated investment guidelines, and even it was not possible to say the investment activities performed by the agency approached the investment guidelines.

4.3 Recommendation

Based on the findings and conclusions, the following suggestion and recommendations were given which may be valuable to the government, the agencies, and to academicians and other professionals.

- i. The ESSA and POESSA have failed TO MEET their objective "one of THE objective being improving the life of the old aged people". This has got a great link with government intervention on the management

of the pension fund. Therefore, government should limit its power and duty on managing and controlling the pension fund. The agency might consider inclusion of representatives on the board of management regarding pension funds' investments other than government representative especially representative from workers and employers if possible pensioners.

- ii. The government should design controlling mechanism for pension fund rather than directly controlling each activity of the agency. This make the agency to handle the pension fund per its choice of investment and increase the efficiency of the agency in managing the pension fund. This can be fulfilled by creating a separate investment committee which is exclusively responsible for the pension funds investment issues.
- iii. Since the establishment of stock exchange market has a benefits to bring for the development of pension fund investment (that is, increase liquidity, increase the type of assets available, and mobilize the capital of the agency from one sector to other), government should facilitate its establishment.
- iv. The concentration of short-dated assets in the ESSA and POESSA may largely reflect the absence of wide set of alternative financial assets of long maturity to invest in. however, the agency even with existing situation, may consider investing in private equities, real assets such as real estate, mortgage's, bonds, equities and of government corporation like telecommunication, and electric power corporation.
- v. The ESSA and POESSA as a responsible administrator of the pension fund should consider diversification as one of its general principles to invest the fund as it gives the agency the chance to consider assets with high risk and return. And also the existing investment guideline should be comprehensive and detail so that there would be clear and directional way of directing the pension fund investment activities.

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