DETERMINANTS OF GROWTH IN NATIONAL SOCIAL SECURITY FUND OF KENYA

BY
TARUS K. KOECH
D53/PT/10621/2008

A RESEARCH STUDY SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILLMENT OF MASTER OF BUSINESS ADMINISTRATION DEGREE OF KENYATTA UNIVERSITY

November, 2010
Koech, Tarus K.
Determinants of growth in national
DECLARATION

This proposal is my original work and has not been presented for a degree in any other university or for any other award.

Signature: ___________________________ Date: 15/11/2010

Tarus K. Koech (D53/PT/10621/2008)

We confirm that the work reported in this proposal was carried out by the candidate under our supervision.

Signature: ___________________________ Date: 15/11/2010

Mr. Ndede F.

Lecturer

Signature: ___________________________ Date: 17/11/2010

Mr. Thuo A.

Lecturer

For and on behalf of Kenyatta University

Signature: ___________________________ Date: 18 Nov, 2013

Chairman
ACKNOWLEDGEMENT

I wish to acknowledge my indebtedness to many colleagues and friends, who encouraged me throughout the study period. It is difficult to appreciate their effort individually by mentioning their names. It is my wish and hope that my sincere appreciation will be taken positively for their encouragement and motivation which was a driving force for this work. Special mention goes to my supervisors Mr. Ndede, and Mr. Thuo, who provided invaluable guidance and inspiration by ensuring that I complete the project in good time. My gratitude also goes to Muathe SMA, a worthy friend and a lecturer, school of business.
DEDICATION

To my wife and classmate, Maureen W. Nthiga, for her support and encouragement throughout the course
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ANOVA</td>
<td>Analysis of variance</td>
</tr>
<tr>
<td>ASC</td>
<td>Accounting standards committee</td>
</tr>
<tr>
<td>BBC</td>
<td>British Broadcasting Corporation</td>
</tr>
<tr>
<td>COTU</td>
<td>Central organization of trade unions</td>
</tr>
<tr>
<td>EPFO</td>
<td>Employees provident fund organization</td>
</tr>
<tr>
<td>ERISA</td>
<td>Employee Retirement Income Security</td>
</tr>
<tr>
<td>FKE</td>
<td>Federation of Kenyan employers</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Products</td>
</tr>
<tr>
<td>GMP</td>
<td>Guaranteed minimum pension</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labor Organization</td>
</tr>
<tr>
<td>MFR</td>
<td>Minimum Funding Requirement</td>
</tr>
<tr>
<td>NSSF</td>
<td>National Social Security Fund</td>
</tr>
<tr>
<td>NSSFT</td>
<td>National Social Security Pension Trust</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Co-operation and Development</td>
</tr>
<tr>
<td>OPB</td>
<td>Occupational Pensions Board</td>
</tr>
<tr>
<td>OPRA</td>
<td>Occupational Pensions Regulatory Authority</td>
</tr>
<tr>
<td>RBA</td>
<td>Retirement Benefit Authority</td>
</tr>
<tr>
<td>SPSS</td>
<td>Statistical Package for social sciences</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
</tbody>
</table>
ABSTRACT

The provision of pension benefits in Kenya is an issue that has over the years attracted major concerns from politicians, social groups and individuals. The present day State pension scheme, otherwise called the National Social Security Fund (NSSF) has been the subject of bitter criticisms from identifiable bodies in Kenya such as the Trades Unions, Retirement Benefits Authority (RBA) and other Private Sector player. This proposal is, therefore, seeks to investigate the factors affecting growth of the Retirement Schemes in Kenya: a case of National Social Security Fund. The study is guided by the research objective of establishing the factors affecting growth in the pension industry where management policies, funding of the schemes, investment and the legal framework are closely looked at. NSSF is used a case in point because of its market share and position in regard to retirement schemes industry. Descriptive research design will be used and a sample drawn from the NSSF staff based at the head office, Nairobi, using random sampling method. A ten (10%) percent totaling to seventy four (74) respondents will be drawn from a target population of 741 people, representing the total NSSF work force at the head office in Nairobi. Data will be collected using questionnaires. Descriptive statistics will be used to analyze quantitative data and reported using frequency distribution, means and percentages. Qualitative data will be analyzed by interpreting and attaching significance to themes and patterns observed using content analysis. The study found that the growth of the NSSF has been on a steady increase during the period under study, but there remain numerous challenges to this growth. Management has put in a number of measures to ensure sustained growth but the efforts seemed uncoordinated and lacked in strategic focus. There are funding issues given that the Fund only relies on members contributions and investment income, all of which having legal limitations. Moreover, the fund has surmountable challenges brought about by the investment portfolio and legal framework of NSSF Act and the RBA regulations. Based on the findings, the research recommends intensive and coordinated membership drive to promote the existing products and develop the new one. There is needs to put more effort in employing the best ICT system in its operations, the best investment policies, management practices as well as employing good corporate practices in all it aspects of operations. Besides, the Fund to refocus its business strategies and continuously monitor through constant reviews and employing of best market practices in its operations. Lastly, there is need to explore ways of overcoming the legal challenges on retirement schemes through amending the operating laws and frameworks to allow for flexible but prudent investment streams that that makes them equally competitive as other financial institutions.
LIST OF FIGURES

Figure 2.1: Conceptual Framework .................................................. 26
Figure 4.2: Respondent’s current position in the organization .................. 34
Figure 4.3: Membership Contributions in Billions .................................. 35
Figure 4.4: Number of Active Members between 2000 to 2009 .................. 36
Figure 4.5: Respondent’s management’s role in growth Fund promotion ........ 36
Figure 4.6: Respondent’s satisfaction on Fund’s strategic plan .................. 40
Figure 4.7: Respondent’s satisfaction on Fund’s control systems ............... 41
Figure 4.8: Respondent’s scheme’s funding adequacy assessment on members
  Contributions ................................................................. 43
Figure 4.9: Funding adequacy assessment on returns from the investment ...... 46
Figure 4.10: Respondent’s awareness of current fund investment portfolio ...... 47
Fig 4.11: Respondent’s knowhow of challenges facing the Fund in
  investment decisions ......................................................... 48
Figure 4.12: Respondent’s knowhow of challenges facing the Fund in
  investment decisions ......................................................... 49
LIST OF TABLES

Table 1.1: NSSF membership and contributions growth ......................... 7
Table 3.1: Sampling Frame .................................................................... 29
Table 3.4: Sample Size .......................................................................... 29
Table 4.4: Respondent’s Gender .............................................................. 33
Table 4.5: Respondent’s highest level of education .................................. 33
Table 4.6: Respondent’s length of service in the organization .................. 34
Table 4.7: Respondent’s awareness of Fund’s strategic plan ..................... 39
Table 4.8: Respondent’s knowledge of Fund’s revenue acquisition .......... 42
Table 4.9: Funding adequacy assessment on target contributing group ...... 44
Table 4.10: Respondent’s view on current portfolio adequacy ................. 47
Table 4.11: Respondent’s view on current regulations ............................. 50
## TABLE OF CONTENT

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Title</td>
<td>i</td>
</tr>
<tr>
<td>Declaration</td>
<td>ii</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>iii</td>
</tr>
<tr>
<td>Dedication</td>
<td>iv</td>
</tr>
<tr>
<td>Abbreviations and Acronyms</td>
<td>v</td>
</tr>
<tr>
<td>Abstract</td>
<td>vi</td>
</tr>
<tr>
<td>List of figures</td>
<td>vii</td>
</tr>
<tr>
<td>List of tables</td>
<td>viii</td>
</tr>
<tr>
<td>Table of content</td>
<td>ix</td>
</tr>
<tr>
<td>Operational definition of terms</td>
<td>xiii</td>
</tr>
</tbody>
</table>

## CHAPTER ONE: INTRODUCTION

1.1 Background of the Study .......................... 1  
1.1.1 Retirement Benefits Industry in Kenya ............ 2  
1.2 Statement of the Problem ..................... 8  
1.3 Objectives of the Study ....................... 9  
1.3.1 General Objective ............................ 9  
1.3.2 Specific Objective ............................ 9  
1.4 Research Questions ............................ 9  
1.5 Significance of the Study ..................... 9  
1.6 Scope of the Study ............................. 10  
1.7 Limitations of the Study ...................... 10  
1.8 Assumptions of the Study ...................... 11

## CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction .................................... 12  
2.0.1 Evolution of Social Security ................. 12  
2.0.2 Current State of Coverage ................... 14  
2.1 Theoretical Review ................................ 16  
2.2 Empirical Review ................................ 20
CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction ................................................. 28
3.1 Research Design ............................................. 28
3.2 Research Location ........................................... 28
3.3 Target Population ........................................... 28
3.4 Sampling Design and Procedure ......................... 29
3.5 Data Collection and Instruments and procedure ........ 30
3.5.1 Data Collection Procedure ............................. 30
3.5.2 Questionnaire ............................................. 30
3.6 Validity and Reliability of the Instruments .............. 30
3.7 Data Analysis Methods ..................................... 37

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.0 Introduction .................................................. 32
4.1 Response Rate ................................................. 32
4.2 Background Data of the Respondents .................. 32
4.2.1 Gender ..................................................... 32
4.2.2 Highest Level of Education ............................ 33
OPERATIONAL DEFINITION OF TERMS

Active Members/ Contributions – Registered accounts and receiving paying as and when they fall due

Growth - Increase in the number of the actively contributing members in the retirement scheme

Member – A person registered with National Social Security Fund as per the provisions of NSSF Act (Cap 258, Laws of Kenya)

Pension Fund - A fund established by an employer to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees.

Provident fund - Centrally managed, defined contribution schemes with administered rates of return paying lump sum benefits at retirement

Social Security - The protection by society to its members through a series of public measures against economic and social distress that would otherwise be caused by the loss or substantial reduction of earning resulting from sickness, maternity, employment injury, loss of employment, disability, old age and death: the provision of medical care and provision of subsidies to families with children.

Reliability - A measure of the degree to which a research instrument gives consistent results after repeated trials

Validity - Accuracy and meaningfulness of inferences, which are based on research results – the degree to which results from analysis of data actually represents phenomena under study
CHAPTER ONE
INTRODUCTION

1.1 Background of the Study
Social security is important for the well being of workers, their families and the entire community. It is a means of creating social cohesion, thereby helping to ensure social peace and social inclusion. It is an indispensable part of the government social policy and important tool to alleviate poverty. It can through national solidarity and fair burden sharing, contribute to human dignity, equity and social justice. It is also important for political inclusion, empowerment and the development of democracy.

A number of countries in Latin America and transition economies radically transformed their pension provision, and, moved swiftly in the direction of privately provided individual retirement plans. The blueprint for pension reform in these countries was provided by Chile’s 1981 pension reform (Barrientos, 1998).

Civil servants and other public-sector employees - in the military, education, publicly owned enterprises among others - were often among the first groups of workers to be covered by government - sponsored pension schemes. In a handful of countries - including Bangladesh, Bhutan, Botswana, Eritrea, Lebanon and the Maldives - public-sector employees are still the only group covered by a formal pension scheme (Palacios and Whitehouse, 2006).

Palacios and Whitehouse (2006) go on to state that the rationale for providing pensions for government employees was somewhat different from that behind the creation of national pension schemes. Among the objectives particular to schemes for government workers were: securing the independence of public servants; making a career in public service attractive; shifting the cost of remunerating public servants into the future; and retiring older civil servants in a politically and socially acceptable way.

When mandatory pension coverage was expanded to the private sector in the US, there often seemed little point in including civil servants - who already had their own arrangements - in new
national schemes. Civil servants have also proved powerful in protecting their own financial interests. Furthermore, while civil-service pension schemes share some of the social-policy goals of national pension programmes, they must also accommodate the government’s human-resources policy as an employer. For these reasons, special retirement-income schemes for the public sector have often persisted. The issue of ‘dualism’ - whether civil-service schemes are integrated with national schemes covering private sector workers or are separate - is a central policy question in those countries where parallel systems remain.

According to the International Labour Organization (ILO, 2001), about 80% of the world’s populations have no access to formal social security beyond possibilities presented by informal networks such as family kingship groups or communities. In other words, four out of every five people in the world live in conditions of social insecurity. This proportion is even higher in countries of sub-Saharan Africa where more than 90% of the population is generally not covered under any social security scheme. In Kenya existing pension schemes are limited to formal sector workers. ILO estimates that about 84% of the labour force is excluded while those covered receive benefits that fall short of their basic needs.

The National Social Security Fund (NSSF) was established in 1965 by an Act of Parliament under cap 258 Laws of Kenya. The Fund was intended to serve as the 1st pillar of social security for Kenyan workers. The ILO defines Security as the protection which society provides for its members through a series of public measures against the economic and social distress that otherwise would be caused by stoppage, or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death the provision of medical care and the provision of subsidies for families with children.

1.1.1 Retirement Benefits Industry in Kenya

An increasing number of African countries have recently initiated reform of their pension and social protection systems. In Kenya, the achievement of universal and affordable access to social security, reduction of income insecurity, reduction of the unequal access to opportunities and removal of discrimination has been slow due to resultant burden on existing social security arrangements, changing family structures and values. Despite this glaring need, Kenya does not
have a conducive constitutional, legislative, policy and institutional environment. First the constitution of Kenya, which is the country’s supreme law that provides for other fundamental rights and freedoms, does not recognize the right to social security. The Government has not domesticated the provisions of international treaties and conventions on the right to social security, a pre-requisite before such provisions can be invoked in domestic court. Secondly, Kenya does not have an official policy on social security, social insurance or other form of social security protection. This implies that whatever legislative or institutional interventions exist or are made from time to time do not flow, emanate or derive from a clear, central coordinated policy locus.

However, Kenya has also undertaken a major reform of parts of its pension system, over the last decade. Whereas the primary motivation for reform of pension systems in many countries worldwide has been to address the growing fiscal burden of pension liabilities, in Kenya the major driver for reform was to strengthen the governance, management and effectiveness of the existing pensions system.

Kenya has several types of schemes which offer social security which can be divided into three broad categories: public schemes, occupational schemes and individual schemes. The public schemes are established by Act of parliament. The occupational schemes are run by employers for their employees and are underwritten by private insurance companies. The individual schemes are private schemes designed for the employed, self employed and/ or those in non-pensionable employment. The public schemes, occupational and individual schemes cover workers mainly in the formal sector. They form the first pillar where membership is not optional but compulsory. The occupational schemes form the second pillar where membership is either voluntary or mandatory and are privately managed. The voluntary schemes form the third pillar membership is voluntary. The pillars are the basis of contribution and the distribution of retirement benefit schemes (Chitembwe, 2007).

A new Retirement Benefits Act was enacted in 1997 and a comprehensive framework of regulations was implemented three years later in 2000. A regulatory authority, the Retirement Benefits Authority (‘the RBA’) was established at the same time to regulate, supervise and
promote the retirement benefits sector in Kenya. Furthermore, reform of the National Social Security Fund ('the NSSF'), the mandatory scheme for all formal sector employees in Kenya (other than public service employees) has also been firmly on the national agenda with wide debate on the nature and extent of role the NSSF should play as part of the pension and social protection system in Kenya. Kenya also has a separate pension plan for public service employees financed on a pay-as-you go basis which is currently also part of the broader pension reform programme under consideration.

It is worth noting that, the Retirement benefits industry controls over Kshs 260 billion worth of assets through over 1300 occupational pension schemes, 16 individual retirement benefits schemes, and the National Social Security Fund, NSSF (RBA News, 2009). Savings in Kenya are currently operated by statutory contributions under National Social Security Fund, sponsor led schemes and formal retirement benefit sector which covers approximately 11% of the labour force (Kereithi, 2009). These schemes together with the civil service pension scheme provide coverage to 15 percent of Kenya’s labour force, mostly those in formal employment. In terms of membership, the NSSF has around 67% of the total, followed by the Civil Service Pension Scheme with 22% and occupational schemes with 11%. In terms of assets, however, the occupational schemes contribute 61% of total industry assets followed by NSSF with 38%. The Civil Service Pension Scheme is non-funded and has no assets.

The pre-RBA era in Kenya saw a retirement benefits sector with little effective regulation and supervision. The interests of retirement scheme members and their beneficiaries were not sufficiently protected. There was concern about the design and financial viability of certain schemes in the country unless appropriate remedial action was taken. There was poor administration and investment of scheme funds with particular concerns on concentrations of investment, particularly in property. In the majority of cases, this was inadvertent and unintentional, but without adequate controls and supervision, there was always a risk of mismanagement and outright misappropriation. Further disclosure and accountability were lacking. The NSSF had also been riddled with governance issues and concerns over its investments and payment of benefits. Not surprisingly, confidence in the sector was low. The primary motivation for reform and enactment of the retirement benefits legislation in Kenya in
1997 was thus to strengthen the governance, management and effectiveness of the NSSF and of the occupational pensions sector.

Thus the enactment of the Retirement Benefits Act (1997) and the establishment of the Retirement Benefits Authority in 2000 marked the beginning of a regulated, organized and more responsible retirement benefits sector in Kenya. Through the regulatory framework and policies, new legislation since then has been founded on two tenets: Improvement of protection of member’s benefits, and improved governance of schemes. The Retirement Benefits Authority is a statutory body established in 1997 under the Retirement Benefits Act. The Act itemizes five mandates of the Authority; this formed the basis for the preparation of the strategic plan. The five mandates are: 1) Regulate and supervise the establishment and management of retirement benefits schemes; 2) Protect the interest of members and sponsors of retirement benefits schemes; 3) Promote the development of the retirement benefits sector; 4) Advise the Minister for Finance on the national policy to be followed with regard to the retirement benefits sector; and 5) To implement all government policies relating thereto.

The Retirement Benefits Act requires each retirement benefits scheme to seek the services of a registered fund manager. The manager, for the purposes of the Retirement Benefits Act, is a company whose business includes undertaking, pursuant to a contract or other arrangement, the management of the funds and other assets of a scheme fund for purposes of investment; providing consultancy services on the investment of scheme funds; and reporting or disseminating information concerning the assets available for investment of scheme funds. The managers must be licensed by the Retirement Benefits Authority on an annual basis in order to carry out fund management of pension scheme assets. Before pension scheme trustees engage the services of a fund manager, they are required to come up with a prudent investment policy on the investment of the scheme funds, clearly stating the scheme’s investment objectives and the benchmarks that will be used to measure the scheme’s performance.

National Social Security Fund, on the other hand, is charged with the responsibility of operating a provident fund scheme to provide basic social security to all workers in Kenya who were not covered by other guaranteed pension scheme. The main activity is to ensure compliance with the requirements of the Act (Cap 258). This entails registration of eligible members receiving their
contributions investing them as stipulated by the Act and paying out benefits to beneficiaries under the specified contingencies. But its membership grew and operations became complex the Act was amended in 1987 to transform it into an autonomous state corporation. In 1988 board of trustees nine (9) members were created with members from federation of Kenyan employers (FKE), central organization of trade unions (COTU) and Government. This composition of board of trustees was meant to accommodate the views and aspirations of the three key social partners (Government, Workers and Employers representatives) in the policy formulation and the running of the organization.

Given the limitation of the existing provident fund, the social partners embarked on an ambitious reform programme intended to amend the NSSF Act and convert it into National Social Security Pension Trust (NSSPT) which will eventually pay life time monthly pension to the workers upon retirement. The converted NSSF will serve as the 1st pillar of social security leaving occupational and private schemes to compliment it as the second and third pillars respectively.

Social security is a complex undertaking and takes many forms of administration. In most western industrialized countries they operate social welfare insurance pension schemes. In such schemes the workers share inherent risks covered by the administering organization and the rate of contribution are usually a percentage of individual earnings. However in many of the low income developing countries, Kenya included, most common form of the social security administered are provident fund. Provident funds such as NSSF are compulsory saving schemes where members contribute a proportion of their monthly salary and when they eventually qualify under any of the specified contingencies they are paid in lump-sum. Such benefits are the total sum of their contributions and percentage of returns earned from investments during the period in which contributions are held by the fund.

In terms of membership NSSF has grown steadily but slowly. In 1966 membership of the Fund was 252,107. Over the years, membership has steadily grown and the Fund has a cumulative registered membership of 3,569,573. The Fund attributes this growth to an increase in the working urban population. The current active membership accounts are just over a million. NSSF currently draws its membership from workers in the formal sector of the economy. Table
1.1 below shows the Fund membership and contributions growth between the years 2002 to 2009.

Table 1.1: NSSF membership and contributions growth

<table>
<thead>
<tr>
<th>YEAR</th>
<th>CONTRIBUTIONS (in Billions)</th>
<th>ACTIVE MEMBERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kshs. 2.77</td>
<td>577,083</td>
</tr>
<tr>
<td>2</td>
<td>Kshs. 3.11</td>
<td>647,917</td>
</tr>
<tr>
<td>3</td>
<td>Kshs. 4.27</td>
<td>889,583</td>
</tr>
<tr>
<td>4</td>
<td>Kshs. 4.55</td>
<td>947,917</td>
</tr>
<tr>
<td>5</td>
<td>Kshs. 4.91</td>
<td>1,022,917</td>
</tr>
<tr>
<td>6</td>
<td>Kshs. 5.41</td>
<td>1,127,083</td>
</tr>
<tr>
<td>7</td>
<td>Kshs. 5.44</td>
<td>1,133,333</td>
</tr>
<tr>
<td>8</td>
<td>Kshs. 6.16</td>
<td>1,283,333</td>
</tr>
</tbody>
</table>

Source: NSSF records, 2010

The Fund’s mandate is to register members, collect contributions, invest the contributions and pay specified benefits. The scheme is financed entirely by the employer/employee monthly contributions set at 5% of wages based on a ceiling of Kshs 400 per month.

Over a decade into the reform is a good time to take stock and assess the reform initiatives and the results achieved. Some of the positive effects of the legislation have started to be seen and thinking is now shifting to policy issues and the challenges of increasing coverage benefit adequacy and the growth of retirement savings. Indeed over the past three years in Kenya, there has been consensus on the need for further reform of the system. The achievements of the past decade, particularly with respect of voluntary employer sponsored occupational schemes, provides a good basis on which to implement further reforms to increase coverage and reduce post-retirement poverty levels. However, it is not lost to many that a number of the schemes have hit the headlines of the local dailies for the wrong reasons and therefore begs the question of the challenges facing growth of the retirement schemes in Kenya.
1.2 Statement of the Problem

Advancement in the social security in any country is an important component in economic development. It is for this reason that the Kenyan Government enacted The Retirement Benefits Act (No. 3 of 1997) as part of the on-going reform process in the financial sector in order to bring the retirement benefits industry under harmonized legislation, and, to address the many problems that had hitherto faced the industry.

According to UNESCO Report (2007), in the absence of a regulatory framework, the industry was characterized by lack of protection of the interests of members and dominance of sponsors (employers) in scheme affairs. In addition, many schemes were run through insurance companies that tended to operate in a non-transparent manner. As a result investment decisions were in many cases made in the best interest of vested parties and not in the interest of members or of the economy as a whole. With the regulations, cases of abuse of scheme’s assets by trustees or other parties have declined markedly, in the recent past as a result of the oversight role which the Authority play, and the “whistle-blowing” role of the various statutory service providers. There is also an increased awareness and direct participation of Members in the affairs of the scheme. This has helped to spur growth in this subsector (Kenya and UNESCO, 2007).

NSSF however, has over 2.9 million members but active contributors have not gone beyond a million despite its long history of existence and operation (RBA News, 2009). This has been attributed to rapid change of its top management; and the management has also cited legal framework as key of constraining factor to growth of the Fund. In addition there have also been cases of mismanagement of the schemes funds and RBA has accused NSSF management for their investments done in the past without following properly laid down policies and poor record keeping (RBA Act Regulations, 2000). However, there is no empirical evidence to ascertain these allegations. Therefore, this study seek to answer the question: What are the determinants of the growth of NSSF retirement scheme?
1.3 Research Objectives
This study will aim to achieve the following objectives;

1.3.1 General Objectives
This research study sought to establish the factors affecting growth of retirement schemes in Kenya.

1.3.2 Specific Objectives
i. The study sought to meet the following specific objectives:
   ii. The research investigated how management policies affect the growth of retirement schemes in Kenya.
   iii. The study sought to determine how funding affect the growth of retirement schemes in Kenya.
   iv. The research sought to determine how investments affect the growth of retirement schemes in Kenya.
   v. The research investigated how the legal framework affects the growth of retirement schemes in Kenya.

1.4 Research Questions
The study was guided by the following research questions:-
   i. How do management policies affect the growth of retirement schemes in Kenya?
   ii. What effects does funding of schemes have on the growth of retirement schemes in Kenya?
   iii. To what extent does investment affect the growth of retirement schemes in Kenya?
   iv. How does the legal framework affect the growth of retirement schemes in Kenya?

1.5 Significance of the Study
The findings of this will benefit the following:-

1.5.1 National Social Security Fund (NSSF)
The findings of this research are expected to be of great use to the management of the National Social Security Fund (NSSF) in evaluating and analyzing the factors affecting the growth of the
1.5.2 Other Retirement Schemes
The pension schemes in Kenya will find the results of this research very useful in unlocking the bottlenecks that impede the growth of the pension sub sector. There will be a knowledge transfer between institutions locally and from the developed world on the best industry practices and how well to tackle the challenges facing growth of the industry.

1.5.3 Government
The government of Kenya through the Retirement Authority (RBA) will benefit from the findings of this study and come up with policies that will enable the industry to thrive. RBA will also use the findings to identify the necessary amendments in the laws and regulations needed to spur the growth and streamline the pension industry.

1.5.4 Future Scholars
This research study will also add to the body of knowledge in the pension schemes. This research would, therefore, benefit future scholars as it will form a basis for further research work in this and other related sectors that could be conducted.

1.6 Scope of the study
The scope of this study was limited to NSSF head office in Nairobi. This is where most of the decisions are made. NSSF is used as a proxy for the other retirement schemes. The findings would, therefore, only be generalized to the extent of the population served by the institutions. It is also targeted to give an insight to the players in the retirement schemes industry and the challenges facing the funds growth.

1.7 Limitations of the Study
As in many other studies involving developing countries, Kenya being included, a major limitation is the availability of data. NSSF being provident fund and not fully under the institutional regulation of RBA, further constraints the generalization of the results from this
Furthermore, corruption may also affect the performance of retirement funds, resulting in payments that do not correctly reflect the history of contributions and the income generated by the funds. Another major limitation arising from the data is lack of consistence in recording data series.

1.8 Assumptions of the Study

Assumption is any important fact presumed to be true but not actually verified (Gay, 1983). In regard to this research following will be the operating assumptions:

- That the required management cooperation will be achieved
- The records used in the secondary sources are factual
- The pension operating environment will not change significantly in the course of research
CHAPTER TWO
LITERATURE REVIEW

2.0 Introduction
This chapter covers a review of past literature related to the study. The first part, reviews the theories around pension growth after which literature the turns its focus on the empirical literature, followed by the gap through overview of the literature and ends by graphical presentation through conceptual framework.

2.0.1 Evolution of Social Security
The oldest institution of social security in the history of mankind is the family. Closely connected by flesh and blood, inspired by tales of filial devotion, fraternal affection and parental sacrifice and encountered by various religions, every member of the family considered it as a part of his duty to share all they have with other members. Income from family property and family labor was pooled together and used for the maintenance of all members, whether productive or non-productive. Thus the family was in the past the bulwark of society and still is to some extend the epitome of what the word security connotes to most people. The family assumes the task of specializing individuals from early days, providing the necessary training to condition members to the socio-cultural framework of the society and to equip members to face life as an adult. It also constitutes a protective haven sheltering its members from the harmful forces of outside world. A family mainly consisting of adult parents and dependents children may even include two or more generations related by birth, sharing a common household with a commonly accepted division of labor, constituting an extended or joint family (Palacios and Sluchynsky, 2006).

Palacios and Sluchynsky, (2006), also find that another aspect binding people to each other was the love of their community and the fairly close-knit community set up. It was a matter of pride to every member of community that those who were old, ailing, infirm, physically or mentally handicapped, or single mothers were looked after by the community as a whole. Thus the word ‘security’ was almost synonymous with the family so that with the protection of one’s family,
one was rarely exposed to the vagaries of changing circumstances and individuals often progressed through a lifetime from the ‘cradle to the grave’ within the protective shell of family.

Most of the advanced nations had developed comprehensive social security systems in their countries by the beginning of the 20th century. However, the colonies under their long rule continued without any meaningful social security arrangements. No worthwhile social security schemes were introduced in these countries, except for some arbitrary schemes for compensation in case of employment injury and maternity benefits in large manufacturing establishments that formed the tiny formal sector. It was after the First World War in the case of South American countries and after the Second World War in the case of most African and Asian countries (after their independence) that some steps were taken towards social security. However, there remains much to be desired in terms of benefits level and coverage of social security in these countries. The expectations of people in the developing countries are much higher compared to situation in developed countries in the early period of the evolution to social security. Moreover, the historical time available to these poor countries is short and they are in away pressurized, due to both internal and external factors, to telescope the time available to them meeting developmental goals in general and social security in particular. A greater sense of urgency has now been imparted as a result of the unfolding of a process of globalization driven by the neo-liberal ideology that has given rise to a heightened sense of social insecurity among the developing nations and vulnerable sections (including informal sector workers) of people within these countries.

The new needs for income protection were not at first recognized as a concern of the state. The individual was thought to be responsible for his own welfare and capable through work and thrift and care for himself and family. The breakup of joint family system following the emergence of the urbanization and industrialization and in the process, withering away of the institutional base for security and support made it clear that security in old age in case of need had to be increasingly provided by society through its own solidarity. It is on this background that people in the informal sector should think of means and ways to come up with some kind of security in old age. These can be in terms of joining existing individual pension plans or coming up with other means of social security for old age.
2.0.2 Current State of Coverage

Social Security Coverage to the informal sector workers is still very low and a lot of efforts need to be made to educate the informal sector worker on the importance and means of saving for retirement. The informal sectors’ workers need to be encouraged through the incentives and education to become members of a scheme relevant to informal sector. This will enable them to accumulate savings for retirement, hence be able to maintain their standards of living when they retire from active pursuit of daily bread. Retirement Benefits Schemes are institutionalized tax incentive based vehicles through which workers in both formal and informal sector can save part of their income to ensure that they have adequate income after their active working period. There is however no clear policy on retirement benefits mechanism for the informal sector employees; since more emphasis has been given to occupational schemes whose coverage is still low (Nyakundi, 2009).

Pension reforms in Kenya should generally be a top government agenda to be able to create an enabling environment so as members from the informal sector. Generally, over 85 per cent of the Kenyan workforce is currently not covered by any form of retirement benefits saving vehicle. One area where provision of retirement benefits scheme is notably poor is amongst people working for small and medium size enterprises. These businesses, as per recent statistics, employ more than 60 per cent of the working population in the country (Economic Survey, 2005). The high proportion of workers in the informal sector and the low coverage of retirement benefits scheme for workers in the informal sector raises the question on whether there are particular barriers to pension schemes participation in this segment of the economy, and if so, what can be done to improve the situation.

Making the appropriate choices is widely considered to present substantial demands upon individuals in this sector. Individual schemes are said to be too complex, whilst the information supplied about them is usually opaque and cannot be easily be understood by workers in the sector. Over and above this, the level of financial literacy is widely accepted to be too low to enable the informal sector employees to analyze the requisite data, even if these data were presented more transparently. There is plenty of evidence from literature that the informal sector workers are myopic, and have very high discount rates, so that pension saving is given low
priority. For all these reasons, individuals in the informal sector, left to choose on their own, are likely to save inadequately or inappropriately, through risky investment products. This has led to proposals for choice to be curtailed, and even for the advocates of limiting choice to suggest that 'libertarian paternalism is not an oxymoron' (Sunstein and Thaler, 2003).

The environmental changes can make people less willing either to participate in saving for retirement because of the resultant uncertainties, and more importantly, adverse changes in that environment can have a greater negative impact than, prima facie, appears justified. A particular event in the environment can undermine the confidence of a particular group of people, and can have far wider consequences in that it generates a wider lack of confidence. In this respect, its impact is 'contagious'. The term 'contagion' has been used by international financial economists to describe the domino effects resulting from failures in individual economies or sub-systems of these economies. Other economies, or sub-systems of an economy, contiguous with, or perceived as sharing some of the characteristics of the initial economy or sub-system, are treated in the same way as that initial economy or sub-system. Confidence in them falls; investors desert them. This happens whether or not the lack of confidence is deserved, or is deserved in full. The concept of 'contagion' provided the basis for analyzing the South-Asia financial crisis of 1997. Analysis of this and succeeding 'crises' was couched in terms of 'spillover' and 'flight to quality' (IMF, 1999). It was also much used in the period following the collapse of the energy trader Enron, where commentators were concerned with 'fallout' and 'guilt by association' (Gleckman, 2001).

Insofar as stock market falls, accounting scandals, provider failures, or perceived shortcomings of regulators or government policy can provoke a loss of confidence in private pension provision, they, too, can have 'contagion effect'. They can engender skepticism and taint the credibility of such an approach to the financing of old age, either because they call into question some of the precepts upon which it is based, or because they reveal weaknesses of key actors or institutions. Linkages are made, whether or not they are entirely applicable, and conclusions are drawn, whether or not they are entirely valid.
2.1 Theoretical Review

Researchers have sought to analyze the factors contributing to effective growth of an organization or an economy as a whole. Economists have done a great deal of research on economic growth.

Endogenous growth theory formalizes the role of technical progress in explaining modern economic growth. Although this is a relatively recent development, many of its ideas were already stressed by authors such as Kuznets, Griliches, Schmookler, Rosenberg and Schumpeter. During the 1950s and 1960s, mainstream economics was dominated by the one-sector neoclassical growth model of Solow (1956) and Swan (1956), whose main focus was on capital accumulation. The model postulated the existence of an aggregate production function featuring constant returns to scale and returns to each input falling asymptotically to zero; given that some inputs cannot be accumulated, the model could not generate sustained growth unless technology was assumed to improve exogenously. This simple treatment of technology as exogenous was considered as unsatisfactory for two main reasons: first, by placing the source of sustained growth outside the model, the theory could not explain the determinants of long-run economic performance and second, empirical evidence pointed out that technical progress often depends on deliberate economic decisions.

Helpman and Krugman (1985) developed growth models with an expanding variety of products as natural dynamic counterpart to trade models based on increasing returns and product differentiation. As such, they offer a simple framework for studying the effects of market integration on growth and other issues in dynamic trade theory. In many instances, technical progress may be non-neutral towards different factors or sectors, where biased technical change is incorporated in the basic growth model. By introducing several factors and sectors, the economic incentives to develop technologies complementing a specific factor, such as skilled workers, can be studied. These incentives critically depend on the definition of property rights over the production of new ideas. The high variability in the effectiveness of patent laws across countries has important bearings on the form of technical progress. In particular, governments in less developed countries may have an incentive not to enforce intellectual property rights in order to speed up the process of technology adoption. However, the undesired side effect of free-
riding is that innovators in industrialized countries lose incentives to create improvements that are most useful in developing countries, but of limited application in industrialized markets. Further, the results may vary when integration is limited to commodity markets with no international diffusion of knowledge (Rivera-Batiz and Romer (1991a)) and when countries differ in their initial stock of knowledge (Devereux and Lapham (1994)).

According to Acemoglu and Zilibotti (2001), directed technical change through appropriate technology and development, has interesting implications for the analysis of some development issues. They show that technologies resulting from directed technical change are optimal for the economic conditions of the markets where they are sold. They analyze the implications of this finding in a two-country world where technological innovation takes place in the North, and the South does not enforce (or imperfectly enforce) IPRs. In this environment, innovators in the North can only extract rents from selling technologies (embodied in new varieties of intermediate goods) in the Northern market, since new technologies can be copied and locally produced in the South. Thus, innovation does not respond to the factor endowment of the South: the equilibrium skill-bias of technical change is determined by the factor endowment of the North only. In this sense, technological development tends to be “inappropriate” for the South: there is too much investment in inventing new technologies augmenting the productivity of skilled workers, and too little in inventing new technologies augmenting the productivity of unskilled workers. Such excessive skill-bias prevents the South from fully profiting from technological improvements. The theory can explain North–South productivity differences, even when the technology is identical and there are no significant barriers to technology adoption.

Acemoglu and Zilibotti (1997), provided what they termed as a natural way in which the expansion of the variety of industries can generate complementarities in the growth process is through its effects on financial markets. They constructed a model where the introduction of new securities, associated with the development of new intermediate industries, improves the diversification opportunities available to investors. Investors react by supplying more funds, which fosters further industrial and financial development, generating a feedback. The model offers a theory of development. At early stages of development, a limited number of intermediate industries are active (due to technological nonconvexities), which limits the degree of risk-
spreading that the economy can achieve. To avoid highly risky investments, agents choose inferior but safer technologies. The inability to diversify idiosyncratic risks introduces a large amount of uncertainty in the growth process. In equilibrium, development proceeds in stages. First, there is a period of “primitive accumulation” with a highly variable output, followed by take-off and financial deepening and finally, steady growth. Multiple equilibria and poverty traps are possible in a generalized version of the model.

The theory can explain why the growth process is both slow and highly volatile at early stages of development, and stabilizes as an economy grows richer. Evidence of this pattern can be found in the accounts of pre-industrial growth given by a number of historians, such as Braudel (1979), North and Thomas (1973) and DeVries (1990). For instance, in cities such as Florence, Genoa and Amsterdam, prolonged periods of prosperity and growth have come to an end after episodes of financial crises. Interestingly, these large set-backs were not followed (as a neoclassical growth model would instead predict) by a fast recovery but, rather, by long periods of stagnation. Similar phenomena are observed in the contemporary world. Acemoglu and Zilibotti (1997) document robust evidence of increases in GDP per capita being associated with large decreases in the volatility of the growth process. It has also been documented that higher volatility in GDP is associated with lower growth (Ramey and Ramey 1995).

Gross (2000) in his examination of public employee pension funds notes that these funds were developed in response to a growing concern about family economic well being in the early twentieth century. According to this author, growing social concern about the need for providing workers and their families with financial support during times of change - retirement, death or disability - became an integral part of labor movements by 1915. Although it was not until after the development of the New Deal that public employee pension funds became an integral part of improving conditions for workers, Gross demonstrates that this issue had long been a part of labor reform in the United States.

Considering the specific timeline for the development of public employee pension funds, Gross goes on to report that, "In the 1930s, retirement programs were set up for teachers in many southern states, including the Alabama Teachers Retirement System in 1939. Next however,
came pension funds for other civil servants". What this effectively suggests is the government initiatives to improve financial outcomes for employees are what have served as the basis for the development of corporate pension funds. As more public agencies began adopting pension plans as a central means to help employees finance their retirement, private organizations have essentially joined the bandwagon in an effort to provide employees with the same benefits as those working in the public sector.

Although Gross notes that the widespread development of pension funds did not occur until after the implementation of the New Deal, Wiatrowski (1990) reports 1916, there were a number of small pension funds that had been organized by local governments. Specifically, this author reports that, "Few states had pension plans for their employees by 1916, and while more than 150 local governments had such plans, they generally covered only limited numbers of workers, most commonly police and firefighters". Some private employers also had pension programs in place; however, Wiatrowski asserts that pension funds were typically found in high risk occupations such as utilities and transportation.

While it is evident that some pension programs existed in the US before the onset of the Great Depression, Wiatrowski argues that the economic changes wrought by this event are what served as the impetus for further development of pension funds. After the Great Depression, focus on improving economic and social conditions for workers took center stage. By the end of World War II, corporate America was once again financially strong and able to assume some of the financial responsibility for improving the status of labor. As developed by Wiatrowski the history of pension funds in the United States follows a pattern from public to private development. In response to the economic conditions that developed during the Great Depression, the federal government began pension programs for employees. More private organizations followed suit after World War II when the economy provided them with the opportunity to offer pension funds to their employees.

As the benefits offered to private employees began to expand, they became an integral part of employment packages for new hires. In order to ensure that the tradition of pension funds and employee benefits continued over the long-term, the government passed the Employee
Retirement Income Security Act of 1974 (ERISA). According to the US Department of Labor (2006) ERISA was developed to "set minimum standards for most voluntarily established pension and health plans in private industry to provide protection for individuals in these plans" (Employee retirement...). The plan provides employees with a host of rights for accessing their pension funds.

A grievance process was established under this legislation, which allows employees to "sue for benefits and breaches of fiduciary duty" (Employee retirement). ERISA represents a fundamental piece of legislation for the development of corporate pension funds in America.

Since the 1970s, the federal government has amended ERISA and enacted a host of new laws in an effort to protect the benefits received by employees. Wiatrowski (1990) goes on to report that, "These laws have concentrated in large measure on improving and guaranteeing the provisions of existing benefits, rather than mandating new benefits. Pension provisions covering eligibility requirements, vesting, discrimination rules and survivor benefits are among the items that have been institutionalized and strengthened during this time period". Thus, while many private organizations followed the lead of public institutions in developing pension funds for employees, it has been the federal government that has worked to ensure that employees are able to retain and expand their benefits.

2.2 Empirical Review
This section covers an empirical review of literature related to the study on determinants of growth within retirement schemes.

2.2.1 Management Policies and the Growth Retirement Schemes
Starting with Sunjeep (2008) research findings, emerging market trends show that there has been an increase in the number of active contributing NSSF members from 750,000 in 2003 to over 1 million as a result of improved state of economy and improvements in the levels and enforcement of compliance
Sunjeep (2008) states that although there has been an improvement in operational efficiencies at NSSF, the level of administrative and staff expenses remain high compared to country and international benchmarks, especially noting that it operates as a provident fund and does not disburse pension payments. Total expenses as a percentage of contributions have decreased from a peak of 127% in 2000 to 82% in 2003 largely reflecting the effect of the increase in the contribution ceiling in 2002. The 2007 expense ratio was 46%, but was increased to 60% of contributions in 2008. Expenses as a percentage of investment assets have averaged 4% in the six years to 2007. The per capita cost of the NSSF’s total expenses assuming an active membership of one million is about KShs 3,500 per annum.

Sunjeep (2008), further finds that the rate of interest credited to member accounts has varied substantially from the net (of expense) rate of return earned on the Fund assets. The interest credited to members’ accounts between 1993 to 2002 was substantially higher than that earned and from 2003 to date was lower than the returns earned. Since 2003, the interest credited to member accounts has been at the minimum annual rate of 2.5% although an increase to 5% was proposed for 2009 and 2010.

Despite the incredible work by Sunjeep (2008), there was no mention of the management policies as a factor affecting growth of the scheme. Indeed, the rate of interest credited to members also falls well short of the returns allocated by other retirement schemes in Kenya. This does create a disincentive to participate in the NSSF, encourages non-compliance and undermines support amongst members of the NSSF.

2.2.2 Funding and the Growth Retirement Schemes

The question that arises in this context is “which is the right/better contribution rate?” The answer to this question depends on what is considered as an appropriate targeted pension level and on whether there exists a separate redistributive public pillar. Experience from Latin America suggests that a contribution rate for long-term capital accumulation of less than 5 percent would not be adequate (Keizi, 2006).
In general, a rate of 10 percent for long-term capital accumulation would be adequate for a reasonable replacement rate of between 40 and 50 percent if investment returns exceed wage growth rates by 2 to 3 percentage points and if active working life is at least twice as long as passive retirement life (the latter calculated to include the life expectancy and benefits of dependent survivors - Vittas 1993). A lower replacement rate would be achieved if the gap between investment returns and wage growth is smaller or if careers are interrupted. Under these conditions, a 10 percent contribution rate would still be adequate if the targeted replacement rate from the funded pillar amounts to 35 percent and this is supplemented by a pension of similar magnitude from the unfunded public pillar (Keizi, 2006).

Back home in Kenya, the main source of NSSF funding is members’ contributions and investment incomes. Contributions to the NSSF have increased from 2002 as a result of the increase in the statutory monetary ceiling on contributions in 2001. The level of standard contributions has more than doubled from KShs 2.2bn in 2002 to KShs 4.9bn in 2007. There has also been introduction of a new category of contributions, in 2009, for employers with less than four employees that is expected to drastically increase contributions.

The researcher did not come across any empirical evidence to establish the optimum rate at which the funding of the scheme should be set.

### 2.2.3 Investment and the Growth Retirement Schemes

Analysis of NSSF emerging experiences indicate that the portfolio weighting in the land and property assets has decreased from the peak of 78% in 2000 to 34.6% in 2007 (NSSF Audited Financial Statements 2001-2007). The proportion of the total assets invested in quoted domestic equities was 47.7% reflecting a relatively higher weighting in domestic equities compared to other large retirement funds in the country. Further the NSSF had a dominant shareholding in a number of companies listed on the Nairobi Stock Exchange. The portion of the NSSF assets invested in Government securities was 10.5%. There was no offshore investment.
However, Daneva (2009) found that defined contributions plans expose members to investment risk and it is important to address issues of solvency, liquidity and proper investment profile. Pension funds investment regulation is one of the more dynamic parts of the pension regulation a whole.

According to Alexander Forbes Consulting Actuaries’ Survey, the net return earned on the NSSF assets (using cash flows) over the three years to 2007 at an annualized 10.5% has not compared unfavourably with benchmark returns and the returns earned by other asset management firms in Kenya over the same period.

Total expenses have been higher than investment income other than for 2007. The total outgo of the NSSF in terms of benefit payments and expenses has been higher than contribution income, but the difference has been covered by investment income.

Further, World Bank (2002) Coverage; The Scope of Protection in retirement Income Systems states that the expanded coverage might aid labor mobility and flexibility by encouraging people to move out of the state-owned enterprises that are restructuring into small employers where previously this could have entailed the loss of pension coverage.

2.2.4 Legal Framework and the Growth Retirement Schemes

A government that imposes a mandatory retirement saving system has an obligation to ensure that it is safe, works well, is simple and easy to understand, and will deliver the promised benefits. This obligation is clearly stronger in developing countries where millions of affected workers may lack familiarity with the workings of modern financial markets.

World Bank (2002) Coverage: The Scope of Protection in retirement Income Systems, argues that in countries where the rule of law is practiced, basic legal instruments very commonly encompass two principles; Non-discrimination and relieve of want and prevention of destitution.
The main focus of regulation should be on prudential and protective norms and fiduciary standards. First and foremost are licensing rules that should ensure that only persons satisfying a stringent "fit and proper" test are allowed to act as sponsors, founders, directors, trustees or senior executives of pension funds. Other rules should require a specified minimum capital, asset diversification and market valuation, external financial audits and actuarial reviews, and extensive information disclosure and transparency.

Of particular importance are rules on adequate fund governance, well-developed internal control systems, legal separation of the assets of the pension fund from those of the Management Company, and proper custodial arrangements. All these prudential and protective rules are necessary to ensure the financial soundness of pension funds, prevent fraud, self-dealing and other potential conflict-of-interest situations, and safeguard the interests of workers. The above regulations are non-controversial, but are difficult to achieve. Ensuring an efficient and adequate supply of auditors, actuaries and custodians, not to mention experienced examiners and supervisors, is a tall order for most developing countries.

In Chile, effective external custody of pension fund assets was secured by requiring all assets to be held with the central bank for safe keeping during the first ten years of the new system. Private custodians were allowed in the 1990s. The development of automated central securities depositories in many countries around the world has simplified the requirement for safe external custody.

Other rules that have been practiced in Latin American countries are more controversial. The "one account per worker", "one fund per company", and "uniform pricing" rules have aimed at ensuring simplicity and transparency and thus providing protection to workers, but their usefulness is open to question. They could be justified in systems that offer constrained choice, although they should probably need to be supplemented with regulations and limits on operating fees, agent commissions, and account switching. They would be out of place in systems that emphasize personal choice. In such systems, they would need to be relaxed in the longer run in order to offer more effective choice to workers.
To enforce compliance with the whole panoply of prudential and protective regulations requires the creation of an effective, well funded, properly staffed and proactive supervision agency. Latin American countries, and to a lesser extent the reforming countries of Eastern Europe, have been more successful than most OECD countries in developing effective supervision of private pension funds. Following modern practice, supervisors should enlist the support and cooperation of auditors, actuaries and custodians. In several high-income countries, pension fund supervision lacks adequate and reasonably up-to-date information and is slow to take corrective action. Given the very long-term nature of pension contracts, it is imperative to develop a system of supervision that is proactive and effective, stimulates transparency, and ensures compliance with basic prudential and protective rules.

2.3 Overview of the Literature and Research Gaps

This chapter has presented a review of related literature on determinants of growth within retirement schemes. The chapter started with the theoretical review and several theories were presented. Growth model as presented by Acemoglu and Zilibotti (2001) was discussed in details, where it brings out the growth can be achieved through technical change and achieved through appropriate technological and development.

In the process of conducting the review of these literatures, several gaps emerged of which this research intends to fill. Foremost, the researcher didn’t come cross studies on determinants of growth within retirement schemes in Kenya. Nyakundi (2006) conducted a study Pension Coverage in Kenya but determinants of growth in this industry has not been given its due consideration. More specifically, no single research has ever been conducted to find out the drivers of growth of NSSF.

Another gap relates to the fact that NSSF being a national social scheme provider, no comparative study has been conducted to evaluate its performance against its peers. It is against the backdrop of the above gap that this research is undertaken at the National Social Security Fund (NSSF) in a bid to explain the causes of slow pace in the growth of the retirement schemes in Kenya.
2.4 Conceptual Framework

Figure 2.1: Conceptual Framework

Management Policies
- Strategic Plan
- Controls

Funding of Schemes
- Contributions
- Target Contributors

Affect
Investment
- Portfolio Spread
- Return on Investment

Legal Framework
- NSSF Act
- RBA Act and Regulations

Growth of Retirement Schemes:
- Number of Active
- Contributions

Employment

Moderating Variables

Independent Variables

Dependent Variable

Source: Author, 2010

Figure 2.1 presents the factors affecting the growth of retirement schemes. It represents the important variables under study.

The variables can be explained as under:

2.4.1 Management Policies
Management in all business areas and organizational activities are the acts of getting people together to accomplish desired goals and objectives efficiently and effectively. It encompasses an array of different functions undertaken to accomplish a task successfully, by use strategic plan, rewards and control systems in a retirement scheme.
2.4.2 Funding of Schemes
Funding is to provide resources, usually in form of money (Financing), for a retirement scheme.

2.4.3 Investment
Investment is the commitment of money or capital to purchase financial instruments or other assets in order to gain profitable returns in the form of interest, income, or appreciation of the value of the instrument. RBA Regulations (2000) has guidelines on the portfolio spread which retirement schemes are expected to adhere to.

2.4.4 Legal Framework
This refers to the laws and the regulations in place guiding the running of the scheme, which include the NSSF Act (Cap 258), RBA Act (1997) and RBA Regulations (2000). These laws and regulations may serve to enhance the growth of the fund or be a hindrance to it.

2.4.5 Growth of a Retirement Scheme
Growth of the retirement scheme refers to the increase in the active or contributing members within the retirement scheme.
CHAPTER THREE
RESEARCH METHODOLOGY

3.0 Introduction
Research methodology describes the procedures that have been followed by a researcher in conducting the study. This chapter presents research design, target population, sampling technique and sample size, data collection methodology and procedures as well as data analysis and data interpretations will be presented.

3.1 Research Design
The research used descriptive design. This research design excels in bringing out an understanding of a complex issue or object and can extend experience or add strength to what is already known through previous research (Mugenda & Mugenda, 2003). Descriptive research is used to obtain information concerning the current status of the phenomena to describe "what exists" with respect to variables or conditions in a situation. The methods involved range from the survey which describes the status quo, the correlation study which investigates the relationship between variables, to developmental studies which seek to determine changes over time. This research design will therefore help understand the retirement schemes industry through the study of National Social Security Fund.

3.2 Research Location
This research was conducted at NSSF headquarters in Nairobi. This location was found to be more suitable because researchers accessibility to it and availability of the respondents who are knowledgeable about the required data and information.

3.3 Target Population
The target population of the study was 741 NSSF staff based in head office, Nairobi (NSSF, Personnel Records, 2010). NSSF has a staff establishment of 1,668 of which 741 are in the head office Nairobi, and 927 are in the 39 branches across the country. The population is spread across the organizational levels as shown in table 3.1.
### Table 3.2: Sampling Frame

<table>
<thead>
<tr>
<th>Type of Staff</th>
<th>Total Population</th>
<th>Accessible/Target Population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Management</td>
<td>41</td>
<td>41</td>
</tr>
<tr>
<td>Middle Level Management</td>
<td>381</td>
<td>171</td>
</tr>
<tr>
<td>Lower Level Management</td>
<td>250</td>
<td>131</td>
</tr>
<tr>
<td>Unionsable staff</td>
<td>996</td>
<td>398</td>
</tr>
<tr>
<td>Total</td>
<td>1,668</td>
<td>741</td>
</tr>
</tbody>
</table>

Source: NSSF, 2010

### 3.4 Sampling Design and Procedure

A sample size of 10% of the population was used to give a total sample of 74 respondents. The sample was designed in such a way that will capture most of the characteristics of NSSF staff and thus representative of the total population. Stratified random sampling technique was used in this research. When sub-populations vary considerably, it is advantageous to sample each subpopulation (stratum) independently (Mugenda & Mugenda, 2003).

Each member of the population had an equal and known chance of being selected. When there are very large populations, it is often difficult or impossible to identify every member of the population, so the pool of available subjects becomes biased. According to Mugenda and Mugenda (2003), when the population is more than 1,000, a sample of 10% is advisable to be used. The distribution is shown in table 3.2 below:

### Table 3.3: Sample Size

<table>
<thead>
<tr>
<th>Type of Staff</th>
<th>Target Population (N)</th>
<th>Multiplier (10% of N)</th>
<th>Sample Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senior Management</td>
<td>41</td>
<td>0.1</td>
<td>4</td>
<td>0.054</td>
</tr>
<tr>
<td>Middle Level Management</td>
<td>171</td>
<td>0.1</td>
<td>18</td>
<td>0.243</td>
</tr>
<tr>
<td>Lower Level Management</td>
<td>131</td>
<td>0.1</td>
<td>13</td>
<td>0.176</td>
</tr>
<tr>
<td>Unionsable staff</td>
<td>398</td>
<td>0.1</td>
<td>39</td>
<td>0.527</td>
</tr>
<tr>
<td>Total</td>
<td>741</td>
<td>0.1</td>
<td>74</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Researcher, 2010
3.5 Data Collection Procedure and Instruments

3.5.1 Data Collection Procedure
The study used primary and secondary data and utilized questionnaire as well as desk review methods for data collection. Primary data was collected using a questionnaire. The questionnaires was administered using the drop and pick method. This questionnaire was developed based on the objectives of this study. The secondary data was collected through desk review method from the publications such as journals, books as well as authoritative internet sources dealing with this subject of study.

3.5.2 Questionnaire
Each question item was developed to address the specific objective of the study. The questionnaire had a mix of open and closed ended questions to reduce the weaknesses associated with each type. The questionnaires was administered using the drop and pick method. Pilot questionnaires were first administered to a small number of different groups of people, who constituted the sample and that increased questionnaires’ reliability.

3.6 Validity and Reliability of the Instruments
Validity is the degree to which a test measures what it is supposed to measure. There are three basic approaches to the validity of tests and measures as shown by Mason and Bramble (1989). The piloted questionnaires were assessed for clarity and those questions that were found to be inadequate were modified to improve the quality of the research instrument and therefore increase validity. According to Borg and Gall (1989), content validity of an instrument is improved through expert judgment. Consequently, the researcher sought assistance from the supervisors to improve content validity of the instrument.

The reliability of a research instrument, on the other hand, concerns the extent to which the instrument yields the same results on repeated trials. Although unreliability is always present to a certain extent, there will generally be a good deal of consistency in the results of a quality instrument gathered at different times (Carmines & Zeller, 1979). In this particular research, pre-testing, or pilot testing, formed an important part of the research process. The questionnaire was
pre-tested to ensure that the questions are not ambiguous, make sense, have logical flow, and that the instruments captured the required information.

3.7 Data Analysis Methods

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Descriptive statistics was used to analyze the quantitative data and reported using frequency distributions, means, standard deviations and percentages. Borg and Gall (1989) states that use of percentages are widely understood standard proportion. This research, therefore adopted the use of descriptive statistic to analyze and present the collected data.

The data collected were coded and entered in the computer for analysis using the Statistical Package for the Social Scientists (SPSS). This program will help in organizing the data and the presentation of data through graphs and charts. The qualitative data were interpreted by attaching significance to the themes and the patterns observed. Alternative explanations will also be considered by looking at differences in responses or observations recorded in data collection.
CHAPTER FOUR
DATA ANALYSIS, FINDINGS AND INTERPRETATION

4.0 Introduction
The purpose of this research was to find the determinants of growth in National Social Security Fund. This chapter presents the summary of data analysis, findings and their interpretations. The results are presented and interpreted in line with the following research questions:

i. How do management policies affect the growth of retirement schemes in Kenya?

ii. What effects does funding of schemes have on the growth of retirement schemes in Kenya?

iii. To what extent does investment affect the growth of retirement schemes in Kenya?

iv. How does the legal framework affect the growth of retirement schemes in Kenya?

The background data of the respondents is first given followed by the analysis and discussion of the research questions.

4.1 Response Rate
The study targeted 74 respondents all drawn from NSSF headquarters, Nairobi. Out of this target sample 53 filled and returned complete questionnaires, representing a questionnaire return rate of seventy four (74%) percent. These displayed the characteristics discussed in the following part of this chapter.

4.2 Background Data of the Respondents
4.2.1 Gender
When the respondents were asked to indicate their gender, 47% indicated that they were female whereas 53% indicated male. Table 4.4 summarizes the findings with regard to gender of the respondents. From the table, gender seems not to influence the response of the sampled group. There is no significant difference between the return rate of male and that of female respondents.
Table 4.4: Respondent’s gender

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>25</td>
<td>47.2</td>
<td>47.2</td>
<td>47.2</td>
</tr>
<tr>
<td>Male</td>
<td>28</td>
<td>52.8</td>
<td>52.8</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data 2010

4.2.2 Highest level of education

When the respondents were asked to indicate their highest level of education, 9% indicated high school, 34% college diploma, 23% university degree, 32% Masters Degree and 2% did not respond as summarized in table 4.5 below:

Table 4.5: Respondent’s highest level of education

Source: Survey data 2010

Table 4.5 shows that a significant number of the respondents college diploma, university degrees and masters degrees. This translated in the quality of responses got for the target sample.

4.2.3 Current position in the organization.

When the respondents were asked to indicate their current position in the organization, 6% indicated top management, 48% middle management and 46% indicated lower management.
Figure 4.2: Respondent’s current position in the organization.

Source: Survey data 2010

From the figure 4.1, more than half of the respondents are drawn from middle and top management, giving credibility to the answers got for the questionnaire.

4.2.4 Length of service in the organization

When the respondents were asked to indicate their length of service in the organization, 4% indicated that less than 3 years, 6% between 3 years and 6 years, 10% between 6 years and 9 years and 80% indicated more than 9 years.

Table 4.6: Respondent’s length of service in the organization

<table>
<thead>
<tr>
<th>Length of service in the organization</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Less than 3 years</td>
<td>2</td>
<td>3.8</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Between 3 years and 6 years</td>
<td>3</td>
<td>5.7</td>
<td>5.7</td>
<td>9.4</td>
</tr>
<tr>
<td>Between 6 years and 9 years</td>
<td>5</td>
<td>9.4</td>
<td>9.4</td>
<td>18.9</td>
</tr>
<tr>
<td>More than 9 years</td>
<td>42</td>
<td>79.2</td>
<td>79.2</td>
<td>98.1</td>
</tr>
<tr>
<td>5</td>
<td>1</td>
<td>1.9</td>
<td>1.9</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey data 2010
The longer one stays in an organization, the more knowledgeable they became about the organizations matters. From table 4.6, more than 88% of the respondents have been with the fund for six years and above. The answers given by them are therefore from an informed position.

4.3 Growth in Contributions and Membership
There has been a significant growth in the contributions made to the NSSF over the years as shown in table 4.7 below. Specifically, membership contributions grew from 2.8 billion to 6.2 billion between the year 2000 and 2009. This can be attributed to improved investment strategies such as allocation of the fund assets in efficient portfolio of assets which enhanced the schemes' returns hence motivating many people to join the fund.

Figure 4.3: Membership Contributions in Billions

![Membership Contributions in Billions](image)

Source: Survey, 2010

In addition, the number of members who have joined the scheme and remained active over this period has grown from 577,083 to 1,283,333 in the period under consideration as shown in figure 4.4 below. This is attributed to enhanced public awareness and regulatory enforcements in part and the performance of the fund. The number of active members has been on the steady increase as a result of intense effort from enforcemt officers and the public realisation the role pension fund do to the retirees.
4.4 Management Policies and Growth of NSSF

Respondents were asked to give their views on management policies and growth of the fund. They indicated their view on the role in promoting growth of the Fund at 92% saying yes indicating that the management has a role in growth of the Fund, whereas 6% saying no, meaning that management has no role. Two percent (2%) indicated that they did not know. The analysis of these responses is given below in figure 4.5

Figure 4.5: Respondent’s management’s role in growth Fund promotion.

Source: Survey, 2010
The respondents were in agreement that the current management policies supported growth of funds as indicated by the increase in the investment portfolio over the last years. These, they said have brought the revision of membership contribution and, introduction of voluntary contribution. In addition, the policy of investing productively and diversification of portfolios is in line with risk reduction and enhancement of portfolio returns. Further, they said that the ongoing restructuring process which includes rewarding system and the introduction of ICT systems is in line with vision the 2030.

Moreover, the comprehensive strategic plan in place is helping the fund in setting targets and how to achieve them. This, they argued should be reviewed annually through performance contracts. On the other hand, respondents reiterated the need to refocus the fund to play more roles by recruiting new managers.

4.4.1 Measures to improve the growth of the scheme

When asked to give their opinion on measures that can be put in place by the management to improve the growth of the scheme the respondents noted that proper feasibility studies and monitoring are key in selecting and undertaking investment projects. They also argued that the involvement of employees in decision making and better reward systems will encourage employee contribution in the schemes’ growth.

They were also for the opinion that organization structure should be designed to facilitate growth pattern and also the Strategic plan of the organization must be followed by implementation, the fund growth driver should be innovation, wider consultation and teamwork and Integrated IFMIS.

It also emerged from their opinion that package of benefits do not match market needs and thus marketing policy has to be developed and implemented, Involve lower levels and middle management staff at all levels in formulation and implementation, promote professionalism in the manner the organization is governed, review the current products to attract more members and engage the media in intensive marketing of funds policies and products.
There is also a clear mismatch between the management policies and the business with regard to core business and thus proper monitoring and evaluation systems should be done to retain high yield investment and to craft growth strategies for funds

4.4.2 Challenges faced by management in trying to improve the growth of the scheme

Some of the challenges faced by management in trying to improve scheme growth include Economic constraints (i.e. slow economic growth, fluctuating inflation), High competition from other institutions offering the same services, Low return on investment, Lack of knowledgeable personnel, non compliance by employers as far as contributions are concerned; and late remittance of contributions.

There is also the problem of unstable board of trustees in place leading to poor investment portfolio resulting in losses, poor marketing strategies, and poor investment policies. Corruption and fraud is also rampant owing to political interference and limiting legislation, bad management ethics and good will, the funds failure to reward hard working staff. Politics and vested interests by management have also played a major setback to the fund as they are always not in line with the objectives and mission of the fund.

Other challenges include, internal wrangles and mistrust, outdated ICT system, poor organizational culture, administrative regulations imposed by the RBA, legal challenges as bills to affect changes have to go through parliament and the existence of suspense accounts

4.4.3 Ways of overcoming the management challenges

A key measure of overcoming the challenges of the funds’ growth that emerged from the respondents was the ability of management to make prudent investment decisions to avoid losses. This they said could be achieved by investing more funds on long term horizon such as fixed income securities. Moreover, management should hire expert researchers on financial services. Investing in quality human resource, vetting of board members and restructuring will go a long way reducing administration costs and tighten management to concentrate in achieving the funds’ mission.
In addition, the public should be sensitized on the importance of saving with NSSF through the media and workshops facilitated by field offices and staff members. Management (board) should continue to engage and liaise with the government to open up more legislative space in order to bring on board more members and also facilitate amendment of the NSSF Act to be more inclusive and relevant.

There is also need to reform all sectors to gain competitive advantage by enhancing the products, innovations, involvement of all stakeholders’ and use of identification numbers as a point of reference rather than the NSSF numbers. This they said will make it easy for reference which can only be realized if board members embrace change to facilitate growth. To motivate more people to make contributions, funds are all updated and pay benefits with competitive interest rates.

4.4.4 Challenges in implementing the fund’s strategic plan

When the respondents were asked to indicate if they were aware of the Fund’s strategic plan, 58% indicated yes whereas 42% indicated no as summarized in table 4.7.

Table 4.7: Respondent’s awareness of Fund’s strategic plan

<table>
<thead>
<tr>
<th>Whether respondents are aware of the fund’s strategic plan</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>31</td>
<td>58.5</td>
<td>58.5</td>
<td>58.5</td>
</tr>
<tr>
<td>No</td>
<td>22</td>
<td>41.5</td>
<td>41.5</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey, 2010

When the respondents were asked to indicate the extent level of satisfaction in the Fund’s strategic plan, 8% indicated that they were extremely dissatisfied, 29% dissatisfied, 41% neutral, 20% satisfied and 2% indicated extremely dissatisfied.

These results therefore, show that the Fund has not done enough to enlighten its staff about its strategic goals and thus about half are aware of strategic plans existence. Moreover, 77% of the
respondents indicated, they are either neutral or dissatisfied is a bad judgment of the strategic plan.

Figure 4.6: Respondent’s satisfaction on Fund’s strategic plan.

Unstable management, poor organization structure, poor human resource policies, lack of expertise, poor monitoring and evaluation and poor management policy in place was cited as the major setbacks to the fund in implementing and achieving its strategic plans. Moreover, failure to sensitize staff on the plan contents and their role to achieve the objectives of the plan, poor allocation of resources, improper feasibility studies and lack consistency derail or delay implementation. In addition, they said investment policies are not in line with strategic plan.

The respondents also took issue with the lack of management goodwill, poor dissemination of information on the plan to staff and stakeholders leading. This, they said, has on several occasions lead to a conflict of interest by various parties. Other challenges included lack of follow up on implementation of the plan, resistance by stakeholders to some plans, poor planning on strategic issues, and lack of feedback mechanisms.
4.4.5 Weaknesses in Controls that safeguard the fund’s assets

When the respondents were asked to indicate the extent level of satisfaction in the Fund’s control systems, 8% indicated that they were extremely dissatisfied, 28% dissatisfied, 44% neutral and 20% indicated satisfied.

Figure 4.7: Respondent’s satisfaction on Fund’s control systems.

![Bar chart showing respondent's satisfaction on Fund's control systems](image)

Source: Survey, 2010

The main weaknesses in controls to safeguard the funds’ assets that were found out include political interference, poorly constituted board/management, lack of proper planning, and lack of accountability. Further, they said the pursuit of personal interests and vulnerability of IT systems to fraudsters has lead to technical disappearance of the schemes’ assets.
4.4.6 Ways of overcoming weaknesses in controls
Some of the recommendations made by respondents on improving control mechanisms include, procuring relevant, reliable, secure IT system, and autonomy of the fund in decision making. Also Fund should be autonomous in their decision making. There is need also for proper allocation of resources, Good/sound investment policies, and recruiting accomplished strategists in top fund management. Functional systems should be put in place, proper communication to the lower and middle employees, reorganization and continuous review of the system and effective feedback mechanism.

Audited and proper accounting of all fund’s assets are also important to realize the goals of the institution. Coming up with policies which are, in line with strategic plan and Involving and educating all stakeholders is also important.

4.5 Funding of the Scheme and Growth of NSSF
4.5.1 Additional Revenue Sources
When the respondents were asked to indicate if they knew ways the Fund get funding/revenue, 94% indicated Yes while 6% indicated No. This indicates that the respondents are extremely knowledgeable about the funding channels.

Table 4.8: Respondent’s knowledge of Fund’s revenue acquisition

<table>
<thead>
<tr>
<th>If in terms with number of ways the Fund gets its funding/revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Frequency</td>
</tr>
<tr>
<td>-----------</td>
</tr>
<tr>
<td>Valid Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: Survey, 2010

They recommended expansion of the membership base to include every citizen while allowing existing members to increase their contributions. Further, they argued that besides the retirement
benefit package, the fund ought to introduce more contributory short packages in line with the needs of members.

4.5.2 Adequacy of the Scheme Funding

When the respondents were asked to indicate their scheme's funding adequacy assessment on member's contributions, 2% indicated that they were extremely dissatisfied, 28% dissatisfied, 31% neutral, 37% satisfied and 2% indicated extremely dissatisfied.

Figure 4.8: Respondent’s scheme’s funding adequacy assessment on member’s contributions.

![Pie chart showing the distribution of respondents' funding adequacy assessment](image)

Source: Survey, 2010

The respondents when asked to assess the adequacy of the scheme funding observed that despite there being room for improvement in all the three aspects, returns from investment was trying in that all members who were eligible for standard contribution and other target groups have not been reached, they argued further that more funds needed to maximize on ROI and increase contribution through enabling relevant legislation and that effective investment and monitoring of investment was required.
Respondents further observed that the fund could still be able to increase its mandatory contribution while expanding its market segment and improving annual returns on capital, furthermore the respondent observed that the level of members' contribution was low and that needed enhancement to take into account the inflation trends and target the expansion of the contributing group. The investments were not optimal thus giving sub optimal streams of revenue; they moreover observed that membership contributions would be increased through aggressive collection procedures which could result in higher return investment and therefore greater interests paid to members.

4.5.3 Potential target groups for contributions

When the respondents were asked to indicate their scheme’s funding adequacy assessment on target contribution group, 4% indicated that they were extremely dissatisfied, 33% dissatisfied, 30% neutral, 30% satisfied and 3% indicated extremely dissatisfied.

Table 4.9: Funding adequacy assessment on target contributing group

<table>
<thead>
<tr>
<th>Target contributing group</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Extremely dissatisfied</td>
<td>2</td>
<td>3.8</td>
<td>4.1</td>
<td>4.1</td>
</tr>
<tr>
<td>Dissatisfied</td>
<td>16</td>
<td>30.2</td>
<td>32.7</td>
<td>36.7</td>
</tr>
<tr>
<td>Neutral</td>
<td>15</td>
<td>28.3</td>
<td>30.6</td>
<td>67.3</td>
</tr>
<tr>
<td>Satisfied</td>
<td>15</td>
<td>28.3</td>
<td>30.6</td>
<td>98.0</td>
</tr>
<tr>
<td>Extremely satisfied</td>
<td>1</td>
<td>1.9</td>
<td>2.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>92.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>4</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey, 2010

When asked on the other groups that ought to be targeted for contributions to the scheme, respondents recommended that the scheme ought to be universal by law and accommodate all categories of workers which included the Civil servants and members of armed forces; self employed people, and Farmers. They further argued that residents in Diaspora and diplomats should be encouraged to join the scheme. Notably, the respondents laid a lot of emphasis on the informal sector including casual laborers in the voluntary scheme.
4.5.4 Challenges facing the funding of the scheme

When asked about the challenges facing the scheme, the respondents pointed out that limited group of contributors was to blame; this they argued was due to restricted contributions that are limited to formally employed and few self employed people only. They also added that lack of proper knowledge on the importance of being an NSSF member by the public was a big challenge. Statutory restrictions to the scheme, poor government legislations and policies which they said were insensitive to the scheme funding were highlighted in these arguments. In addition to poor investment policies, the inconsistency in the collection of contributions from voluntary contributors was seen as a big challenge by the respondents.

4.5.5 Ways of improving funding of the scheme

Respondents were of the opinion that the scheme ought to expand the bracket to other groups currently excluded by the law such as tapping from the Diaspora market to improve its funding base. Moreover they argued that advertisement were paramount in the sensitization of the public on the existence and benefits of the fund. Creation of better modes of paying was reiterated by the respondents who also saw the need of increasing voluntary and mandatory contributions.

They also proposed that all employees ought to be members and that all remittance should be done at the nearest financial institution. Moreover, innovative payment systems such as M-PESA were fronted to reach out to many voluntary contributors. The respondents highlighted the need to review the NSSF Act to encourage potential contributors to join the voluntary contribution scheme and to enable it cover all Kenyans.

4.6 Investment and Growth of NSSF

4.6.1 Investment as a key factor in the growth of the fund

When the respondents were asked to indicate their scheme's funding adequacy assessment on returns from the investment, 2% indicated that they were extremely dissatisfied, 18% dissatisfied, 27% neutral, 47% satisfied and 6% indicated extremely dissatisfied.
This also shows that investment is a critical element in the growth of the Fund and the majority of the respondents do not feel the current returns are adequate to push the fund to the next level.

**Figure 4.9: Funding adequacy assessment on returns from the investment**

![Bar chart showing returns from investment]

Source: Survey, 2010

When the respondents were asked to explain whether investment was a key factor to the growth of the fund, they argued that income from investments was the only viable means on the fund growth. Further, they observed that without proper investments the money collected by the fund would not earn as much interest as desired. They were in agreement with the fact that if members’ contributions were invested prudently, it could earn high returns translating to high interest rates paid to members. The respondents believed that regular cash flows could only be generated from investments if the fund is to meet its obligations as they fall due. This, they argued was also a key factor to facilitate interest benefit on members’ accounts.

They further observed that investments contributed significantly to the growth of revenue and that interests and profit would yield more income if ploughed back as capital investments. This investment ventures would go a long way in enabling the fund to pay attractive interest rate to the contributors.

### 4.6.2 Composition of the current investment portfolio

When the respondents were asked to indicate if they were aware of the current fund investment portfolio, 25% indicated No whereas 75% indicated Yes as indicated in figure 4.10.
From the analysis, it is clear that majority of the respondents (75%) that they know the current portfolio and therefore the decisions on investment is probably done following the legal provisions and the board of trustees’ policy recommendations on investment.

Figure 4.10: Respondent’s awareness of current fund investment portfolio.

The main investment portfolios as identified by the respondent were Treasury bills/bonds, Shares (NSE), Bank deposits and investments in Real estate. In addition to these were tenant purchase scheme, staff car loans and investment in commercial paper.

4.6.3 Adequacy of the current portfolio

When the respondents were asked to indicate if the current portfolio was adequate, 35% indicated Yes, 31% No and 34% did not know as shown in table 4.6 below

Table 4.10: Respondent’s view on current portfolio adequacy.

<table>
<thead>
<tr>
<th>Whether the current portfolio is adequate</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
<th>Cumulative Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>17</td>
<td>32.1</td>
<td>34.7</td>
<td>34.7</td>
</tr>
<tr>
<td>No</td>
<td>15</td>
<td>28.3</td>
<td>30.6</td>
<td>65.3</td>
</tr>
<tr>
<td>3</td>
<td>17</td>
<td>32.1</td>
<td>34.7</td>
<td>100.0</td>
</tr>
<tr>
<td>Total</td>
<td>49</td>
<td>92.5</td>
<td>100.0</td>
<td></td>
</tr>
<tr>
<td>Missing System</td>
<td>4</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey, 2010
Respondents were asked to comment on the adequacy of the current portfolio so as to establish its ability in enhancing returns. They noted that at its age and time NSSF asset base has not grown significantly as compared with its emerging competitors such as Equity bank. In addition, they observed that more assets should be identified and included in the portfolio of current assets to mitigate risks and maximize returns.

They emphasized that since membership is growing at a high rate the portfolio should be expanded accordingly to enable members earn good returns. Moreover, diversification into on and offshore investments be given priority in order to cushion on income streams from volatilities across assets and geographical boundaries.

4.6.4 Challenges in the fund’s investment decision making

When the respondents were asked to indicate if they knew challenges facing the Fund in investment decision making, 34% indicated No whereas 66% indicated Yes.

The main challenges facing the fund identified by the respondents were the requirement to adhere to myriad and often conflicting regulations such as those of CMA, NSE, IRA, RBA and CBK regulations which restrict on where the funds should be invested. Moreover, the scarcity of
investment choices and the uncertainties of the stock market emerged as major challenges faced in deciding the choice of investments. They also noted that political interference is a major problem volatility of share prices.

They also cited the lack of sufficient mechanisms to manage fund assets, balancing the attendant risks, returns and liquidity considerations. In addition, they observed that unscrupulous deals with brokerage firms have lead to lose of considerable amount of the funds’ resources.

4.6.5 Dealing with Management Challenges in investment decision making

When the respondents were asked to indicate if they knew challenges facing the Fund in investment decision making, 34% indicated No whereas 66% indicated Yes.

The results of the analysis indicate that management deals with the challenges faced in making investment decisions on the fund are varied. These include employing competent fund managers and financial analysts who have the technical skills and industry expertise to undertake investment projects. In some instances, management deals with the problem by avoiding risky assets and investing in risk free assets such as treasury bills or investing in blue chip companies. They also noted that management undertakes market research on the fundamentals of various assets so as to form a basis of their investment decisions. To back up the research findings, management employs appropriate investment models. These they argue, enables the management
to select a portfolio of assets that suits the funds' requirements. In some instances, the respondents said that the management may seek exemptions from regulatory authorities on instances of regulatory capture.

4.6.6 Ways of improving investment returns
The respondents recommended various ways for improving the returns and hence the growth of the fund. These included the need to make the fund autonomous devoid of political interference. The respondents also emphasized on the need to invest wisely, prudently, and professionally in low risk but high return portfolio of assets such as unit trusts and money market investments. Further, they noted that ongoing investments should be pursued expeditiously while stalled projects should be completed within the shortest time possible to maximize their returns. In addition, respondents reiterated the need to diversify investments and introducing more contributory benefits. Also, monitoring of the interest variation on FDRs in the financial market and dividends on capital investment was seen as a means of enhancing investment returns.

4.7 Legal Framework and Growth of NSSF
4.7.1 Challenges brought about by the current regulation
When the respondents were asked to indicate whether current regulations affect the Fund’s growth, 77% indicated Yes whereas 23% indicated No.

Table 4.11: Respondent’s view on current regulations

<table>
<thead>
<tr>
<th>Whether respondents think that the current regulations affecting the growth of the fund</th>
<th>Frequency</th>
<th>Percent</th>
<th>Valid Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Valid Yes</td>
<td>34</td>
<td>64.2</td>
<td>77.3</td>
</tr>
<tr>
<td>No</td>
<td>10</td>
<td>18.9</td>
<td>22.7</td>
</tr>
<tr>
<td>Total</td>
<td>44</td>
<td>83.0</td>
<td>100.0</td>
</tr>
<tr>
<td>Missing System</td>
<td>9</td>
<td>17.0</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>53</td>
<td>100.0</td>
<td></td>
</tr>
</tbody>
</table>

Source: Survey, 2010
The views of the respondents regarding regulatory challenges faced by the fund were sought. They argued that the major regulatory challenges included the restrictions imposed on the limits of investing in real estate or offshore assets. These they argued have forced fund managers to change the portfolios to suit the fund requirements. The need to balance investment as per RBA requirements was to limit the flexibility in allocation of available funds to various assets. Regulations were also seen to create bottlenecks on revenue collection in some instances and consequently impede growth of the fund. Moreover, respondents associated the slow pace of decision making to regulations as every action has to be evaluated against all regulatory provisions to ensure that they are within the legal framework.

4.7.2 Ways of mitigating the challenges of regulations
The respondents highlighted that optimization of investments in assets allowed by the fund should be given priority as a way of averting the challenges of regulations. They also indicated that there is need for due diligence in all decisions involving commitment of the funds' assets. The results also show that management should seek exemptions when necessary.

4.7.3 Policy recommendations on retirement schemes regulations
With regard to policies to be put in place in regulation of retirement schemes, the respondents said that compliance to RBA regulations should be emphasized on all schemes but also allowance be made for flexibility and innovation. In addition, they observed that regulations should be reviewed constantly to meet local requirements and enable the schemes to keep up with the global trend and maximize on the economic gains through prudent investments

Respondents observed that regulations governing retirement schemes should be harmonized and put under an umbrella regulatory body to reduce regulatory arbitrage. In particular the age limit requirement needs to be reviewed to allow persons who are 50 years to access the pension. In addition, pension schemes should as a regulatory requirement publish their audited financial reports annually. They also emphasized the need for a regular audit of retirement schemes before investment decisions are made.
CHAPTER FIVE
SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter contains the summary of the findings of the study, conclusions and recommendations arrived at. This chapter also presents suggestions for the related studies that could carried out in the future. The findings in the study will be interpreted against the literature review in chapter two followed by conclusions and recommendations both for commercial banks and for future studies.

5.2 Summary
The general objective of this study was to establish the factors affecting the growth of retirement schemes in Kenya, with the following specific objectives:

i. To investigate how management policies affect the growth of retirement schemes in Kenya.

ii. To determine how funding of the Scheme affect the growth of retirement schemes in Kenya.

iii. To determine how investment affect the growth of retirement schemes in Kenya.

iv. To find out how the legal framework affect the growth of retirement schemes in Kenya.

Data for the study was collected from 74 respondents, drawn the NSSF staff based at the head office in Nairobi. Given below is the summary of the findings.

The study established that there has been a growth of NSSF membership from 577,083 to 1,283,333 between the year 2000 and the year 2009. This represents an increase of 122% growth
over the period under study. Further, the study established that membership contributions grew from 2.8 million to 6.2 million during the same period. The results of this study can be analyzed as follows:-

5.2.1 Management Policies and Growth of NSSF

The study established that growth of NSSF is influenced by a number of factors. Majority of the respondents (92%) were of the opinion that management has a role to play in the growth of the Fund. This, respondents say, is evidenced by the increase in the investment portfolio over the last eight years. They said management has brought the revision of membership and introduction of voluntary membership.

Additionally, the policy of investing productively and diversification of investment portfolio is in line with risk diversification and enhancement of portfolio returns. Besides, the ongoing restructuring process and intended ICT system show favourable management policies. It was also noted that the comprehensive strategic plan that is place has helped the Fund in setting targets and how to achieve them.

The respondents indicated that to improve the growth, the management need to be conducting proper feasibility study and continuous monitoring of undertaken investment projects. In addition, employees need to be involved in decision making and given better reward systems to encourage them contribute well in the scheme’s growth. It was also noted that strategic plan need to be followed by implementation and the growth drivers should be centered on innovation, wider consultation, team work and integrated ICT system.

It was observed that package of benefits do not match market needs and thus marketing policy has to be developed and implemented, involve all cadre of staff in formulation and implementation, promote professionalism in the manner the organization is governed, review the current products to attract more members and engage the media in intensive marketing of funds policies and products. There is also a clear mismatch between the management policies and the business with regard to core business and thus proper monitoring and evaluation systems should be done to retain high yielding investment and to craft growth strategies for funds.
The respondents however, noted that the management needs to overcome challenges that impede achievement of the intended growth. Notable among the challenges include economic constraints, competition, employers non compliance and lack of knowledgeable personnel. Also included in the challenges is unstable board of trustees, poor marketing strategies, poor investment policies, corruption and limiting legislation. Not to be forgotten also is outdated ICT systems, poor organization culture and political interferences.

5.2.2 Funding of the Scheme and Growth of NSSF

Majority (94%) of the respondents indicated that they know the various funding avenues of the scheme but still recommended that membership base need to be widened to include every citizen while allowing the existing members to increase their contributions. They also recommended that besides the retirement benefits package, the fund ought to introduce more contributory short packages in line members needs.

Respondents also observed that the adequacy of the scheme is not yet optimum. They argued that more funds need to maximize returns on investment and increase contributions through enabling legislations. It was further observed that could still be able to increase its mandatory contribution while expanding its market segment and improving annual returns on capital. In terms of the target contributors, the respondents pointed out that some groups in the society need to be brought in as NSSF contributors such as civil servants, armed forces, Kenyans in Diaspora, self employed as well as farmers. Respondents laid a lot of emphasis on the informal sector including casual labourers in the voluntary scheme.

They also proposed that all employees ought to be members and that all remittance should be done at the nearest financial institution where possible. Moreover, innovative payment systems such as M-PESA were fronted to reach out to many voluntary contributors. The respondents highlighted the need to review the NSSF Act to encourage potential contributors to join the voluntary contribution scheme and to enable it cover all Kenyans.
5.2.3 Investment and Growth of NSSF

The study found out that investment was a key factor to the growth of the fund. The respondents argued that income from investments was the only viable means on the fund growth. Further, they observed that without proper investments the money collected by the fund would not earn as much interest as desired. They were in agreement with the fact that if members’ contributions were invested prudently, it could earn high returns translating to high interest rates paid to members. The respondents believed that regular cash flows could only be generated from investments if the fund is to meet its obligations as they fall due. This, they argued was also a key factor to facilitate interest benefit on members’ accounts.

Majority of the respondents (75%) indicated to know the current investment portfolio but merely 35% of them feels that this scenario is adequate in enhancing returns, while the rest says its either not adequate (31%) or did not know (34%).

The study further observed that since membership is growing at a high rate the portfolio should be expanded accordingly to enable members earn good returns. Moreover, diversification into on and offshore investments be given priority in order to cushion on income streams from volatilities across assets and geographical boundaries.

5.2.4 Legal Framework and Growth of NSSF

The study found that the current regulations affect the funds growth, with 77% answering this in affirmative while 23% saying the regulations is not a hindrance to growth.

With regard to policies to be put in place in regulation of retirement schemes, the respondents said that compliance to RBA regulations should be emphasized on all schemes but also allowance be made for flexibility and innovation. In addition, they observed that regulations should be reviewed constantly to meet local requirements and enable the schemes to keep up with the global trend and maximize on the economic gains through prudent investments.

Respondents observed that regulations governing retirement schemes should be harmonized and put under an umbrella regulatory body to reduce regulatory arbitrage. In particular the age limit
requirement needs to be reviewed to allow persons who are 50 years to access the pension. In addition, pension schemes should as a regulatory requirement publish their audited financial reports annually. They also emphasized the need for a regular audit of retirement schemes before investment decisions are made.

5.3 Conclusion

Based on the research findings, it can be concluded that NSSF retirement scheme has grown but numerous growth challenges still faces the Fund. This is despite the fact that these challenges can be mitigated with prudent management style.

In terms of membership growth, a number of efforts have been put forward by the management in a bid to boost its growth over the period under review. The management has brought in revision in membership contribution, introduced voluntary members contributions, new employers category as well as top ups on the normal mandatory contributions. However, these efforts have not been accorded enough marketing as would have been expected. The package of benefits and products of the Fund has not reached the intended target group due to uncoordinated or lack of marketing strategy.

Lack of clear membership drive is also related to the funding challenges. Funding of the scheme is limited to the membership base and the investment income which in turn faces challenges of the operating laws. The research established that funding is not adequate and need to be widened in line with membership base and investment income. About the investment, it can be concluded that there is need to expand the portfolio to enable the members earn good returns, through among other measures, diversification of investment to offshore investments and thus cushion the income stream from volatilities across assets and geographical boundaries.

Above all, the management should come up with prudent policies that are in line with expansion of the membership base, increase the funding of the scheme and explore options of mitigating the legal challenges as well as investment improve investment income stream. These include implementation of strategic plan, use of properly functioning ICT system, employing professionals and upgrading or developing the skills of the staff.
5.4 **Recommendations**

i. National Social Security Fund should organize intensive marketing of the package of products to create awareness and promote their adoption and thus increase funding of the scheme, get more investment money and hence boost growth of the scheme.

ii. This research recommend that the Fund needs to put more effort in employing the best ICT system in its operations, the best investment policies, management practices as well as employing good corporate practices in all it aspects of operations.

iii. There is need for the Fund to refocus its business strategies and continuously monitor through constant reviews and employing of best market practices in its operations.

iv. The other industry players may use the findings of this research to improve on the structural and systemic weaknesses that impede the schemes growth.

v. The legal framework on retirement schemes should be amended to allow for flexible but prudent investment streams that that makes them equally competitive as other financial institutions.

vi. There is need to have an integrated national social policy to guide all the social security efforts nationally.

5.5 **Suggestion for Further Research**

This was intended to expound on the key determinants of growth in National Social Security Fund in Kenya. A number of significant factors have been revealed and discussed at length. However, due to constraints of time, resources and human capacity this study did not research on every aspect of the retirement industry. This study, therefore, recommends further research on the following areas:-

i. Comparative study of Pension schemes in Kenya

ii. Drivers of growth within Kenyan Retirement Schemes in Kenya

iii. Challenges facing National Social Security Systems financing
REFERENCES


Carmines E. G and Zeller, R. A (1979): Reliability and Validity Assessment, Trade paperback, Sage Publications (CA)


Government of Kenya, NSSF Act, Cap 258, Government Printers, Nairobi, Kenya


Kenya and UNESCO (2007): Communication and Information [Focus on Kenya]
Palacios R. and Whitehouse E. (2006): Civil-service pension schemes around the world, MPRA Paper 14796, University Library of Munich, Germany
APPENDICES

APPENDIX I: RESEARCH QUESTIONNAIRE

My name is Tams K. Koech, a student at Kenyatta University. As part of the requirement for the award of the Degree of Master of Business Administration, I am required to carry out research on a topical area relevant to my course. My topic of research is: Factors affecting growth of National Social Security Fund as a retirement scheme in Kenya.

This is therefore to request you assist me in fulfilling this noble objective by filling in the following questionnaire.

Please fill it as honestly as possible. The information provided will be confidential and purely for statistical analysis only.

SECTION A: GENERAL INFORMATION

INSTRUCTIONS: Please tick (✓) the appropriate box that relates well to your situation

1.0 Personal Details
Please indicate your name (optional) .................................................................

Your gender i) Male □ ii) Female □

What is your highest educational/professional qualification?
   i) High School □
   ii) College Diploma □
   iii) University degree □
   iv) Masters degree □
   v) Other (specify)............................... □
Please indicate your current department ..........................................................

Please indicate your current position in the organization as classified below:

Top management  
Middle level management  
Lower management  

Length of service in the organization

Less than 3 years  
Between 3 years and 6 years  
Between 6 years and 9 years  
More than 9 years  

Date of interview .................................................................

SECTION B: MANAGEMENT POLICIES AND GROWTH OF NSSF

1.1 Do you think management has a role to play in promoting growth of the Fund?

(i) Yes  
(ii) No  
(iii) Don’t know  

1.2 To what extent are you satisfied in the way the Fund has used the following?

i) Strategic Plan  

Key: 1 = Extremely dissatisfied  2= Dissatisfied  3 = Neutral  4 = Satisfied  5 = Extremely satisfied 

1.3 In your opinion, are the current management policies support the Fund’s growth objective?

(i) Yes  
(ii) No  
1.4 Please explain your answer in 1.3 above

1.5 If your answer in 1.3 above is No, kindly state measures that can be put in place to improve the management of the scheme

1.6 What challenges are faced by management in trying to improve the growth of the scheme?

1.7 What recommendations would you suggest to overcome the above stated challenges?

1.8 Are you aware the fund strategic plan?
   (i) Yes   (ii) No

1.9 Has the strategic plan implementation been adhered to?
   (i) Yes   (ii) No

2.0 Please name a few challenges faced by the Fund while implementing strategic plan

2.1 Are there adequate controls to safeguard Funds assets?
   (i) Yes   (ii) No
2.2 Please name a few control weaknesses you are aware of

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

2.3 Recommend ways of overcoming the above challenges

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

SECTION C: FUNDING OF THE SCHEME AND GROWTH NSSF

2.4 (a) Funding ensure continuous inflows of funds to the scheme. Do you know the number of ways the Fund gets its funding?

(i) Yes    (ii) No

(b) Please name at least two of them

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

2.5 In your opinion, is the current funding arrangement of the scheme adequate?

(i) Yes    (ii) No

2.6 Please suggest additional Funding avenues

........................................................................................................................................
........................................................................................................................................
........................................................................................................................................

63
2.7 (a) In a scale of 1 to 5, what is your assessment of the adequacy of the following aspects of the scheme funding?

(Where 1 = extremely dissatisfied, 2= Dissatisfied 3= Neutral, 4 = Satisfied 5 = extremely dissatisfied)

i. Members’ contributions

ii. Target contributing group

iii. Returns from the investment

(b) Please explain your answer in (a) above

2.8 Are you aware of the Fund targeted contributors?

(i) Yes

(ii) No

2.9 Is the current target group adequate?

(i) Yes

(ii) No

3.0 If No, which other group can be targeted for contributions?

3.1 What challenges faces the funding of this scheme?

3.2 Please give your recommendations on how funding of this scheme can be improved

SECTION D: INVESTMENT AND GROWTH OF NSSF

3.3 Do you think investment is a key factor in the growth of the fund?

(i) Yes

(ii) No
3.4 Kindly explain your answer in 3.3 above


3.5 (a) Are you aware of the current fund investment portfolio?
(i) Yes [ ] (ii) No [ ]

(b) If yes, please name the ones you are aware of
i. ..............................................................
ii. ..............................................................
iii. ..............................................................
iv. ..............................................................
v. ..............................................................

3.6 (a) In your opinion is the current portfolio adequate?
(i) Yes [ ] (ii) No [ ] (iii) Don’t Know [ ]

(b) If No, please explain why


3.7 Is the current portfolio spread in line with the RBA regulations?
(i) Yes [ ] (ii) No [ ]

3.8 In the order of importance, please rank the following factors as determinants of investment decisions, (where 1= most important and 5 = less important)

a. Liquidity ..............................................
b. Return ..............................................
c. Risk ..............................................
d. Compliance to the regulations ...........
e. Other (specify) ...................................
3.9 (a) Do you know the challenges facing the fund when deciding on investment?

(i) Yes  
(ii) No

(b) If yes list some of them

.................................................................
.................................................................
.................................................................

4.0 How can the management deal with these challenges?

.................................................................
.................................................................
.................................................................

4.1 What is your assessment of the current investment returns?

i) Very Good

ii) Good

iii) Bad

iv) Very Bad

4.2 Are you aware of the Fund’s investment returns?

(i) Yes  
(ii) No

4.3 Please recommend ways of improving investment returns?

.................................................................
.................................................................
.................................................................

SECTION E: LEGAL FRAMEWORK AND GROWTH OF NSSF

4.4 Do you know how pension schemes are regulated in Kenya?

(i) Yes  
(ii) No
4.5 Please list the regulations that you are aware of

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

4.6 Do you think the current regulations affect the growth of the fund?

(i) Yes □ (ii) No □

4.7 What do you think are the challenges brought about by these regulations?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

4.8 (a). How can the Fund mitigate the challenges of these regulations?

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

4.9 Please give your policy recommendations in regard to retirement schemes regulation

........................................................................................................................................................
........................................................................................................................................................
........................................................................................................................................................

..........Thank you very much for your time and contribution..........
## APPENDIX II: RESEARCH BUDGET

<table>
<thead>
<tr>
<th>ACTIVITY</th>
<th>UNITS</th>
<th>UNIT COST</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Proposal Writing and Printing</td>
<td>1</td>
<td>15,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Administration of Questionnaires</td>
<td>74</td>
<td>410</td>
<td>30,340</td>
</tr>
<tr>
<td>Analysis of Questionnaires</td>
<td>74</td>
<td>200</td>
<td>14,800</td>
</tr>
<tr>
<td>Report Writing and Printing</td>
<td>1</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Travels and Miscellaneous</td>
<td>-</td>
<td>-</td>
<td>5,000</td>
</tr>
<tr>
<td><strong>TOTALS</strong></td>
<td></td>
<td></td>
<td><strong>70,140</strong></td>
</tr>
</tbody>
</table>