

**INVESTIGATING FACTORS INHIBITING INSTITUTIONAL INVESTORS  
FROM INVESTING IN NAMIBIA: A STUDY OF PENSION FUNDS**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF  
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## **ABSTRACT**

The study investigated the factors inhibiting pension funds from investing their assets in Namibia. The study identified also financial instruments where pension funds' assets can be invested in Namibia and suggested measures to encourage pension funds investors to invest in the local economy. The study adopted quantitative approach. The probability random sampling technique was used to sample pension funds and investment companies investing pension funds' assets. A questionnaires technique was used to collect quantitative and qualitative data from pension funds' trustees and investment managers. Social Package for Social Science (SPSS) software and Microsoft excel were used to analyse data. The data collected were presented in frequency table, graphs and in narrative form.

The study found that the major factors inhibiting pension funds' assets from being invested in Namibia are; shallow capital markets, limited financial instruments, lack of skills and knowledge in the field of investments, low returns and lack of track records on the performance of the local assets. The study found out also that the Namibian financial markets has varieties of asset classes that are issued in small volume. To encourage pension funds to invest in the local economy, the study recommends the government and central bank to deepen the capital markets, the establishment of a reliable local assets performance database, credit enhancement guarantees on risky assets and introduction of formal and informal education in investments and financial modelling.

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## **LIST OF ABBREVIATIONS**

<b>AEs</b>	Advanced Economies
<b>CMA</b>	Common Monetary Area
<b>DB</b>	Defined Benefit
<b>DC</b>	Defined Contribution
<b>EMEs</b>	Emerging Markets Economies
<b>EU</b>	European Union
<b>GIPF</b>	Government Institution of Pension Fund
<b>GPs</b>	General Partners
<b>IMF</b>	International Monetary Fund
<b>LPs</b>	Limited Partners
<b>NAMFISA</b>	Namibia Financial Institutions Supervisory Authority
<b>NBFI</b>	Non-Banking Financial Institutions
<b>NFSS</b>	Namibia Financial Sector Strategy
<b>OECD</b>	Organisation of Economic Corporation Development
<b>RFIN</b>	Retirement Fund Institute of Namibia
<b>SMEs</b>	Small and Medium Enterprises
<b>SPV</b>	Special Purposes Vehicle
<b>SPSS</b>	Social Package for Social Science
<b>UIM</b>	Unlisted investment managers

## **DECLARATION**

I, Vistorina Nangombe Namukwambi, hereby declare that the content of the work presented in this study is a true reflection of my own findings and it has not been submitted for a degree or examination at any other institution of high learning. Wherever contributions of previous researchers and writers were used or incorporated in this study is acknowledged with due reference.

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Vistorina Nangombe Namukwambi

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Date

## **DEDICATION**

This thesis is lovingly dedicated to my family, specifically to my husband Norbert Antsino, my parents and my siblings for their support throughout a tremendously challenging year.

## **ACKNOWLEDGEMENTS**

It's my pleasure, to take this opportunity to thank my God for strengths and wisdom He gave me in compiling this thesis. It's my honour to give my sincere appreciation to my research supervisor Dr Postrick Mushendami for his guidance and assistance throughout the process of doing this research project. I would like to express my gratitude to the investment /asset managers and pension funds' trustees in Namibia who assisted me in this study, without them; I could not have completed this project.

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## **CHAPTER ONE**

### **1. INTRODUCTION**

#### **1.1 Orientation of the study**

Previous studies highlighted the impact of the institutional investors on the development of the financial sector and the overall growth of the domestic economy (Harichandra, 2004). Investment in the local economy promotes the development of long-term financing markets and balances the need for foreign capital inflows which is costly to finance long-term development projects (Harichandra, 2004). Institutional investors such as pension funds and insurance companies are regarded as key investors in the local economy (Roldos, 2004).

Institutional investors are non-banking financial institutions (NBFI) that manage savings collectively on behalf of small investors towards a specific objective in terms of risk, return maximization, and claims (Harichandra, 2004). Among the NBFIs, pension funds have highest asset value in comparison to other institutional investors in world. According to the Organisation of Economic Corporation Development [OECD] (2013), out of U\$ 78.2 trillion assets held by institutional investors in 2012, about U\$ 21.8 trillion were for pension funds. Worldwide institutional investors, particularly pension funds, play a key role in channelling contractual saving into productive long-term investments, especially those that can be difficult to finance because they are illiquid (Croce, 2014).

Similarly, a relatively large part of the size of institutional investors' assets in Namibia is accounted to pension funds. For instance, the Bank of Namibia (2014) states that the assets of pension funds represented about 58 percent share of total assets held by institutional investors in 2013. Thus, this study focused on pension funds which have high assets value and hence great potential to contribute to the economic growth of Namibia.

Pension funds are defined as a pool of assets that accumulated over an individual's years of employment and paid are out after retirement (Mishkin & Eakins, 2006). Pension plans are categorised into a Defined-Benefit (DB) plan (unfunded plan) or Defined Contribution (DC) plan (funded plan). This study did not differentiate Defined-Benefit plan from Defined contribution plan, thus aggregated results for pension funds are presented.

Even though Namibia is one of the countries with the highest rate of pension assets as a percentage of GDP in the world, the contractual saving in Namibia is largely invested abroad. Ministry of Finance (2010) confirmed that the bulk of the assets are invested outside the country. As result, the development of the domestic financial system is not adequately simulated (Uanguta, Kadhikwa, & Chimana, 2004). Against the above back drop, one would like to know why institutional investors are reluctant to invest substantially large amount of money in the Namibian economy.

Given, the fact that a substantial amount of pension funds' assets that were invested abroad, a financing gap exists in Namibia. Zaaruka, Uanguta and Kadhikwa (2005) point it out that medium sized enterprises in Namibia are hardly getting financial assistance and this undermines the growth of Small and Medium Enterprises (SMEs) which form the backbone of the Namibian economy. Similarly, Mushendami and Kadume (2008) exhorts that most of municipalities in Namibia in exception of City of Windhoek, Swakopmund and Walvis Bay do not have funds to finance infrastructures in their towns. Moreover, there is no clear indication of whether pension funds trustees and investment managers were aware of the financing gaps in Namibia and their role in closing the financing gap in the local economy.

Despite, the outflow of funds and financing gaps in the Namibian economy highlighted above, the demand of investment was also acknowledged in various studies. For instance, Zaaruka et al. (2005) suggested that institutional investors such as pension funds and insurance companies should go out and explore available investment opportunities in unlisted companies in the local economy. Most of the studies in Namibia were focused on the demand side of investment. Unfortunately, none of the study was conducted on supplier side of investment, to find out the challenges that institutional investors might face in investing the local economy. Therefore, the key objective of this study was to investigate the factors that are inhibiting pension funds' assets to be invested in Namibia.

Apart from the suggestions and recommendations, the Namibian government and financial institution regulator, Namibia Financial Institutions Supervisory Authority (NAMFISA) reviewed Pension Funds Act of 1956 to compel institutional investors to invest in the local economy. The amendments of regulation 15 and 28 of the existing Pension Funds Act 1956, in 2013 were intended to encourage institutional investors to invest in the local economy and unlisted investments respectively. Although attempts to encourage domestic investments were done, institutional investors are reluctant to invest in a domestic market. Apart from the amendment of regulation 15 and 28 there are no interventions or activities in capital markets that are attracting institutional investors to invest in the local economy. Therefore, this study has also explored others measures and strategies to encourage pension funds' assets to be invested in the local economy.

## **1.2 Statement of the problem**

Institutional investors in Namibia, in particularly pension funds, are not eager to invest in the local economy. Unguta et al. (2004) conclude that there is a challenge in utilising abundant savings held by pension funds for productive investment in the local economy. NAMFISA (2014) further confirms that the structure of assets invested in Namibia have dropped due to investment managers investing funds outside the country's borders.

Sufficient investment in the local economy is essential for economic growth as it provides the financial resources needed for the operations of business and projects.

Lack of investment in local business is detrimental to the growth of SMEs which are crucial in driving forward economic development in Namibia. Ogbokor and Ngeendepi (2012) stated that, a lack of finance is one of the major impediments to the growth and operations of small businesses in Namibia.

The study by Uanguta et al. (2004) failed to identify the shortcomings for not utilising savings in the local economy while Zaaruka et al. (2005) was limited to the reasons why pension funds were not investing in private equity. Hence there is no study that has examined the factors preventing pension funds from investing in the local economy in general. As such, this study intends to identify those factors and hence its difference from earlier studies.

### **1.3 Objectives of the study**

- To identify the factors that inhibit pension funds' assets from being invested in the local economy.
- To identify the financial instruments where pension funds' assets can be invested within the Namibian economy.

### **1.4 Significance of the study**

This study will help policy makers and scholars in Namibia to understand the reasons why pension funds' assets are not invested in Namibia. No study has addressed the factors preventing institutional investor's assets from being invested in the local

economy from the supplier's perspective in a broader picture. Thus, the findings and recommendations from this study may inspire pension funds and other institutional investors to invest in the local economy.

### **1.5 Limitation of the study**

The study was limited to the pension funds trustees and investment managers investing pension funds' assets. Other institutional investors such as insurance companies and unit trusts investing pension funds' assets were not part of the study. Moreover, other pension funds plan such as preserved fund and retirement annuity were not part of this study thus the investments of these funds did not form part of the results.

This study was only focusing on factors inhibiting pension funds' assets to be invested in local economy and less attention was given to factors that were attracting pension funds' assets to be invested in foreign countries. Lastly, respondents may have been reluctant to give precise information due to the nature and sensitivity of the industry.

## **1.6 Definitions of terms**

Although some of the following terms and concepts were defined in other chapters, the definitions in this section provide referral and contextual meanings of the terms used in this thesis.

**Capital markets** – the combination of bond and equity markets.

**Co-investments** – a vehicle where general partners (GP) and limited partners (LP) are both investing in projects or in an instrument, LPs play a role in deciding on where to invest.

**Direct investments** – is a vehicle where institutions are investing directly on the assets class without any financial intermediaries involved.

**Inflation-linked bonds**- are bonds that offer investors a return linked to an inflation index.

**Institutional Investors** – are non-banking institutions that invest funds on behalf of the individuals or corporates.

**Investment vehicles** – are avenues in which funds can be invested.

**Listed bonds** – are long-term debt instruments usually in form of debentures that are listed on the stock exchange market.

**Listed equities** – are shares that are listed on stock exchange.

**Local economy** – a domestic or country based economy

**Offshore**- Global investments

**Pension funds** – are non-banking financial institutions that collect, invest and administer monies contributed by individuals and companies.

**Project bonds** - are debts instruments issued by project lender with a purpose of financing partially or fully the single asset infrastructure projects.

**T- Bills** – are short term debt instruments representing a claim from the government, they are usually issued at discount for 91 days, 182 days and 365 days.

**Unlisted investments**- are debts or equities that are not listed on stock exchange.

### **1.7 Organisation of the study**

This study consists of six chapters. Chapter one is the introduction, which includes the background to the study, the objectives of the study and the statement of the problem. It also briefly includes the significance of the study and limitation of the study. Chapter two gives an overview of institutional investors and financial instruments in Namibia. Chapter three is a literature review, it reviews the theories and literatures related to the institutional investors and investments. Chapter four explains and describes the study's research methodology. It explains the research design, research instruments, methods of data collection and the data analysis plan. It also gives details about the population and sample selection. Chapter five is the data presentation, analysis and discussion. Chapter six presents the summary, conclusions and recommendations.

## **CHAPTER TWO**

### **2. OVERVIEW OF INSTITUTIONAL INVESTORS AND FINANCIAL INSTRUMENTS IN NAMIBIA**

#### **2.1 Introduction**

This chapter discusses the overview of institutional investors Namibia. It gives the background of institutional investors as well as financial instruments in Namibian market.

#### **2.2 Background of institutional investors**

In Namibia there are approximately 494 institutional investors. The institutional investors are commonly known as non-banking financial institutions (NBFI). NBFI in Namibia consists of insurances, pension funds, and investment managers, collective investment schemes, medical aids, stock exchanges, unlisted investment managers, and stock brokers. Among these, institutions such as pension funds, long-term insurances and short term insurances are called contractual institutional investors since they have a contractual obligation towards their clients for paying out their benefits after certain periods.

NBFI are regulated by NAMFISA. The total assets of NBFI were reported to be N\$192 857 million as at 31 December in 2014 and around 62 percent of those assets held by NBFI accounted for pension funds (Bank of Namibia, 2015).

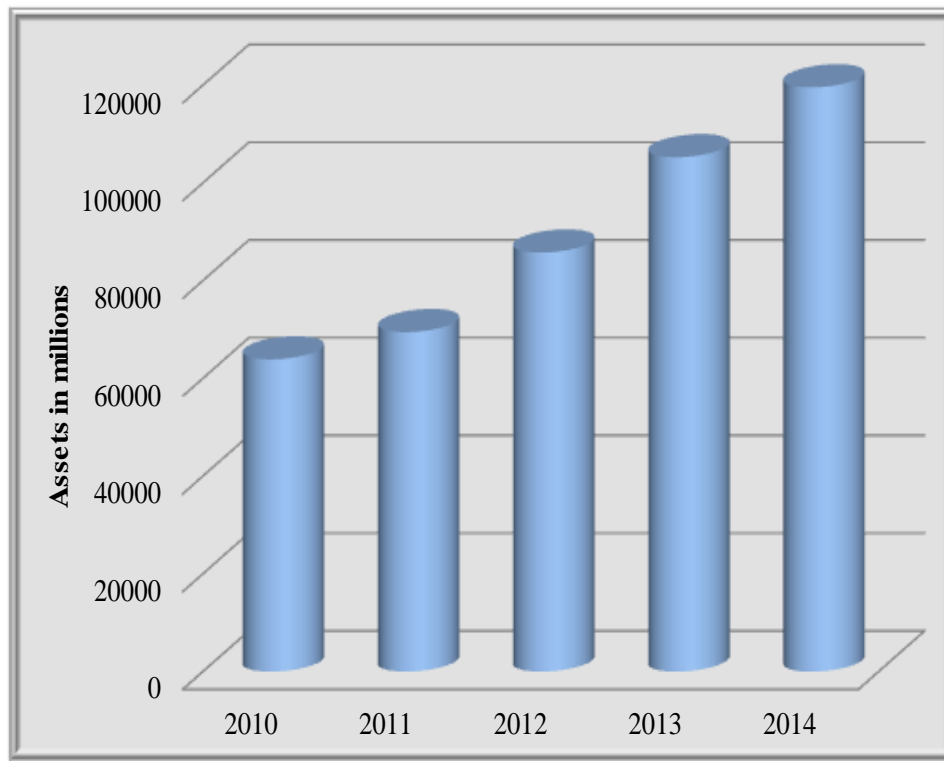
### **2.3 Pension funds**

There were 109 pension fund schemes registered with NAMFISA by the end of December 2014. Of these pension funds, there were 107 defined contribution funds (including 13 umbrella funds) and 2 defined benefit funds (NAMFISA, 2015). The pension funds had approximately 324 686 active members and 39 359 pensioners as of 31 December 2014 (NAMFISA, 2015).

#### ***Size of pension funds' assets 2010-2014***

Pension funds' assets in Namibia have been growing for the past five years. Figure 2.1 reveals that, the pension funds' assets stood at N\$ 119 569 million as at December 2014. About 52 percent of assets held by pension funds in 2014 were accounted for Government Institute Pension fund (GIPF).

**Figure 2.1: Pension funds' assets**

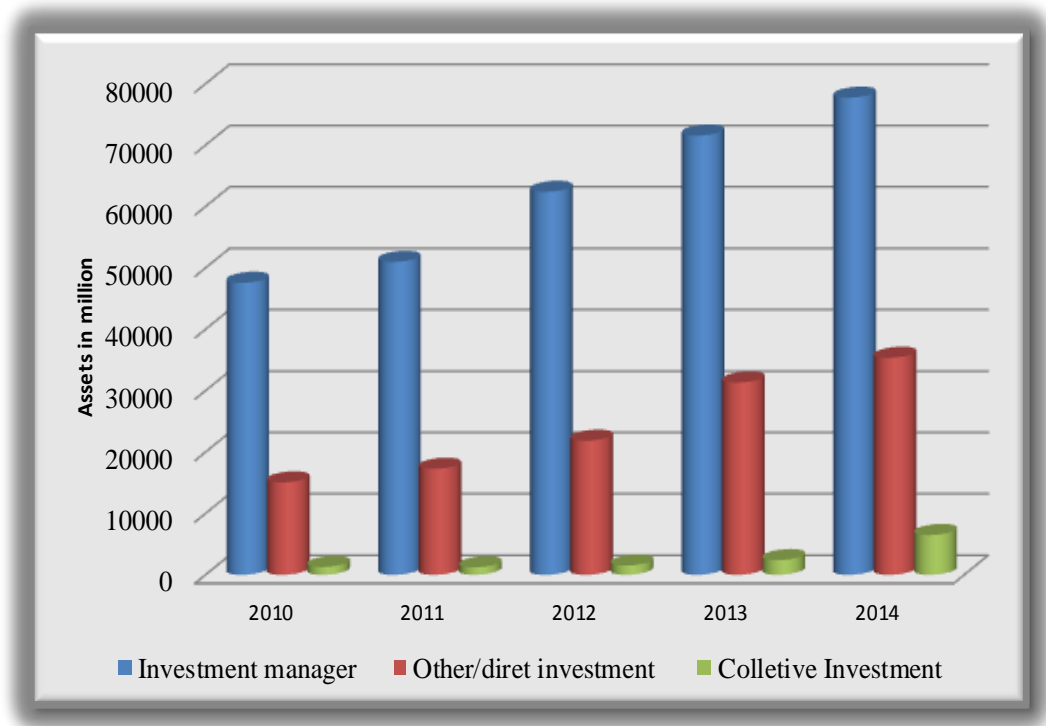


Source: NAMFISA (2015)

***Investment of pension funds' assets***

Pension funds' assets are managed by unit trust funds, investment managers, banks as well as by collective investments schemes. Figure 2.2 shows that more than 65 percent of pension funds' assets have been managed by investment managers and the rest are managed and invested by collective investments or other direct investments.

**Figure 2.2: Investments of pension funds' assets**

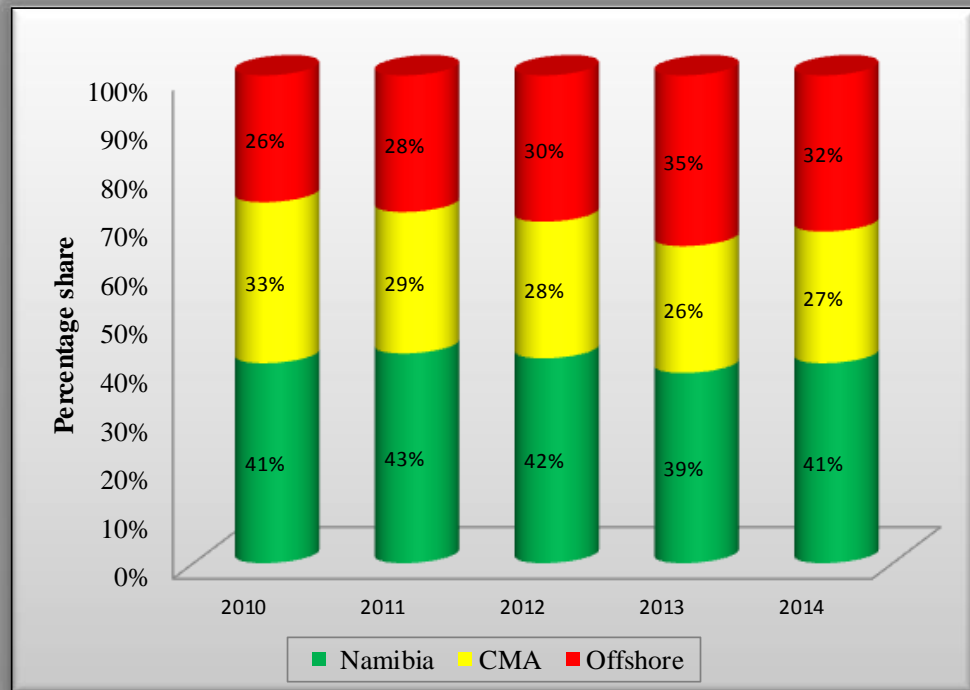


Source: NAMFISA (2015)

***Geographical asset allocations for pension funds***

Figure 2.3 shows that about 40 percent of pension funds' assets have been invested in Namibian economy for the past five years. By implication, about 60 percent of the pension funds' assets have been invested outside Namibia in CMA and Offshore. Funds contributed by employers and employees as pensions are exported to other countries in CMA as well as overseas for investment purposes.

**Figure 2.3: Geographical asset allocations for pension funds**



Source: Bank of Namibia and NAMFISA (2015)

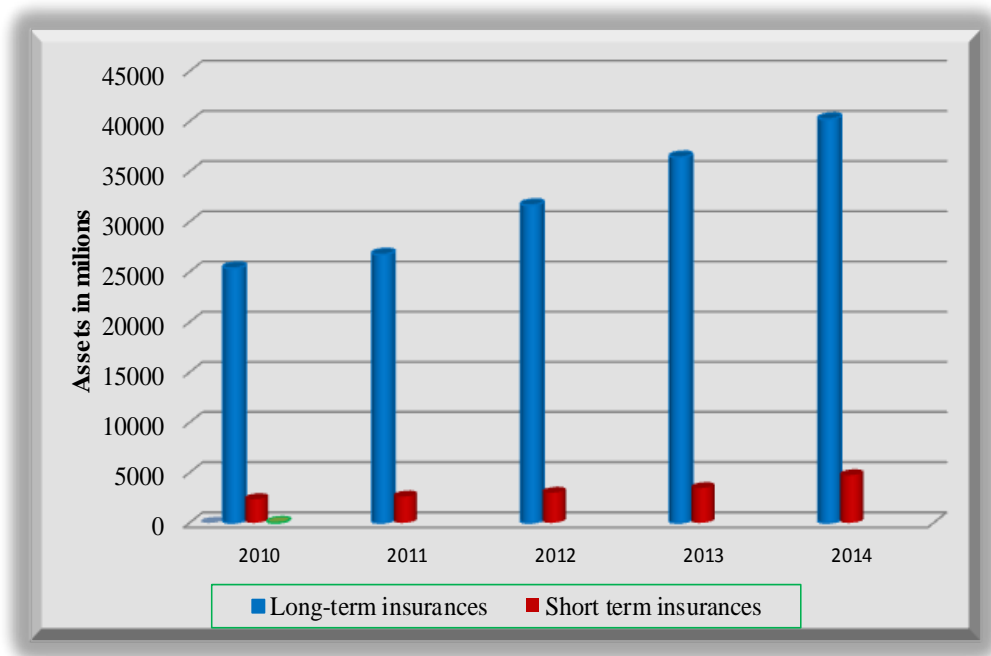
#### **2.4 Long term and short term insurances**

There were 17 long term insurance and 13 short term insurance companies registered with NAMFISA by the end of December 2014.

##### ***Size of insurances companies' 2010-2014***

Long term insurances assets have been growing for the past five years and stood at N\$ 39 500 million as at December 2014. The short term insurance has been growing at slow pace in comparison to long term insurance and pension funds' assets. The short term insurance assets stood at N\$ 4 800 million as at December 2014 as shown on figure 2.4.

**Figure 2.4: Long term and short term insurances**



Source: NAMFISA (2015)

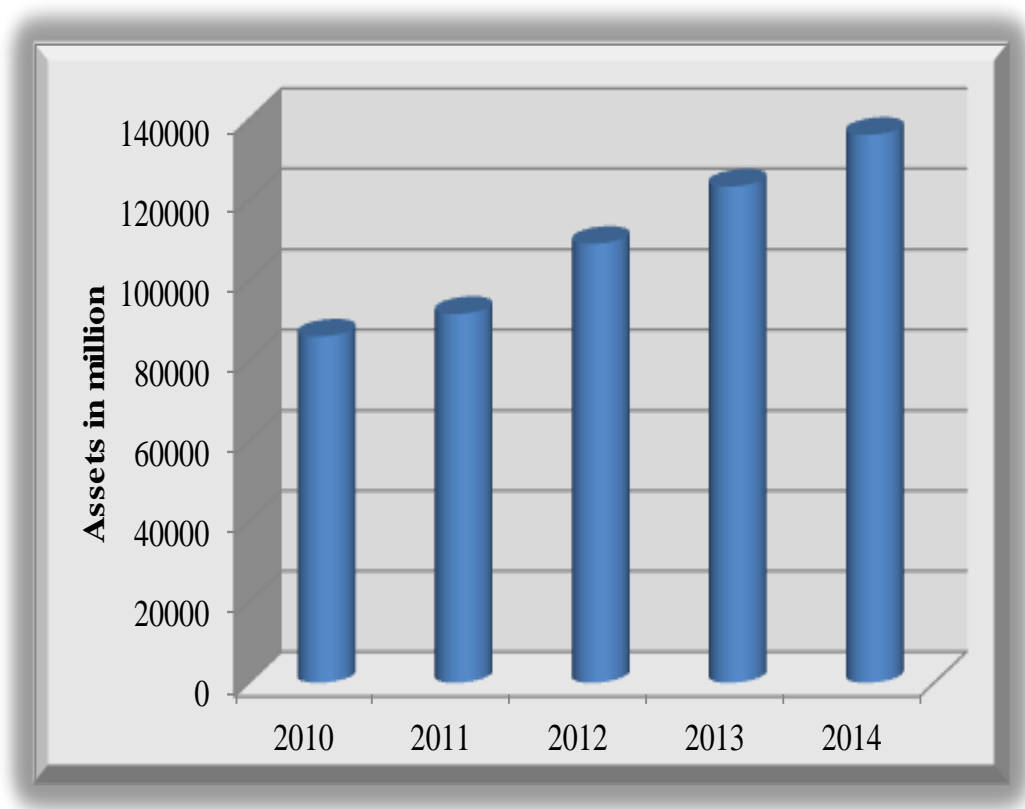
## **2.5 Investment managers**

In 2014, there were 14 investment companies and 24 active investment managers registered with NAMFISA. The team of asset managers includes both affiliates of South African entities and for local groups (International Monetary Fund [IMF], 2011).

***Size of assets managed by investment managers***

Figure 2.5 shows that, assets managed by investment managers have been growing for the past five years. In 2014, the total assets held by investment managers were valued at N\$136,2 million.

**Figure 2.5: Investment managers' assets**



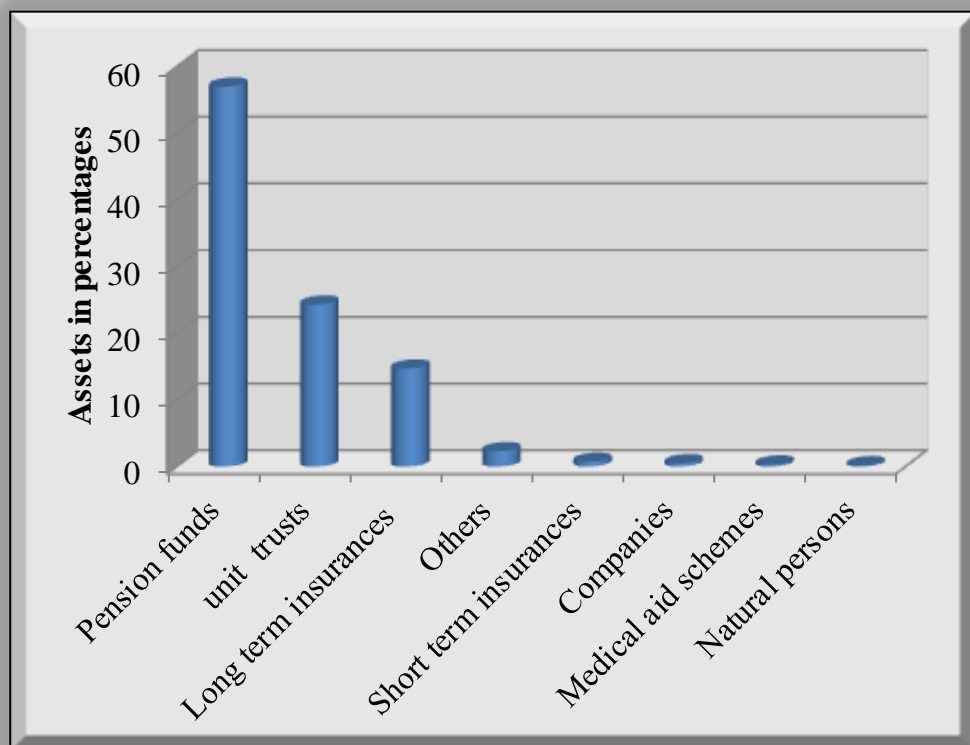
Source: NAMFISA (2015)

***Sources of funds for investment managers***

Figure 2.6 below shows sources of funds managed by investment managers. Investment managers invest assets mainly from; pension funds, long term insurances,

short term insurances and trust schemes. About 57 percent of the total assets managed by investment managers were accounted for by pension funds, 24 percent by unit trusts and about 0.2 percent were accounted for by natural persons.

**Figure 2.6: Sources of funds managed by investment managers**

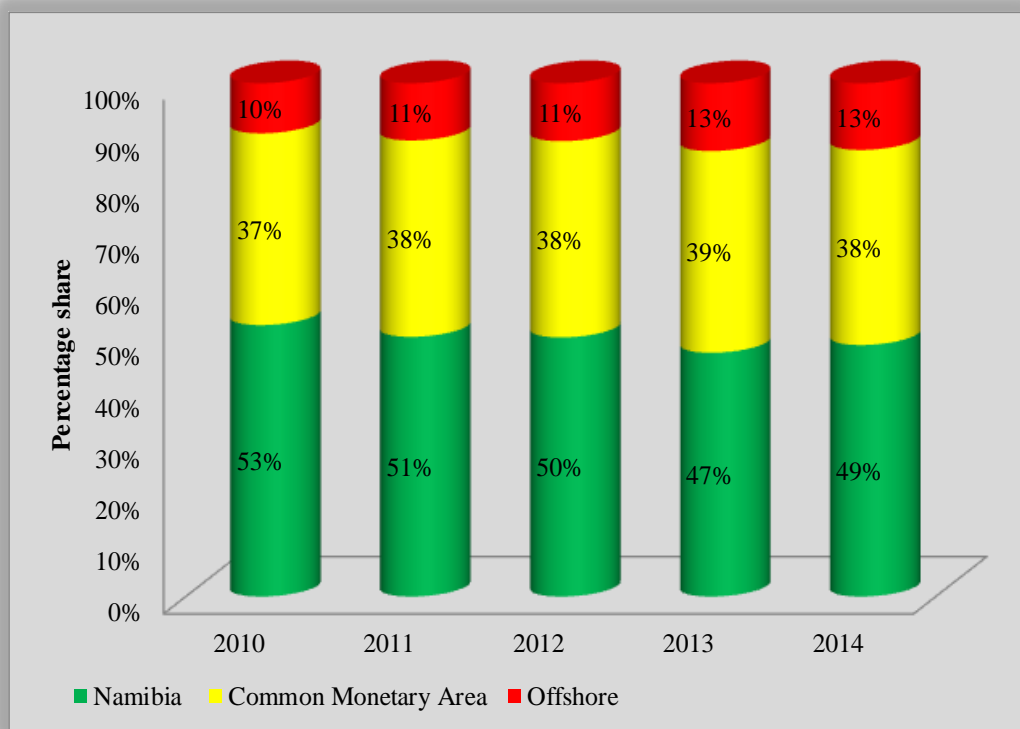


Source: NAMFISA (2015)

### *Geographical asset allocations by asset managers*

The assets under the management of the investment managers are invested in the domestic economy, in CMA as well as in offshore. Figure 2.7 indicates that, most of the assets managed by investment managers during the past five years were mainly invested in Namibia. A moderate portion of assets was invested in CMA and a few assets were invested in offshore (global). However, the sum of the assets invested outside Namibia exceeds the assets invested in the Namibian economy.

**Figure 2.7: Geographical asset allocations by investment managers**



Source: NAMFISA (2015)

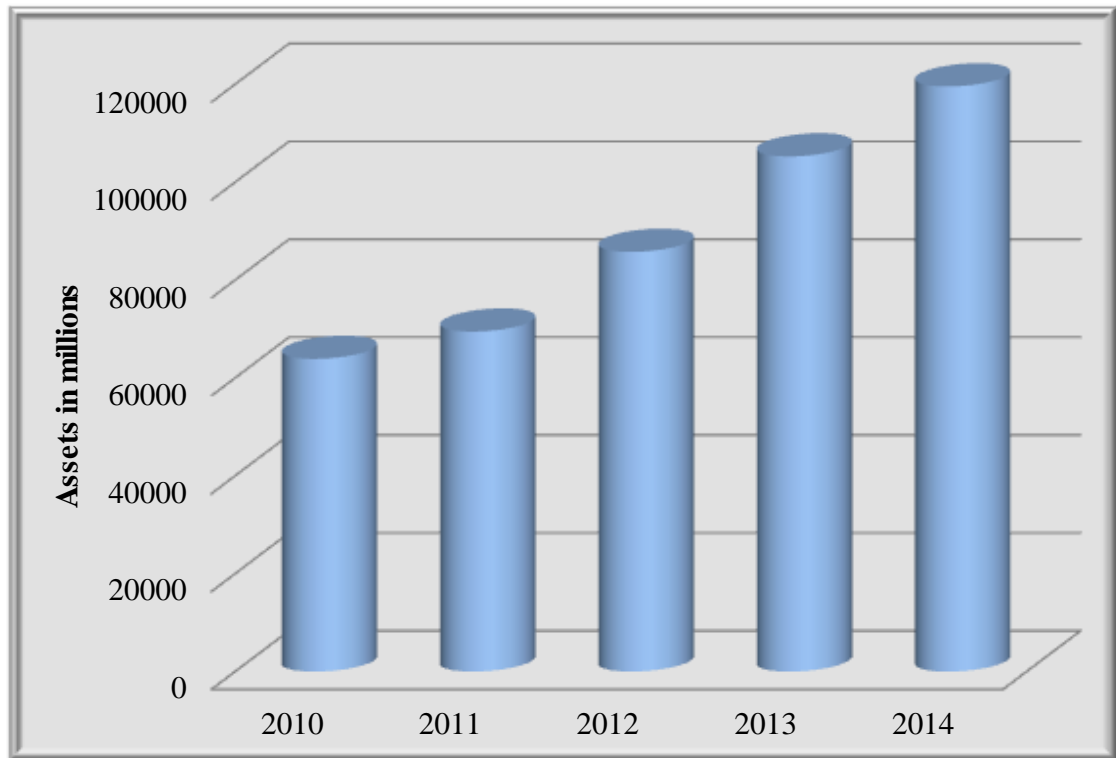
The common practice is that the investment managers invest in listed equities, money markets and in listed debt securities. Only a small percentage of assets managed by investment managers are invested in unlisted equities, unlisted properties and in unlisted debts (Bank of Namibia & NAMFISA, 2015). Stewart and Yermo (2009) reported that about 60-70 percent of assets owned by the pension funds in Namibia were invested in equities and unit trusts and these have performed well so far.

## 2.6 Collective investment schemes

Figure 2.8 shows that, the assets managed by collective investment schemes have been growing at slow pace in comparison to assets managed by investment managers for

the past five years shown in figure 2.5 in 2014. The total assets held by collective investment schemes stood at N\$42 million in 2014.

**Figure 2.8: Collective investment schemes' assets**

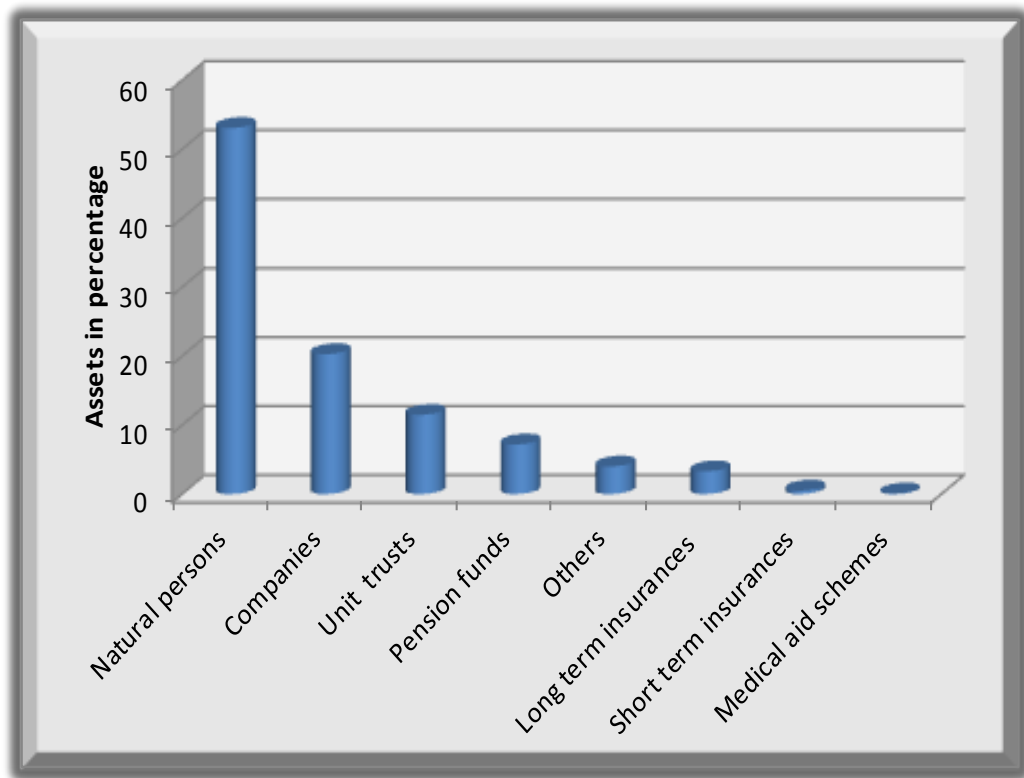


Source: NAMFISA (2015)

***Sources of funds for collective investment schemes***

Figure 2.9 below shows sources of funds managed by investment managers. Investment managers invest assets mainly from; natural persons, companies, unit trusts, and pension funds. About 53 percent of the total assets managed by collective investment schemes were accounted for by natural persons, 20 percent were accounted for by companies and only less than 10 percent were accounted for pension funds. This implies that only small portion of pension funds’ assets is managed by collective schemes the unit trusts. .

**Figure 2.9: Sources of funds managed by collective investment schemes**



Source: NAMFISA (2015)

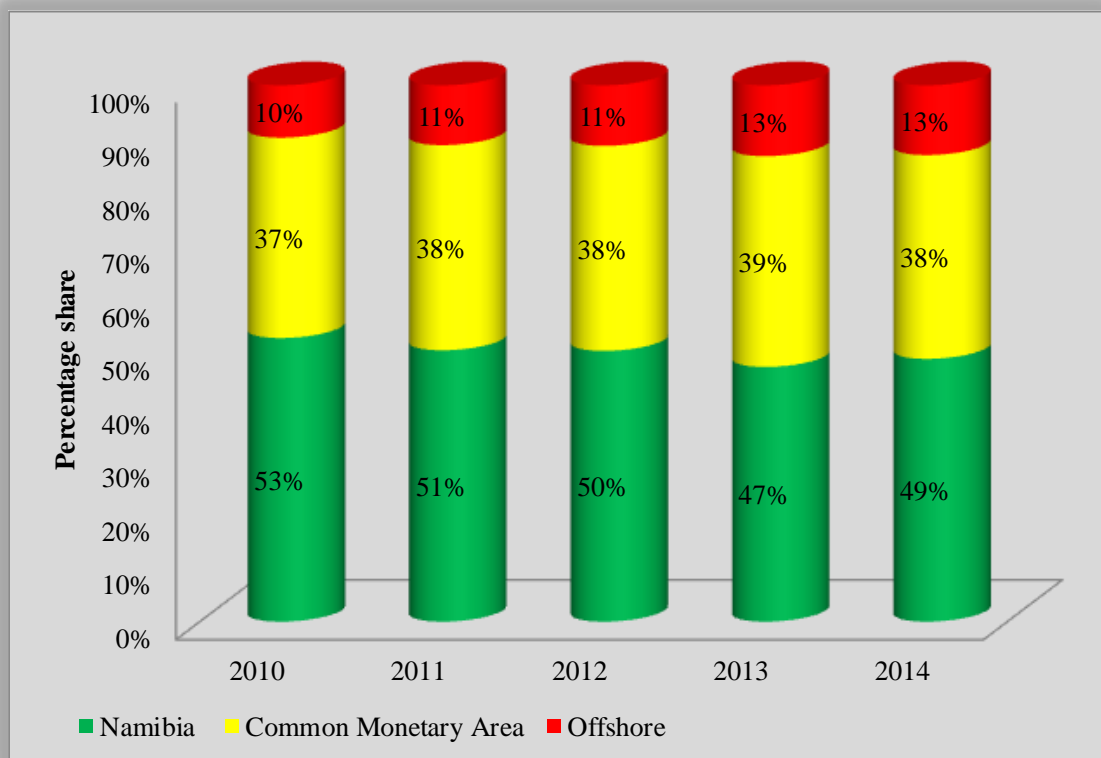
Assets managed by collective investment schemes are mainly invested money markets, listed equities and in listed debt securities. Only a small percentage of assets were invested in unlisted equities, unlisted properties and in unlisted debts (NAMFISA, 2015).

### ***Geographical asset allocations by collective investment schemes***

The assets under the management of the collective investment schemes are invested in domestic economy, in CMA as well as in offshore. Figure 2.10 indicates that, large portion of assets managed by collective investment schemes were invested in Namibia.

A moderate portion of assets were invested in CMA and a few assets were invested in offshore (global). On the other hand, the slight decrease in the domestic investments was observed for the past four years since 2011 and moderate increase in offshores' investment was also witnessed during the same periods.

**Figure 2.10: Geographical assets allocations by collective investment schemes**



Source: NAMFISA (2015)

## 2.7 Financial instruments

Financial instruments are tools where institutional investors can invest their assets or funds, with returns at the end of the given period(s). The Namibian financial markets

offer a range of financial instruments. Mushendami and Kandume (2008) concluded that, major financial instruments in Namibia are bonds, equities, debentures and money market instruments. Other alternative assets in the Namibian market are real estates, inflation linked bonds and private equity which includes unlisted bonds, unlisted equities and unlisted infrastructure.

## **2.8 Bond market**

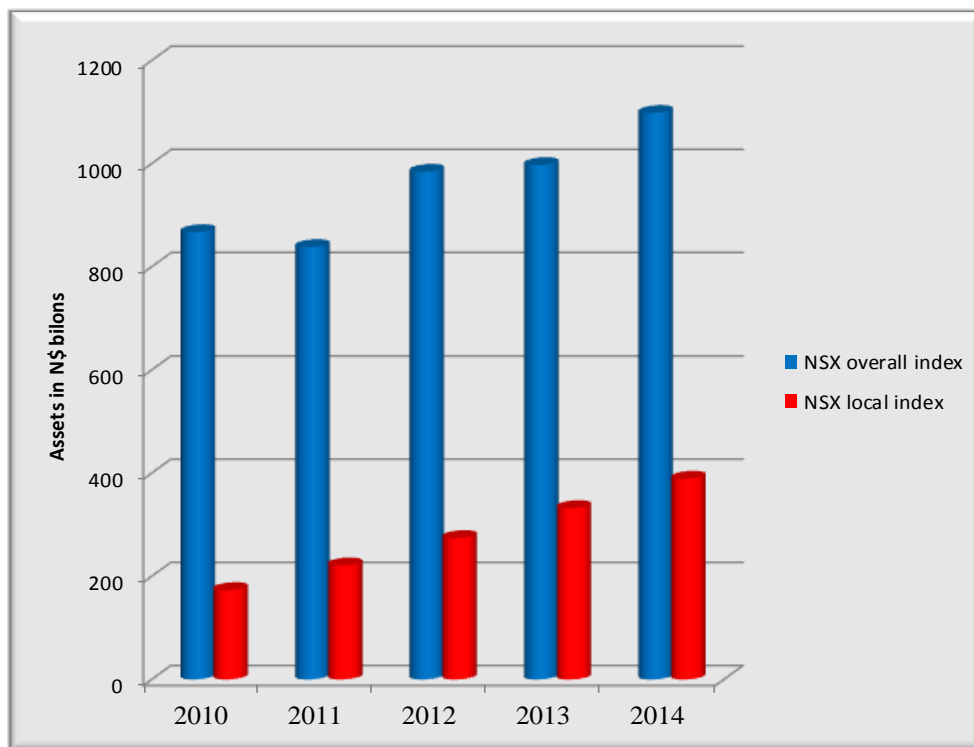
The bond market stood at N\$21 282.3 billion by the end of 2013 (Namibia Stock Exchange [NSX],2014). The Namibian bond market was dominated by central government bonds, which constitute 77.7 percent of the entire market. The other bonds were issued by banking institutions, state-owned enterprises and corporate companies. The Ministry of Finance (2010) confirmed that the bond market is dominated by the government. This poses a serious challenge to the development of the primary bonds market as the issuers' base is not well diversified. Furthermore, over-subscription of bond issuances was recorded during the past few years in Namibia (Namibia Stock Exchange [NSX], 2014). This means there are limited bonds issued in the Namibian market.

## **2.9 Equity market**

Trading activity on the NSX has increased since its inception in 1992. Even though trading is reported to be increasing, the total size of the market is somehow misleading because a large number of listed shares on the NSX are for South African companies.

The total market capitalisation of the NSX stood at N\$1 722.6 billion as at the end of 2014 and only N\$ 22.3 million are local Namibian equities. There are only seven local companies' equities listed on NSX. The majority are dual listed equities of South African companies with a primary listing on the Johannesburg Securities Exchange (JSE). Despite of the increase in market capitalisation of the NSX observed in 2014, capital markets growth remained subdued. The pension funds' and long term insurers' assets exceeded domestic assets requirements by a total gap of N\$ 7.2 million (Bank of Namibia, 2015).

**Figure 2.11: Market capitalisation of the Namibia Stock Exchange (NSX)**



Source: NSX (2015)

Figure 2.11 shows that the overall market capitalisation at the NSX has been increasing for the past five years. The graph also shows that there are very few local stocks on the NSX in comparisons to foreign stocks.

Apart from the shares sold at NSX, there are also private equities investments in Namibia. Private Equity market in Namibia is still at its initial stage and none of the studies have really established the size of the market. There are few investment companies that are investing in the private equity market.

## **2.10 Institutional investors regulations and policy in Namibia**

Institutional investors in Namibia are governed by Long Term Insurance Act of 1998 Pension funds Act of 1956 and Namibia Financial Intelligent Act of 2012.

The Pension Funds Act 24 of 1956 was amended in 2013 to encourage local investments and to ensure that pension funds investment contributes to the development of financial markets. The Act stipulates the guidelines of how pension funds' assets can be managed. Pension Funds Act of 1956 (regulation 28, subsection, 3) stipulates that "a fund must keep invested in domestic assets not less than 35 percent of the market value of its total assets". Regulation 28, sub regulation 3 further stipulates the limits on foreign investments to be achieved from 2014 to 2018. Regulation 15, sub-regulations 4 stipulate the limits of investing in various asset classes.

Given that a large portion of institutional investors' assets accounted for pension funds, the study opted to be limited to pension funds assets' investments. The study was also extended to investment managers who were investing large portion of institutional investors in particular pension funds' assets.

## **2.11 Conclusion**

There are more than 400 institutional investors in Namibia known as non-bank financial institutions (NBFI). Amongst all NBFI pension funds have the highest asset value followed by long-term insurances. A large composition of about 70 percent of institutional investors' assets was managed by investment managers. Higher percentages of assets managed by investment managers were accounted for by pension funds.

There are various financial instruments in Namibia such as equities, bonds, real estate and money market. The Namibian capital market is small, dominated by government bonds and dual listed securities with primary listing on the JSE.

## **CHAPTER THREE**

### **3. LITERATURE REVIEW**

#### **3.1 Introduction**

This chapter reviews the works of other scholars and critics who have conducted studies related to pension funds' assets investments. Firstly, it reviews the relevant theories that explain pension funds' investments in domestic and foreign economy. Secondly, the empirical literature on the actual studies conducted in the similar and related topics were reviewed. Finally, a conclusion was drawn from the literature.

#### **3.2 Theoretical framework**

The two main theories in this area are the Home Bias and the International Portfolio investment theory.

##### **3.2.1 Home bias theory**

The home bias theory argues that investors will tend to invest more of their assets in the domestic economy. Cooper and Kaplanis (1994) contend that pension funds invest more in the domestic economy because of the real exchange rate fluctuations in foreign countries. This argument is further highlighted by Bakker (2012) who observes that, in the case of Europe, pension funds hold a substantial proportion of domestic assets because of the real exchange rate fluctuations and inflation hedging. Bakker further argues that pension funds prefer to invest in the domestic economy to avoid information asymmetries.

Harichandra (2004) supports home bias since it promotes the development of long-term financing markets and balances the need for foreign capital inflows especially in developing countries in financing costly and long term development projects. Similarly, Croce (2014) contends that domestic investments play a major role in directing savings into productive long-term investments, especially those that can be difficult to finance because they are illiquid.

On the contrary, Solnik cited in Davis (2002) argues against home bias by contending that holding a diversified portfolio of assets in a domestic market can eliminate unsystematic risk resulting from the different performance of individual firms and industries, but not the systematic risk resulting from the performance of the economy as a whole. In an efficient and integrated capital markets, systematic risk would be minimized by holding proportional international assets in investment portfolio. Similarly, Oxera, (2007) argue against exchange rate risk as justification for home bias of pension funds since exchange rate risk can be hedged to offset the risk.

### **3.2.2 International portfolio**

International portfolio investment theory contends that investors tend to invest more of their assets in foreign assets. Baxter and King (2001) and Roldos (2004), claims that international investments have two main benefits, namely; the standard diversification benefits that improve the risk–return trade-off of domestic portfolio and labour income benefits which are more correlated to domestic financial assets returns than to foreign asset returns. Similarly, Davis (2002) argues that foreign investments

offers inflation protection, as the exchange rate depreciates during periods of inflation when domestic asset returns are poor. He further states that international investments minimise catastrophic risks and liquidity risk in small countries, where assets of pension funds and other institutional investors exceed the entire domestic market.

Cooper and Kaplanis (1994) argue against investing in foreign portfolio since different countries hold different portfolios which are associated with cross broader costs such as withholding taxes, informational disadvantages and differential access to markets. This argument is further supported by Oxera (2007) who argued against international investment given the fact that transaction costs for foreign securities are extremely higher than for domestic trades.

### **3.2.3 Challenges in domestic economy**

There are challenges in capital markets that might hinder the perfect investments in local economy. Roldos (2004) argued that there is imbalance between demand and supply of local securities in markets specifically in the emerging markets economies. Kim and Stewart (2011), concur with Roldos, (2004) by concluding that the domestic capital market is not large enough to accommodate a large scale swing of investment and disinvestment held by local investors. World Bank (2015) maintains that limitations on regulatory framework for instruments, lack of quality investable assets, lack of a deep and liquid government bonds, tax framework, rigidities and

misalignment of incentives, and lack of mechanisms to align their risk-return appetite were challenges in most of capital markets in the world.

OECD (2014) found that institutional investors were reluctant to invest in private equity, real estate and commodities in EMEs because they have lower liquidity and require a longer time horizon than stocks and bonds. For example, pension funds in North-South countries were facing challenges to invest in private equity because of lack of capacity, expertise and unpublished data on pension funds' assets allocation; and their returns where they can base their investment decisions.

Most of African countries have a shallow capital markets which impose investments challenges in the financial markets. Rusagara (2008) argued that Rwanda's capital markets have limited long term financial instruments. The United Nation (2014) concur with Rusagara, that there is shortage of long-term investments in Africa. United Nations (2014) further contends that excess liquid reserves in form of government bonds and few securities listed on stock exchange were some of structural deficiencies in some African financial markets. Kapoor, cited in OECD (2014), concurs with challenges identified by the United Nations that the lack of suitable investment channel vehicles to access green infrastructure is also a challenge. In addition, OECD argued that, infrastructure investment in most of African countries is not clear, and is weak, which makes it difficult for the investors to invest in infrastructure projects. Stewart and Yermo (2009) stressed that infrastructure, as asset

class, is one of the promising venues for pension fund investment in Africa however, so far, only South Africa pension funds have been active investors.

#### **3.2.4 Foreign investments versus domestic investments**

Davis (2002) argued that institutional investors invest more in domestic assets than in foreign assets. Bakker (2013) confirmed that institutional investors particularly, pension funds still invest substantial proportion of domestic assets. Oxera (2007) reported that pension funds, increased their foreign assets allocations from 14 percent to 17 percent. Abdioglu (2012) concluded that pension funds in mature markets tend to invest more in foreign assets while their counterparts in emerging markets economies invest more in domestic assets.

Investment of pension funds in a local economy is vital for the growth of the capital markets. Roldos (2004) confirms that there is a substantial degree of contemporaneous correlation between institutional investment, including pension funds and securities market development. Roldos further argues that the development of domestic financial markets is less stimulated when contractual investors such as pension funds and long term insurances invest a large proportion of their funds abroad. Cooper and Kaplanis (1994) and Bakker (2013) concluded that pension funds invest more in the domestic assets because of real exchange rate fluctuations, inflation hedging, and low transaction costs in domestic market, availability information, indirect diversification benefits and taxes benefits. Abdioglu (2012), Cooper and Kaplanis (1994) and Bakker

(2013) agree that institutional investors avoid information costs thus opting to invest in familiar assets in the home country.

Roldos (2004) insists that, pension funds also need to invest in a foreign economy to provide a natural supply of foreign exchange hedge for corporates that borrow abroad, thus, contributing to the development of derivatives markets and balancing aggregate international position. Other scholars such as Vittas (2003) emphasise that foreign investment is crucial since international diversification improves the risk/return trade-off of investment portfolio by reducing the exposure to cyclical and long term structure shifts in local economic performance. Even though investing in foreign markets has numerous benefits, it also has macroeconomic implications to the capital markets and to the country, in general, if it is in extreme. For example, Chilean and Canadian experience implication of foreign investment due to the sudden shift of pension funds' assets allocations abroad as this causes substantial exchange rate depreciation in a Peso as well as in a Canadian dollar (Roldos, 2004). Previous studies have discussed the importance of foreign and local investments as well as the implications for macroeconomic foreign investment. However, less attention was given to macroeconomic implications of investing only in the local economy.

### **3.3 Empirical literature**

### **3.3.1 Investment of pension fund's assets**

Croce, Stewart and Yermo (2011) argues that more than 80 percent the pension funds' assets in the OECD countries are allocated in traditional assets such as; bonds and equities. Bakker (2012) argued that pension funds allocate more assets on bonds than equities because bonds provide a better hedge against increases in liabilities. Watson (2014) supports the Croce et al. (2011) by pointing out that the largest pension funds in the world were investing equities, bonds, cash and other assets (including real estate, loans and other alternative assets). Della, Kaminker and Stewart (2011) claim that institutional investors such as pension funds and insurances invest their assets in green equity investment through a green bond, real estate and infrastructure which are often organised as private equity vehicles. OECD (2014) collaborates with Della et al. (2011) by urging that alternative investments such as private equity, real estate and commodities are also suitable for long term investors since they have lower liquidity, sell in less efficient markets and require a longer time horizon than publicly traded stocks and bonds.

However, Roldos (2004) argues against the institutional investors investing in cash or money markets and treasury bills. He further contends that, the short-term maturity duration for T-bills and money markets instruments are undesirable to long term investors' despite the fact that they are less risky than any other assets. On the other hand, OECD (2013) reported that eleven out of twenty OECD countries in 2012 departed from investing their pension funds' assets in traditional assets and opted to invest more than 20 percent of their assets in loans, land and building, hedge funds and

private equity. In this regards, OECD (2014) recommends pension funds and insurances to invest infrastructure assets linked to inflation since they could hedge the sensitivity of pension fund liabilities. Similarly, World Bank (2015) encourages institutional investors to invest more in fixed income and inflation index bonds instruments. They argue that inflation index bonds deliver long stable cash flow with attractive yields.

Fang, Ivashina and Lerner (2012) deliberated on various investment vehicles or ways in which assets can be invested namely, the traditional Limited Partners (LPs) and General Partners (GPs), solo direct investment, and co-investments. Fang et al. (2012) favour solo direct investments since they yield better net returns in comparison to other vehicles. Stewart and Yermo (2009) argue that most of pension funds in OECD are using direct investment vehicles. For example, the Canadian and Australian pension funds have been leaders in direct investment, focusing their investment in mature and developed markets. World Bank (2015) confirmed that, large investors such as pension funds prefer direct investment and co-investment as they chose to develop their dedicated infrastructure team with added benefits by eliminating management fees.

Stewart and Yermo (2009) argue that smaller pension funds use co-investment vehicles to invest in local infrastructure projects. Stewart and Yermo argue against investing through asset/fund managers because they are highly leveraged, charged high fees and have a short time span. On the contrary, World Bank (2015) argues that

small institutional investors invest in equities via listed or unlisted equity funds and asset managers, since internal teams seldom have adequate skills and knowledge in investments. Sourial and Amico (2015) collaborated with World Bank (2015) study that the preferred investment vehicles for pension funds are investment managers because they have regulated liquidity, maximum redemption period and better risk management strategies.

OECD (2014) concluded that the use of direct and co-investments vehicles are preferable depending on the size/ value of assets invested on; high value assets need intermediaries such as GPs to facilitate the trading while low value assets do not need GPs' services.

In Africa, there are few financial instruments in the financial market where pension funds can invest their assets. Stewart and Yermo, (2009) claim that, pension funds in Nigeria invest in bonds, T-bills, debentures, equities and real estates. Mutuku as cited in Gatauwa (2014) reported that the majority of pension funds in Kenya invest in equities, government securities and immovable properties. Similarly, a study by Muia (2015) confirmed that large portion of pension funds' assets in Kenya were invested as follow; 0.67 billion and 0.62 billion in government securities and immovable property respectively. Likewise, Sourial and Amico (2015) reported that pension funds' assets in Zambia and in Egypt were commonly invested in bonds, T- bills, equities and money markets.

Gatauwa (2014), contend that pension funds invest their funds through fund managers. Gatauwa further argue that the use of fund managers is more efficient, has low risk and provides capital protection in comparison to direct investment which is cheaper, easy to conduct but offers higher risk. In term of investment vehicles, Sourial and Amico (2015) argue that pension funds in Egypt use both direct investment and co-investments to invest in local economy. Egyptian pension funds opted for direct investment and co-investment because is cheap since trustees also playing role in the investment of their assets.

### **3.3.2 Factors inhibiting domestic investments**

#### **Lack of diversification**

The domestic markets are poorly diversified. Davis (2002) states that limited securities in the capital market is risky in the sense that, if the domestic market currency depreciates it will have adverse effect on the return of pension funds' that are invested within the local economy. Stewart and Yermo (2009) confirmed that that in most of the African countries' pension funds were reluctant to invest in their home countries because the domestic stock market is dominated by small numbers of the companies which is risky. Similarly, United Nation (2014) confirmed that there were 23 securities exchanges in Africa which are relatively small as evidenced by the low levels of market capitalization and also a small number of listed and traded companies.

#### **Regulatory framework**

Policies and regulatory frameworks regulating institutional investments are too rigid and complicated. For instance, Gatauwa (2014) insists that the process for the pension funds to invest in private equity in Kenya is lengthy. He further stated that private equity managers are required to conduct detailed market, financial, environmental, management due diligence which take several months before they make final decision on investing. According to (OECD, 2013) investment managers in Tanzania find it difficult to invest in the domestic economy because there is lack of institutional coherence which often leads to ineffective implementation of investment policies and regulations. OECD further argues that the shortcomings in the legal framework for investment, has adverse impact on Tanzania's business performance compared to other African countries.

#### **Lack of skills and knowledge in local assets**

Kathurima and Ben (2013) found that there was resistance to investment in private equity until more pension funds' trustees were educated on how and why investment in private equity asset class was important. Similarly, Gatauwa (2014) found out that African pension funds are reluctant to invest in domestic assets, particularly private equity, because of lack of understanding of the evaluation of private equity, proper methods of valuations. He further stressed out that most of pension funds in Kenya shy away from investing in local asset classes due lack of understanding and knowhow. Shiimi, as cited in Katswara (2004) argue that institutional investors in Namibia found it difficult to invest in private equity investment because of lack of investment skills, lack of liquidity, non- transparency, and outflows of funds. In addition, Zaaruka et al.

(2005) argue that pension funds in Namibia were reluctant to invest in private equity because the returns are hard to measure and investments may be unsaleable for several years.

Furthermore, Hashange (2012) contends that inadequate investment skills of boards of trustees, trustees not running funds on full time basis and small financial markets, are some of the challenges which affect the investment of GIPF in local economy. Hashange concur with IMF(2007) that there is lack of knowledge and skills in financial market to compile and analyse data. Honde and Odiambo (2014) confirmed that Namibian financial sector is characterised by deficiencies of limited competition, insufficient financial product in the bond market, a relatively illiquid secondary market and limited trading on NSX.

Roldos (2004), Rusagara (2008), United Nation (2014) and World Bank (2015) identify and discuss the weaknesses and structural deficiencies in financial markets. However, there is no clear evidence of whether challenges and structural deficiencies identified can inhibit institutional investors in particular pension funds to invest in the local economy. The shortcoming of Zaakura et al. (2005) and Ashiaghor et al. (2014) studies' is that, they were just limited to factors inhibiting investors from investing in private equity investments. This gap implies that, factors that can inhibit institutional investors to invest in their home countries in general were barely investigated.

### **3.4 Conclusion**

The home bias theory argues that institutional investors tends to invest in the domestic economy because real exchange rate fluctuation in foreign markets, inflation hedging and information asymmetries. On the other hand, the international portfolio theory argues that foreign investment provides diversification benefits, high returns and minimise catastrophic risk and liquidity in a situation where assets of institutional investors exceed the entire domestic market.

The empirical literature concluded that a large percentage of pension funds' assets are invested in the domestic economy in particular in emerging markets economies. The highest percentage of pension funds' assets was invested in traditional assets such as bonds, equities and in money markets. In 2012, it was observed that some of OECD countries started allocating more funds into alternative assets classes such as real estate, private equity and hedge funds. Furthermore, the long term institutional investors were encouraged to invest in infrastructure projects and inflation linked bonds. Previous scholars in investments concluded that there are structural deficiencies in financial markets and factors that inhibit domestic investment in general. Amongst inhibiting factors in domestic investments are; lack of diversification, regulatory frameworks, lack of skills and knowledge in local assets.

## **CHAPTER FOUR**

### **4. RESEARCH METHODOLOGY**

#### **4.1 Introduction**

This chapter describes the research methods and procedures that were used to investigate the factors inhibiting pension funds' assets from being invested in the local economy. In particular, it chapter explains research design, population, sample, research instruments, data collection procedure, data analysis and research ethics.

#### **4.2 Research Design**

Research design can be defined as the strategy and structure conceived in a bid to acquire solutions to research problem Creswell (2014). The study adopted the quantitative design method following the descriptive approach. Brink, van der Walt and van Rensburg (2012) argued that descriptive research design is used to gather data at particular point in time, identify problems with current practice, justify current practice or determine what other professionals in similar situation are doing. The descriptive design helped the researcher to describe the pension funds' investments in Namibia and identify factors inhibiting pension funds' assets from being invested in the local economy. This approach was preferred because it is efficient in collecting large amounts of data within a short time.

### **4.3 Population**

Population is the number of people to whom the study relates or a group of people or elements from which data can be collected (Welman, Kruger, & Mitchell, 2005). A well-defined population was necessary for this study to ensure that all groups of people involved in pension funds' investments had an equal chance to be included in the final sample that is drawn. The target population of this study comprised of a total of 109 pension funds schemes that were registered with NAMFISA (NAMFISA, 2015). It also included fourteen (14) investment companies that were investing pension funds' assets in Namibia (NAMFISA, 2015).

### **4.4 Sample**

Sampling is a process of selecting a smaller group from a population in order to obtain information regarding a phenomenon in a way that represents the population of interest (Brink et al. 2012). In this study probability random sampling was used to identify the required sample from the population. The researcher opted for this method because it permits sampling error estimation, reduces bias in the sample or sampling, and makes it possible for the researcher to use inferential statistics correctly (Brink et al. 2012). Furthermore, this method was preferred because it gave equal chance to all registered pension funds and investment firms to be included in the sample of the study.

The sample size of forty-four (44) was obtained with the MaCorr calculator shown below, using a 99 percent confidence level and a confidence interval of 15. Thereafter,

the random sampling method was used to select (44) pension funds from the population of 109 pension funds.

**Determine Sample Size**

Confidence Level: 99% ▾  
Confidence Interval: 15 (%)  
Population: 109

Calculate Clear

**Sample Size:** 44

Source: <http://www.macorr.com/sample-size-calculator.htm>

Furthermore, the MaCorr calculator was used to determine the sample size of eight (8) investment companies using a 99 percent confidence level and a confidence interval of 30 as shown below. The random sampling method was used to select eight investment companies from a population of 14 investment companies.

**Determine Sample Size**

Confidence Level: 99% ▾  
Confidence Interval: 30 (%)  
Population: 14

Calculate Clear

**Sample Size:** 8

Source: <http://www.macorr.com/sample-size-calculator.htm>

#### **4.5 Research Instruments**

Questionnaires were used as research instruments to collect primary data. It was preferred because; it gave respondents adequate time to complete the questionnaires, hence well thought answers were obtained.

A pair of questionnaires was developed to collect quantitative and qualitative data from pension funds' trustees and investment managers. A pension funds' trustee's questionnaire consisted of nine (10) closed ended questions and one (1) open-ended question (APPENDIX 1). While, investment managers' questionnaire consisted of five (5) closed-ended and three (3) open ended questions (APPENDIX 2).

The inclusion of closed ended questions allowed the respondents to rate, or chooses, between several options given. This enabled the researcher to collect a lot of quantitative data in a short time. Closed ended questions were preferred because, it minimised the discrimination against the respondents who are less articulate in the interview questions. In this study, close-ended questions allowed the researcher to find out where and how pension funds' assets were invested and identify factors inhibit pension funds' assets to be invested in the local economy.

Open-ended questions enable the researcher to explore the variable better and obtain some ideas of the spectrum of possible responses. In this study, open-ended questions allowed explorations of strategies and measures to encourage pension funds' assets to be invested in the local economy and other issues related to the investment in local economy.

Secondary data was obtained from reviewing journals, annual reports for financial regulators and relevant official policy documents for various government ministries and agencies. The secondary data helped the researcher explore strategies that were used in other countries to encourage local investments. It also broadens the understanding of the researcher on the subject being explored.

#### **4.6 Data Collection Procedure**

The study relied on the primary and secondary data. The primary data was collected from the first-hand sources, pension funds trustees and investment managers in this study. The secondary was collected from annual reports for the financial regulators and financial statements of the investment companies.

Prior to the data collection process, the written permission to carry out the research survey was obtained from the Post Graduate Studies Committee of the University of Namibia. Then, consent was also obtained from the respondents to ensure that they were not forced to participate in this study.

A total of forty-four (44) questionnaires were sent to trustees of pension funds at private and public companies as well from Government Institution Pension Funds (GIPF) via email. Similarly, eight (8) questionnaires were emailed to the investment managers. Questionnaires sent had personalised cover letters briefly explaining the purpose of the survey, importance of the respondents' participation and statement guaranteeing them the confidentiality of the data collected. The respondents were

given two weeks to complete the questionnaires with an option to email the completed questionnaires or to wait for the researcher to collect the questionnaires after two weeks.

The respondents were reminded telephonically after two weeks to email completed questionnaires. Respondents who failed to send back the completed questionnaires were given another week to complete the questionnaire and appointments were set for the researcher to collect the completed questionnaires.

#### **4.7 Pilot study**

A pilot study is a small study conducted prior to the actual research study to test and validate the research methodology, instruments and data analysis techniques that the study intend to employ in collecting data (De vos, Strydom, Fouche, & Delport, 2014). The questionnaires were pre-tested with five (5) pension funds' trustees and two (2) investment managers from different investment firms. Pension funds' trustees and investment managers in the pilot study were given a week to complete the questionnaires. The completed questionnaires were analysed to identify any weaknesses in the research questionnaires. The deficiencies identified were corrected to improve quality and layout of the questionnaires. The pilot study ensured the clarity and reliability of the instruments used in collecting the data. The participants in the pilot study were not part of the actual study.

#### **4.8 Data Analysis**

In this study, a quantitative method was used in analysing data. The data collected from closed-ended questions were analysed through descriptive statistics. The data collected was captured and analysed through the use of computer statistical software called Social Package for Social Science (SPSS). Data entry was validated whereby the structure and consistency checks were pre-programmed in order to ease the detection of errors. In particular, the software generated measures of central tendencies and dispersion (mean, mode, median, percentiles and standard deviations). Qualitative data generated from open-ended questions was grouped into themes to enable the respondents' response to be grouped into a specific number of categories. The Microsoft excel software was used for this analysis. Data was presented in tabular, graphical and narrative form.

#### **4.9 Research Ethics**

The guidelines of the University of Namibia on research ethics were adhered to at all stages in process of the research. Ethical issues were addressed to ensure that the data collection techniques did not cause any form of discomfort to the respondents. The respondents were well informed about the reasons of participation in this research and clarity was emphasized on the usage of harvested data being strictly for the research. Furthermore, the respondents were informed that their participation in the study is voluntary, and that they had the right to withdraw from the study any time without penalty.

Data collected through questionnaires was treated with strict confidentiality and were not disclosed to the third parties. The information collected was only accessed by the researcher for the purposes of this study. Research information stored or saved on the memory sticks and laptop was password protected. Completed questionnaires are stored in a locked cabinet and will only be destroyed after five (5) years as per the Namibia National Archive guidelines and recommendations of Post-graduate committee. Plagiarism has been avoided at all stages of the research and ideas rented from other scholars or researchers were appropriately acknowledged in the text.

#### **4.10 Conclusion**

This chapter discusses the methodology used to undertake the study. The researcher opted for a quantitative descriptive research design. The population of the study comprised of all pension funds' schemes and investment firms registered with NAMFISA by December 2014. Probability random sampling technique was used to select the sample of 44 pension funds and 8 investment firms from the population of 109 pension funds and 14 investment companies respectively. The primary data in the study was collected through survey questionnaires while secondary data was obtained from reviewing financial reports and other related literatures. SPSS and Microsoft excel were used for analysing the data and the information was presented in tables and graphs. Ethical considerations were taken into account to ensure that data collection techniques did not cause any emotional or physical harm to the respondents.

## **CHAPTER FIVE**

### **5. RESEARCH FINDINGS AND DISCUSSIONS**

#### **5.1 Introduction**

This chapter presents, discusses and analyses the data collected from pension funds' trustees and investment managers. The findings obtained from the questionnaires are presented and analysed question by questions. To make the presentation easier for the reader to understand and conceptualise the findings of the research, presentation tools such as bar charts, descriptive statistics and frequency tables were used in organising the data.

#### **5.2 Response rate**

Table 5.1 shows the response rate of the participants in the study. Out of 44 questionnaires which were sent out to pension funds' trustees 38 (86.4 percent) were returned and the remaining six (13.6 percent) were not returned. Furthermore, seven (7) out of eight (87.5 percent) of questionnaires sent to investment managers were returned and only one (12.5 percent) was not returned. The response rate of more than 80 percent is reasonable and it implies that the two populations are well represented in the study and varieties of information were gathered.

**Table 5.1: Participants response rate**

<b>Group of the respondents</b>	<b>Frequency</b>	<b>Percentage</b>
<b>Pension funds' Assets</b>		
Received	38	86
Not received	6	14
Total	44	100
<b>Investment managers</b>		
Received	7	88
Not received	1	12
	8	100

Source: Survey, June 2016

### **5.3 Educational background of pension funds' trustees**

Majority of the respondents 23 (60.5 percent) had Human Resources background 7(18.4 percent) had Business and Administration background and only 2(5.3percent) of the respondents had Finance and Investment background. Having a majority of trustees with Human Resources and Business Administration background implies that the trustees might need training on investment related issues since; their tertiary educational training does not include investment related backgrounds.

Even though the majority of the trustees were from Human Resources and Business Administration backgrounds, the study did not establish the relationship between field of study and investment decisions made by pension funds' trustees. However, this study confirmed that most the pension funds' trustees do not have investment related qualification. Hence the inputs and participations of trustees in investment decision might be questionable.

**Table 5.2: Educational background of pension funds' trustees**

<b>Educational backgrounds</b>	<b>Frequency</b>	<b>Percent</b>	<b>Cumulative Percent</b>
Business Administration	7	18.4	18.4
Economics	3	7.9	26.3
Finance & investments	2	5.3	31.6
Human Resources	23	60.5	92.1
Engineering	1	2.6	94.7
Others'	2	5.3	100.0
<b>Total</b>	<b>38</b>	<b>100.0</b>	

Source: Survey, June 2016

#### **5.4 Profile of pension fund schemes**

Out of 38 pension funds surveyed, 36 (94.7 percent) of the respondents were representing provident funds while 2 (5.3 percent) were representing pension funds. This implies that most the pension funds plans in Namibia are Defined Contribution (DC) plans and only few are Defined Benefits (DB) Plans. In Namibia pension plans are also moving away from pension fund plans to provident funds plan which is similar to the United Kingdom where most of occupational pension plans were reported shifting from DB to DC plans (Antolin ,2008). None of the respondents indicated that they belonged to a preserved funds or retirement annuity funds. This implies that, the study excludes the opinion of trustees of preserved funds and retirement annuity funds.

**Table 5.3: Type of pension funds schemes**

<b>Schemes</b>	<b>Frequency</b>	<b>Percent</b>	<b>Valid Percent</b>	<b>Cumulative Percent</b>
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Pension	2	5.3	5.3	5.3
Provident	36	94.7	94.7	100.0
Total	38	100.0	100.0	

Source: Survey, June 2016

## **5.5 Geographical asset allocations**

### **5.5.1 Geographical asset allocation by pension funds' trustees**

According to pension funds' trustees a high proportion of pension funds' assets (38.4 percent) were invested in CMA followed, by investments in the domestic economy (36 percent). About 25.4 percent of pension funds' assets were invested offshore. The 30<sup>th</sup> percentile shows that, 30 percent of the pension funds took part in the survey, were investing less than 35 percent of their total assets in the domestic economy. Pension funds' trustees in Namibia are investing less in the domestic economy and more in foreign markets despite the limits set in Pension Funds Act of 1956.

**Table 5.4: Descriptive statistics of geographical asset allocations**

		Pension Funds' Trustees			Investment Managers		
		Domestic	CMA	Offshore	Domestic	CMA	Offshore
N	Valid	38	38	38	7	7	7
	Missing	0	0	0	0	0	0
Mean		36.003	38.424	25.416	35.571	40.143	24.286
Median		37.000	40.000	25.050	35.000	45.000	24.500
Mode		37.0 <sup>a</sup>	40.0	20.0	35.0	25.0 <sup>a</sup>	35.0
Std. Deviation		5.1323	6.4232	6.6920	3.0472	11.0330	9.6775
Range		25.0	34.0	30.0	10.0	30.0	25.0
Minimum		20.0	20.0	10.0	30.0	25.0	10.0
Maximum		45.0	54.0	40.0	40.0	55.0	35.0
Percentiles	35	35.650	38.650	22.000	35.000	33.600	19.100
	90	40.560	45.100	33.740			

a. Multiple modes exist. The smallest value is shown

Source: Authors' own computation

### 5.5.2 Geographical asset allocation by investment managers

According to investment managers shown on table 4.4 on average 40.1 percent of pension funds' assets were invested in CMA and 35.5 percent in the domestic economy (35.5 percent). About 24.3 percent of pension funds' assets were invested offshore. The 30<sup>th</sup> percentile indicates that, 30 percent of the investment managers who took part in the survey were investing less than 35 percent of their total assets in the domestic economy. This implies large portion of pension funds' assets managed by investment managers are imported to CMA countries.

The results from investment managers' survey correlated with those of the pension funds trustees' survey. On average 36 percent and 35.6 percent of pension funds' assets were invested in the domestic economy by pension funds trustees and

investment managers respectively. Furthermore, 38.4 percent and 40.1 percent of pension funds' assets were invested in CMA by pension funds' trustees and investment managers respectively. Likewise, pension funds' trustees and investment managers were investing on average 25.4 percent and 24.2 percent in offshore respectively. The 30<sup>th</sup> percentile of pension funds' trustees and investment managers implies that, some of the pension funds' portfolio had less than 35 percent of their total assets invested in the domestic economy. On average both respondents' groups pension funds' trustees and investment managers were compliant to the amendments of regulation 28, the Pension Funds Act of 1956, which requires each pension fund to invest at least 35 percent of its total assets in domestic assets. However, 30 percent of the respondents were non-compliant to regulation (28) since they invest less 35 percent of their assets in the domestic economy. Furthermore, both respondents' groups were just investing close to 35 percent, the minimum requirement. This may be an indication that investment managers and pension funds' trustees were investing in local economy just to comply with the Act.

The correlation of the results from both pension funds' trustees and investment managers concur with Ashiaghor et al. (2014) who argued that investment managers invest pension funds' assets as per pension funds trustees' investment policy. Investing minimum assets required by the Act, may be compared to investment managers in Bulgaria who were just investing in local economy because of the investment limits (Oxera, 2007). On the other hand, the survey results differ with Davids (2002) who found out that pension funds were investing at least 60 percent of their assets in home

markets. The results of the survey opposed the home bias theory which concluded that investors invest more in the domestic economy to avoid information asymmetries and other transaction costs (Bakker, 2013).

Furthermore, the survey confirmed that, the bulk of pension funds' assets were invested in foreign markets in CMA and offshore as discussed in Ministry of Finance (2012). An investment of 40.1 percent in CMA by investment managers concur with NAMFISA (2015) who indicates that investment managers were investing 38 percent of their pension funds' assets in CMA. The investment of more pension funds' assets in foreign markets contradicts with Oxera (2007) who concluded that pension schemes with strict international investment limits tends to invest less in foreign markets. Geographical asset allocations in Namibia deviate from the normal practice in emerging economies of investing more in domestic assets (Abdioglu, 2012). Pension funds' asset allocation practise is similar to pension funds in advanced economies.

Without doubt the survey concluded that most the pension funds' assets in Namibia were invested in outside Namibia due the perceived the benefits of investing in foreign markets. This eventually stunts the growth of the local economy. Roldos (2004) argues against the sudden shrift of investing more assets in foreign markets as it can cause substantial depreciation of the local currency. Similarly, investment of pension funds' assets in the domestic economy should not be undermined as it promotes the

economy growth. Bakker (2013) argued that domestic investments can protect local investors' participants and strengthen the single market.

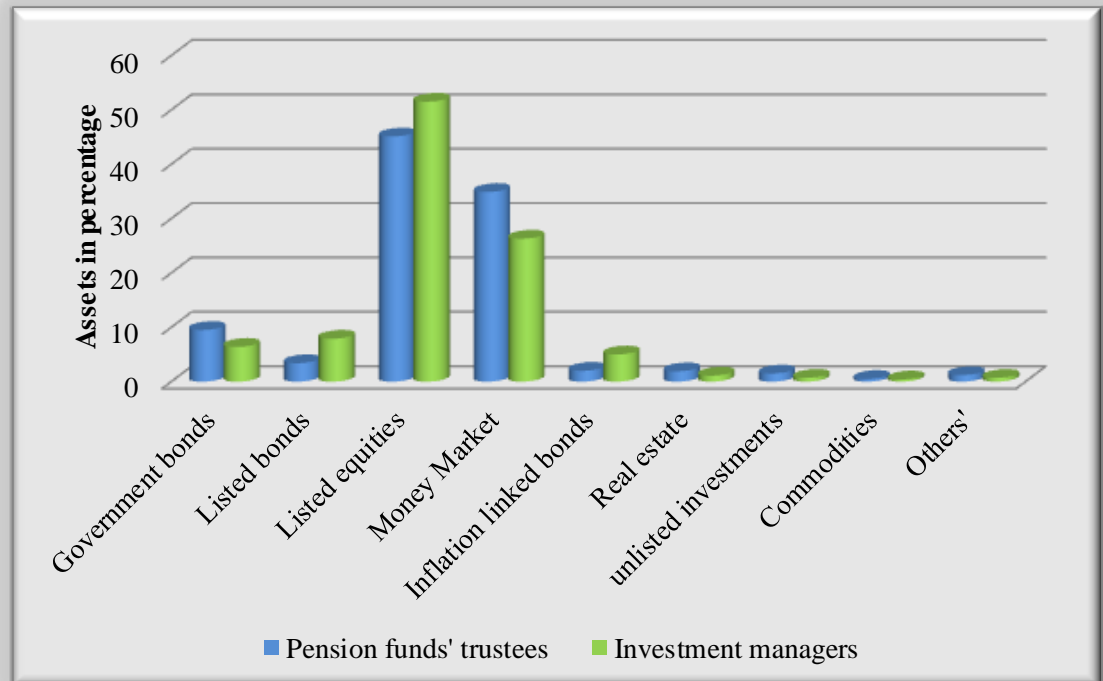
## **5.6 Pension funds' asset class allocations per geographical location**

### **5.6.1 Domestic economy**

#### *Pension funds' trustees' asset class allocations*

Figure 5.1 below depicts that, the highest percentage of about 45 of pension funds' assets were allocated to equities, about 35 percent were held in money markets. About 10 percent of pension funds' assets were in government bonds and about 4 percent were in listed bonds. Furthermore, only about 2 percent of the pension funds' assets were in inflation-linked bonds. Despite the diversification benefits of adding alternatives investments in pension funds' portfolio, pension funds' trustees allocated only less than 2 percent on their pension funds' portfolio in alternatives assets such as real estate, unlisted investments, commodities and in others alternative assets. This means that, Pension funds' portfolios in Namibia are less diversified since there are alternative assets in their portfolios.

**Figure 5.1: Domestic asset allocations**



Source: Survey, June 2016

*Investment managers' class asset allocation*

As shown in figure 5.1 about 51 percent of pension funds' assets managed by investment managers surveyed were held in listed equities and by 26 percent held in money markets. Regarding other alternative investment in Namibia, about 25 percent of investment managers indicated "infrastructure investments" as "Other alternative asset classes".

Furthermore, about 8 percent of pension funds' assets were allocated to listed bonds while nearly to 6 percent were allocated into government bonds. Similarly, about 5 percent of the assets were allocated in inflation-linked bonds. Moreover, less than 2

percent of pension funds' assets were held in real estate, unlisted investments, commodities and other alternative assets classes.

There is a slight difference in asset class allocation of pension funds' trustees and investment managers in the domestic economy. The findings reveal that, investments managers were allocating about 51 percent in local equities, while pension funds' trustees were allocating about 45 percent in local equities. Investing of more assets in listed equities indicates the risk-averseness of the trustees and investment managers. Furthermore, about 35 percent and 26 percent were allocated in money markets by pension funds' and investment managers, respectively. Moreover, about 10 percent and 5 percent of pension funds' assets were allocated in inflation-linked bonds by investment managers and pension funds' trustees respectively. Both pension funds' trustees and investment managers were allocating less than 2 percent of their total assets in alternatives asset classes such as real estate, unlisted investments, commodities and other alternative assets class. This is an indication that, pension funds' portfolios in Namibia were less diversified since there are few alternatives assets in their portfolio.

The investment of more assets in quoted equities concur with Ron, Bitok and Asamoah (2010) who concluded that pension funds' assets in Kenya were invested in Government securities and quoted equity as an indication of risk averseness among pension fund investors. The investment of pension funds' assets in inflation bonds is supported by Roldos (2004) and World Bank (2015) who's argued that inflation linked

bonds and fixed income instruments are suitable for long term investors. Furthermore, investment of less assets in alternative assets in this survey, coincide with OECD (2014) who found out that institutional investors were reluctant to invest in private equity, real estate and commodities in emerging countries.

The survey's results differ with Roldos (2004) who indicated that pension funds' assets in the emerging markets allocate smaller portion of their assets in stocks. Likewise, the assets class allocation in Namibia is different from other non-OECD countries which allocated more than 50 percent of their total assets in bills and bonds in 2012 (OECD, 2013). On the other hand, the results of the survey differ with Rono, Bitok and Asamoah (2010) and South Africa Reserve Bank (2016) who reported that only 5 percent and 4.5 percent of pension funds' assets were held in money market respectively.

Even though the survey confirmed that there are few assets in held in bonds unlike in other African countries and other emerging economies, Namibia should be not excluded from other African countries. There could be some factors that force pension funds' investors to invest less in bonds such as limited bonds in the markets and low returns from bonds. It could only be confirmed that pension funds investors in Namibia differ from other African countries once all factors that may force investors to invest less in certain asset are considered. Due to limited time this study did not investigate why pension funds' investors were investing less in government bonds

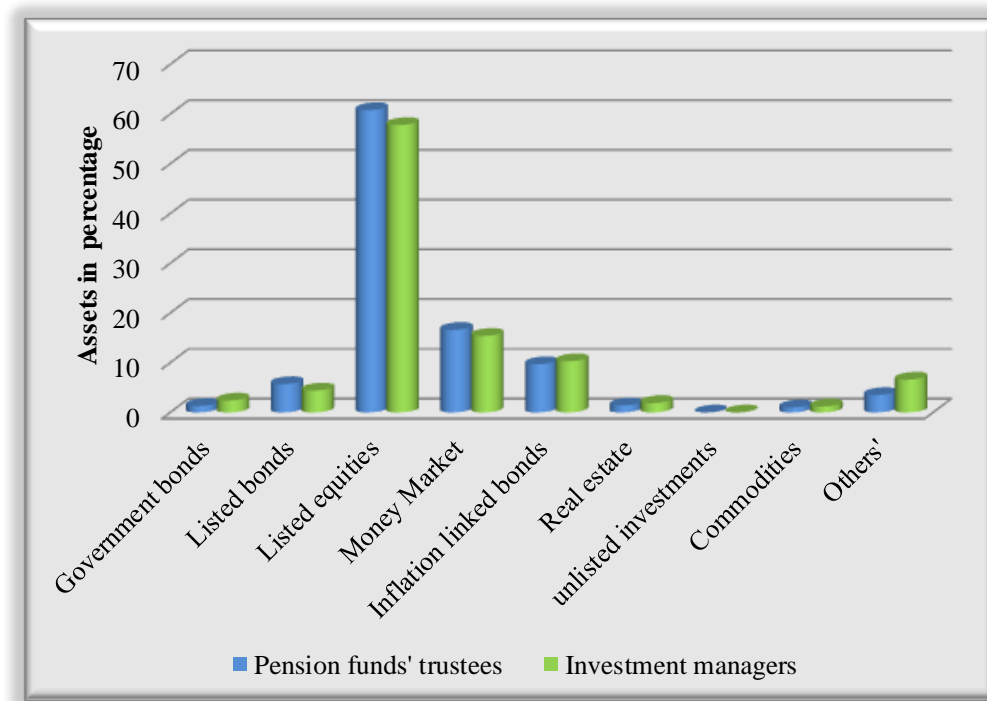
which are believed to be less risky just like quoted equities. Future research can be undertaken to investigate why less assets are invested in bonds.

### **5.6.2 Common Monetary Area (CMA)**

#### *Pension funds' class asset allocation*

Figure 5.2, shows that, about 60 percent of the assets held by pension funds' surveyed were allocated to equities, and 16 percent in money markets. Furthermore, about 9 percent and 6 percent were allocated to inflation-linked and listed bonds respectively. Less than, 4 percent of the pension funds' assets were held in commodities, real estate, Government bonds and other alternative assets. None of the trustees indicated that some assets were allocated in unlisted investment in CMA. This implies that pension funds trustees were not attracted by unlisted investments in CMA.

**Figure 5.2: CMA asset allocations**



Source: Survey, June 2016

*Investment managers' asset class allocation*

According to investment managers surveyed, about 58 percent of pension funds' assets were allocated to listed equities, and 15 percent held in money markets. About 10 percent and 7 percent were held in inflation-linked bonds and other alternative assets classes respectively. Less than 5 percent of pension funds' assets managed by investment managers were held in government bonds, listed bonds, commodities and real estate. About 50 percent of the investment managers indicated that 'Other alternative assets' in CMA were in infrastructure bonds and hedge funds. This implies that, about 7 percent pension funds' assets allocated in other alternative assets were invested in infrastructure bonds and hedge funds.

There is no big difference in asset class allocation of pension funds' trustees and investment managers in CMA. The findings reveal that, pension funds trustees were allocating about 60 percent, while investments managers were allocating about 58 percent in listed equities. Allocation of more funds on quoted equities is an indication of risk averseness of investment managers and pension funds' trustees. Furthermore, about 16 percent and 15 percent of pension funds' assets were allocated in money markets by pension funds' trustees and investment managers respectively.

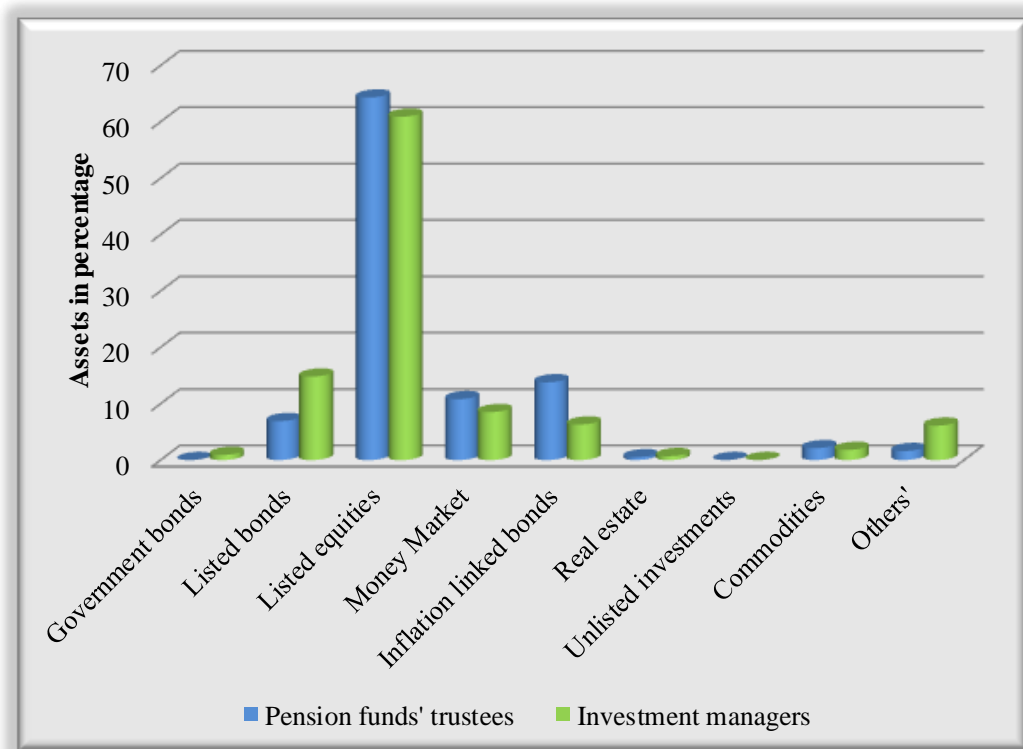
Moreover, about 10 percent and 9 percent of pension funds' assets were allocated in inflation-linked bonds by investment managers and pension funds' trustees respectively. In addition, about 4 percent and less than 7 percent were held in 'other alternative assets' by pension funds' trustees and investment managers respectively. The investments in 'other alternative assets' in CMA were more significant by investment managers than by pension funds' trustees. Investment managers might have better information about the performance 'other alternative assets' in CMA. Both pension funds' trustees and investment managers were allocating less than 4 percent of their total assets in alternatives asset classes such as real estate, unlisted investments, and commodities. This is an indication that, pension funds' portfolios in Namibia were less diversified since there few alternatives assets in their pension funds' portfolio. Pension funds' portfolios are concentrated with equities and cash which might be risky in long run.

### 5.6.3 Offshore

#### *Pension funds trustees' class asset allocations*

Figure 5.3, shows that about 62 percent of pension funds' assets were held in equities, and 14 percent in inflation-linked bonds. Furthermore, about 10 percent and 8 percent were held in money markets and listed bonds respectively. Less than 2 percent were held in government bonds and unlisted investments. None of the assets were held in commodities, real estate, and in 'other alternatives assets'. Other alternative assets identified were infrastructure investments, derivatives and hedge funds.

**Figure 5.3: Offshore asset allocations**



Source: Survey, June 2016

#### *Investment Managers class asset allocation*

Figure 5.3 depicts that, 60.9 percent of pension funds' assets managed by investment managers were held in listed equities, followed by 14.8 percent allocated to listed bonds. And about 9 percent and 6 percent of the pension funds' assets were allocated to money markets and inflation-linked bonds respectively. Less than 3 percent were invested in commodities, real estate, government bonds and in 'other alternatives assets'. None of the assets were held in unlisted investments. Other alternative asset classes identified in offshore were infrastructure investments, swaps, derivatives and hedge funds.

There is correlation in asset class allocation by pension funds' trustees and investment managers in offshore. The findings reveal that, investment managers were allocating about 62 percent in foreign equities, while pension funds trustees were allocating about 61 percent in foreign equities. Furthermore, about 10 percent and 9 percent were allocated in money markets by pension funds' and investment managers respectively. Moreover, about 14 percent and 6 percent of pension funds' assets were allocated in inflation-linked bonds by investment managers and pension funds' trustees respectively. Investment of inflation linked bonds were more prevailed by investment managers than pension funds' trustees. Both pension funds' trustees and investment managers were allocating less than 3 percent of their total assets in alternatives asset classes such as real estate, commodities and other alternative assets class. None of the pension assets were held in unlisted investment in offshore. According Gatauwa (2014) study, unlisted investment is risky than other assets class, due to the nature of pension funds' assets investment managers and pension funds' assets may be reluctant

to partake in such risky asset which might have adverse effect on it client who might retire in short period.

The results reveal that pension funds' portfolio is highly dominated by equities and money market instruments in both geographical locations. This study coincides with large asset allocation in equities observed mature markets such as United States (US) in 2002-2003. Roldos (2004) argued that pension funds in US invest large portion of their assets in equities because of high excess returns. It should be noted, that even though Namibia is not among the matured countries, its pension funds' assets allocation in equities trends are in the pattern seen in matured markets.

The highest assets allocations in inflation-linked bonds were only observed in CMA and offshore and less in domestic economy. It could not be confirmed whether pension funds' trustees and investment managers prefer most foreign inflation-linked bonds than domestic inflation-linked bonds. There might be factors forcing trustees and investment managers to invest less in inflation-linked bonds factors such as limited number of inflation-linked bonds issued Namibia and low returns might put pressure on pension funds investors to search for inflation-linked bonds in foreign countries. Furthermore, the vast benefits of investing inflation-linked bonds discussed in literature OECD (2014) attract pension investors. However, the practise of investing less in bonds observed in Namibia differs with Bakker (2013) who concluded that pension funds prefer to allocate more assets to bonds as it provides a better hedge against increases in liabilities.

Pension funds' assets allocation in Namibia is against Roldos (2004) who argued against the institutional investors investing in cash or money markets and treasury bills. Even though literatures were discouraging long term investors from investing in cash and T-bills, Namibian pension funds' investors are still investing large portion of their assets in cash.

Pension funds' surveyed were less attracted to alternative assets in domestic, CMA and offshore thus less percentage of assets were allocated to such as class. The findings of this survey contradict with OECD (2014) that revealed that nearly 30 percent of the assets invested overseas were on alternative asset class such private equity and hedge funds.

## **5.7 Financial instruments in Namibia**

### *Pension funds trustees*

All 38 (100 percent) of the respondents have indicated there are equities and money markets instruments in Namibia. About 37 (97 percent) of the respondents pointed it out that, government bonds (IRS), T-bills and corporate bonds are available in Namibian financial markets. Only one (2.6 percent) of the trustees indicated that there are derivatives instruments in Namibia and none of respondents indicated that there were emerging markets equities in Namibia. Few of the trustees about 5.2 percent indicated that 'other alternatives instruments' in Namibia are fixed deposits and notes.

Even though, respondents have indicated fixed deposits and notes as other alternative assets, these assets are parts of money markets instruments in this study.

About 53 percent of the trustees suggested the introduction of derivatives, swaps and infrastructure bonds in Namibia while other 47 percent of respondents left this question blank.

**Table 5.5: Financial instruments in Namibia**

Instruments	Pension fund trustees		Investment managers	
	Frequency	Percentage	Frequency	Percentage
<b>Derivatives</b>	1	2.6	0	0
<b>Equities</b>	38	100	7	100
<b>Government bonds (IRS)</b>	37	97.4	7	100
<b>Treasury bills</b>	37	97.4	7	100
<b>Corporate bonds</b>	37	97.4	7	100
<b>Money markets</b>	38	100	7	100
<b>Unlisted investments</b>	18	47.4	7	100
<b>Inflation linked bonds</b>	29	76.3	7	100
<b>Real estate</b>	32	84.2	7	100
<b>Emerging markets equity</b>	0	0	0	0
<b>Infrastructure investments</b>	25	65.8	3	42.7
<b>Others alternative class</b>	3	7.9	0	0

Source: Survey, June 2016

*Investment managers*

Table 5.5 shows that, all 7 (100 percent) of the investment managers indicated that, there are equities and money markets, government bonds (IRS), T-bills, corporate bonds, real estate, inflation-linked bonds and unlisted investments in Namibia markets. Only 3 (42.9 percent) of the investment managers surveyed indicated that, there are also infrastructure investments. None of the respondents indicated that there were emerging markets equities and derivatives in Namibia. This concludes that investment managers have similar information regarding financial instruments in Namibia.

Furthermore, about 71 percent of the investment managers suggested the government to introduce derivatives, swaps and forward rates in Namibia's market. While 57.1 percent of them were suggesting that the government should to introduce infrastructure bonds and hedge funds in the Namibian's market. This implies that there is appetite for derivatives, hedge funds, swaps and infrastructure bonds among the investors.

Both pension funds' trustees and investment managers stated that financial instruments in Namibia are equities, money markets, Government (IRS), T-bills, corporate bonds, real estate, inflation linked bonds and unlisted investments. This outcome is concurring with Mushendami and Kandume (2008) and NAMFISA (2015) who reported the similar asset classes in Namibia. About 53 percent and 71 percent of pension funds' trustees and investment managers respectively recommended the government to introduce infrastructure bonds, derivatives and swaps asset classes in Namibia. This is an indication of the demand of derivatives and swaps instruments in Namibia.

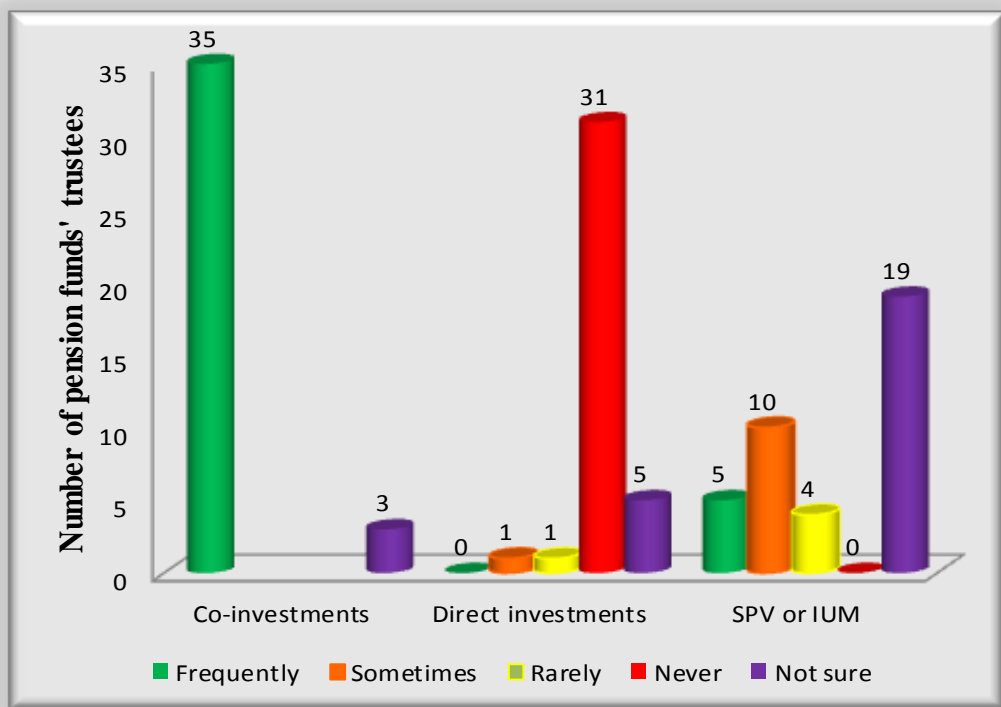
Even though pension funds' trustees indicated that there are derivative instruments in Namibia, according to NAMFISA and Bank of Namibia annual reports on the financial markets developments there are no derivative instruments in Namibia. However, the Ministry of Finance (2010) has set an objective to introduce new instruments such as traded funds, securitized securities and derivatives in the Namibian market. The claim for the presence of derivatives in the Namibian market can only be confirmed if track records of assets held in derivatives are published in audited financial statements of investment companies in Namibia and well as in NAMFISA annual reports.

## **5.8 Investment vehicles**

### *Pension funds' trustees*

According to pension funds' trustees, 35 (92.1 percent) of the trustees indicated that co-investment vehicles were used 'frequently' to invest pension funds' assets. Furthermore, figure 5.4 shows that, 19 (50 percent) of the trustees indicated that they are 'not sure' whether they use SPV and IUM vehicles to invest pension funds' in local or foreign markets. This implies that pension funds' trustees' are not actively involved in the investment of pension funds' assets. A total of 31 (81.6 percent) of the respondents indicated that direct investment were 'never' used as investment vehicle. This implies that pension funds trustees are rarely or never invest their funds directly in the financial markets without an assistance of fund or investment managers.

**Figure 5.4: Pension funds' trustees versus investment vehicles**

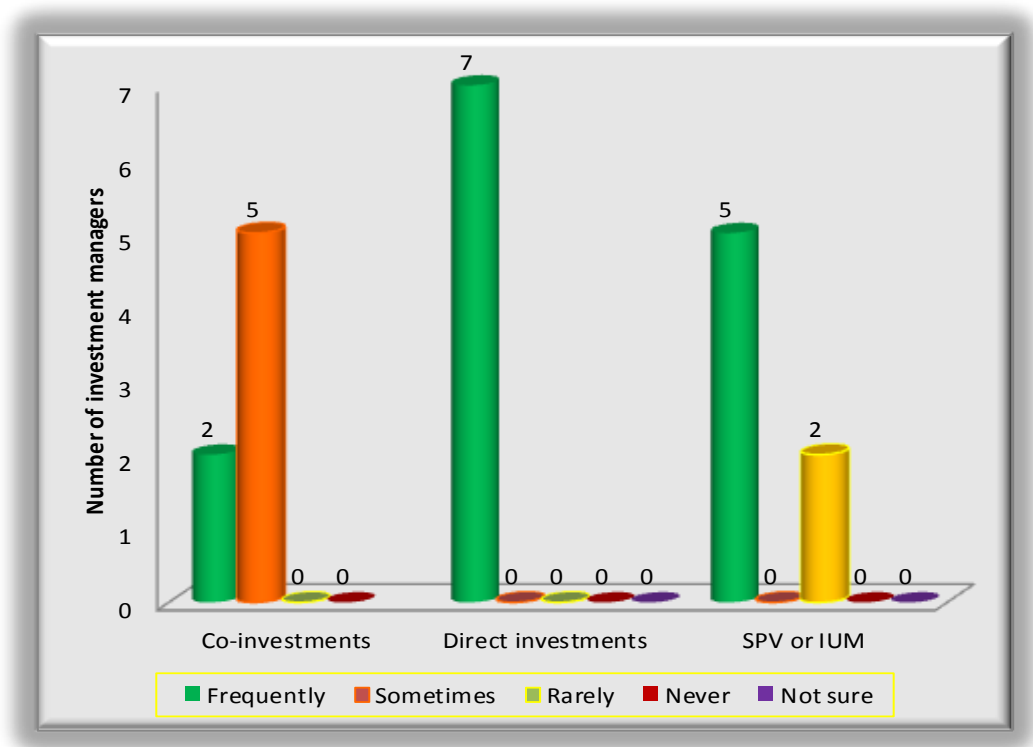


Source: Survey, June 2016

*Investment managers*

Figure 5.5 show that, all seven investment managers indicated that direct investment vehicle was used ‘frequently’ in investing pension funds’ assets. This implies that investment companies had adequate and skilled investment managers’ team to invest pension assets directly in the financial markets. Five (71.4 percent) of the respondents indicated that they were using co-investment vehicles, Special Purpose Vehicle (SPV) and Unlisted Investment Managers ‘sometimes’ to invest in their assets in financial markets.

**Figure 5.5: Investment managers versus investment vehicles**



Source: Survey, June 2016

There is a difference between the vehicles in used by investment managers and pension funds’ trustees in investing in the financial instruments. The survey reveals that, 100 percent of investment managers surveyed use direct investment frequently to invest pension funds’ assets while none of the pension funds’ assets invest directly pension funds’ assets. This implies that pension funds’ trustees are highly dependent on external consultants or investment managers to invest their assets on behalf or with them.

About 92.1 percent and 28.5 percent of pension funds’ trustees and investment managers use co-investment vehicles ‘frequently’ to invest in the financial markets. This implies that pension funds’ trustees rely on co-investment strategies to invest their assets.

About 71.4 percent of the investment managers pointed out that they invest through SPV and IUM while 50 percent of pension funds' trustees indicated that they are 'not sure' whether they are investing through SPV and IUM. Investing through SPV and IUM implies that those investment managers are compliant to Pension Funds Act of 1956 regulation 30 (4) which oblige pension funds to invest in local unlisted investments through SPV and UIM. Most of the pension funds' trustees seems to have inadequate information to whether their funds are invested through SPV and IUM or not. This anomaly implies that some trustees were not interested to serve as pension funds' trustees.

The findings are therefore in agreement Gatauwa (2014) who pointed that the majority of the pension funds prefer to invest in private equity through specialised fund managers. The results of the survey are in agreement with World Bank (2015) that reported that pension funds preferred co-investments vehicles to develop their internal investment team and eliminate management fees charged by investment managers. The survey concurs with Croce et al. (2011) who pointed it out that, pension funds rely on external assets managers and consultants for the investments of their assets.

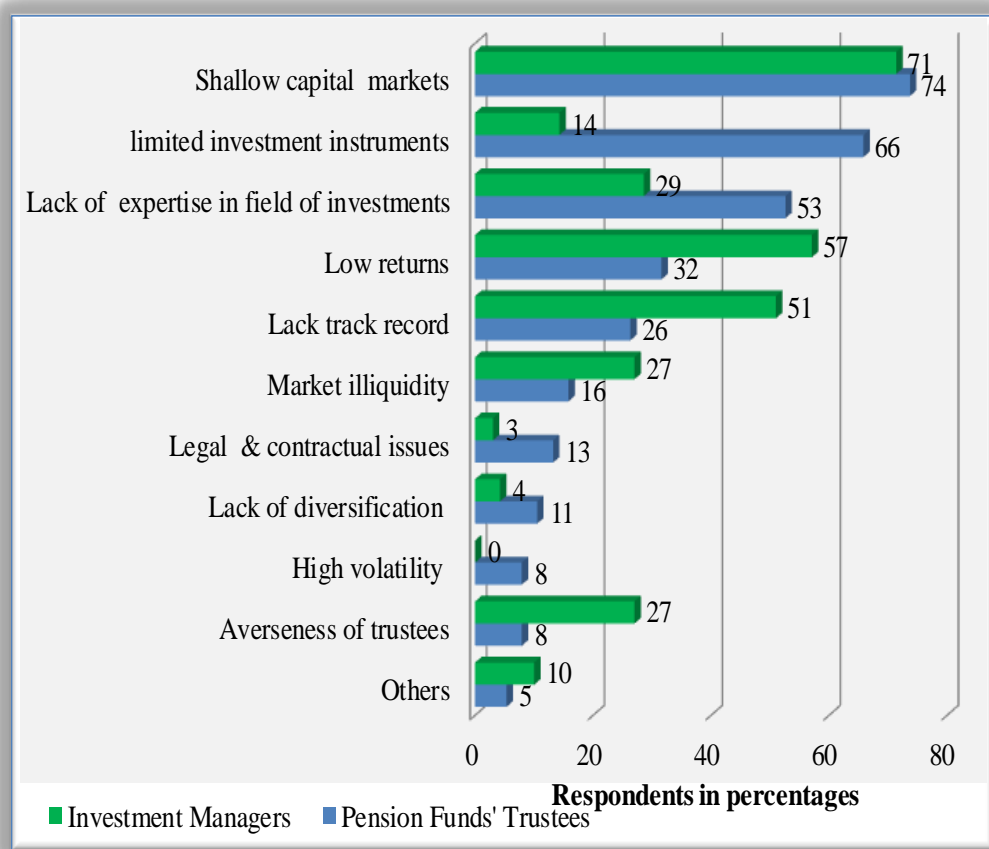
### **5.9 Factors inhibiting pension funds from investing in local economy**

Most of the respondents about 74 percent and 71 percent of the pension funds' trustees and investment managers respectively indicated that shallow capital market is one of the top three factors that inhibit pension funds' assets to be invested in local economy. Figure 5.6 indicates that, about 57 percent and 32 percent of investment managers and

pension funds' trustees respectively revealed that, low returns on the local assets is one of the top inhibiting factors. Furthermore, about 53 percent and 28 percent of pension funds' trustees and investment managers respectively showed that lack of expertise in the field of investments is also one of the top three inhibiting factors to local investments. About 66 percent pension funds' trustees strongly believe that a limited investment instruments is one of the factors while only about 14 percent indicated it as habiting factor.

Moreover, about 43 percent and 26 percent of investment managers and pension fund trustees respectively indicated that lack of track record on the performance of local assets is one of the inhibiting factors. Likewise, 27 percent and 16 percent of the investment managers and pension funds' trustees respectively specified that 'market illiquidity' is one of the top three inhibiting factors. About 27 percent of investment managers stated that risk averseness of the trustees and market illiquidity are some of the inhibiting factors. Only, 16 percent and 8 percent of pension funds' trustees indicated that risk averseness of the trustees and market illiquidity were also inhibiting factors. Less than 15 percent of investment managers and pension funds' trustees as shown in figure 5.6 indicated that 'legal and contractual issues' and 'lack of diversification in local markets' were some of the inhibiting factors to local investments.

**Figure 5.6: Factors inhibiting pension funds to invest in the local economy**



Source: Survey, June 2016

There are similarities on the factors inhibiting pension funds' assets identified by pension funds' trustees and investment managers managing pension funds' assets. According to figure 5.6, more than 50 percent of pension funds' trustees and investment managers that took part in this survey indicated that, shallow capital markets, lack of expertise and skills in the field of investments, low returns on local investments, lack of track records on the performance of local assets and limited investment instruments are major factors that inhibit pension funds' assets to be invested in the local economy. Furthermore, about 27 percent of investment managers

indicated that risk averseness of the trustees and market illiquidity are also inhibiting factors. However only 16 percent and 8 percent of pension funds' trustees indicated that, risk averseness of the trustees and market illiquidity are also inhibiting factors. The rating of risk averseness of the trustees as inhibiting factor from both participants might be subjective, pension funds' trustees might undermine their averseness in investing in the local economy while investment managers might exaggerate the risk averseness of trustees. Hence, this outcome must be read with the understanding that risk averseness of trustees can only be confirmed as an inhibiting factor if the extent at which it can influence the investment in local economy is determined.

Most factors inhibiting pension funds' assets to be invested in the local economy identified by pension funds' trustees and investment managers in this survey collaborate with challenges in financial markets discussed by Roldos (2004), Rusagara (2008) Ashiaghor et al. (2014) and United Nation (2014). This implies that, most of the challenges in the financial markets have influence on pension funds' investments in their home countries. Furthermore, the survey is in agreement with Stewart and Yermo (2009) who pointed it out that limited instruments and inadequate investment returns discourage local investors to invest in their home countries.

Only about 27 percent and 16 percent of investment managers and trustees respectively concur with Gatauwa (2014) who reported that risk averseness of the trustees and market illiquidity are major challenges encountered investing in unlisted investment in African countries. On the contrary, the results of the survey, differs with the study conducted in Ghana by Stewart and Yermo (2009) that found high administrative costs

and low efficiency in investing Ghana's economy were some of the top challenges in Ghana's financial markets. Even though none of the respondents indicated that high administrative costs and low efficiency are some of the top three factors inhibiting pension funds investors from investing in the local economy, according to the practical understanding how pension investments work, it indicates that respondents tend to undermine that high administrative costs for investment managers that may influence local investment. Hence, the claim above can only be confirmed if all respondents were asked to list all the factors inhibiting pension funds from investing a local economy without limiting them to mention or select only top three factors.

#### **5.10 Strategies to encourage pension funds' assets to be invested in the local economy**

##### **Establishment of vibrant private equity**

The majority 20 (52.7 percent) of the pension funds' trustees indicated that establishment of vibrant equity can be 'very effective' in encouraging them to invest in local economy. On other hand, only three (43 percent) of the investment managers indicated that establishing vibrant private equity can be 'very effective' in encouraging them to invest in the local economy. This implies that, pension funds' trustees are more interested in private equity than investment managers. Pension funds' trustees are likely to allocate their assets in private equity in domestic economy when it's well-established.

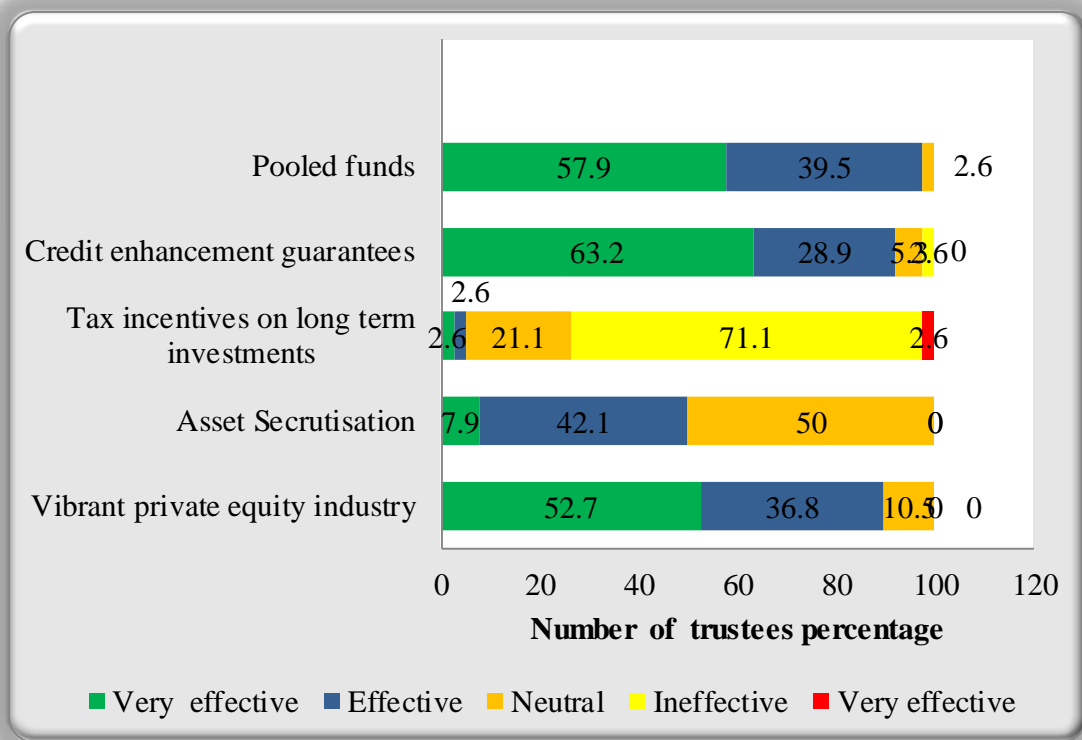
##### **Credit enhancement guarantees**

Both trustees and investment managers are encouraged to invest in local assets with credit enhancement guarantees. The majority of 5 (71.1 percent) and 24 (63.2 percent) of the investment managers and pension funds' trustees respectively specified that 'credit enhancement guarantees' is 'very effective' in encouraging them to invest pension funds' assets in local economy.

The survey is in agreement with World Bank (2015) recommendation of issuing infrastructure bonds with partially guarantees to attract institutional investors. The credit enhancement mechanisms protect and minimise the chances of the investors in losing the investments (World Bank, 2015). Trustees and investment managers would like the government to offer credit guarantees on local assets.

The demand of credit enhancement guarantees on local assets implies the risk averseness of trustees and investment managers in Namibia. Even though credit enhancement is found to attract institutional investors to invest in domestic assets due minimum risk on the investment, its effect should not be exaggerated as investors might be exposed to other risks such as political risk.

**Figure 5.7: Strategies to encourage pension funds trustees to invest in the local economy**



Source: Survey, June 2016

### Tax incentives on long term investments

Pension funds’ trustees and investment managers in Namibia will not be encouraged to invest in local economy by tax incentives on long term investments. Figure 5.7 shows that majority 27 (71.1 percent) of the pension funds’ trustees indicated that tax incentives are ‘ineffective’ in encouraging trustees to invest their assets in local economy. From the same reticule in figure 5.8, 5 (71.4 percent) of the investment managers stated that tax incentives are ‘very ineffective’ in encouraging them to invest pension funds’ assets in local economy. Only, 2 (28.6 percent) of the investment managers indicated that tax incentives are ‘effective’ in attracting investors to invest pension funds’ assets in local assets.

The results of the study concur with James (2010) who found out that tax incentives are ineffective in areas where the investment climate is weak and cannot compensate for such deficiencies. Even though the results of the study and literatures agreed that tax incentives are ineffective in encouraging local investment, according to general understanding of accounting tax incentives alleviate tax burdens on earnings hence it increase returns on investments.

### **Pooled funds**

The establishment of pooled funds can attract and encourage pension funds' trustees and investment managers to invest in Namibia. Figure 5.7, depicts that 22 (57.9 percent) of pension funds trustees indicated that introduction of pooled fund is 'very effective' in encouraging pension funds' assets to be invested in the local economy. About 40 percent of pension funds' trustees indicated that pooled funds strategy is 'effective' in encouraging pension funds to invest in local economy. Likewise, figure 5.8 shows that 4 (57.1 percent) of investment managers indicated that the introduction of pooled funds is 'very effective' in encouraging them to invest pension fund assets local economy. Only 2 (28.6 percent) of the investment managers indicated that pooled funds can encourage them to invest in the local economy.

The results of the survey are in agreement with Croce et al. (2011) who argued that, governments should encourage outright mergers among institutional investors and other forms of resources pooling to promote effective risk management systems.

Pooled funds is recommended by OECD (2014) since it allow smaller pension funds to invest directly in bigger projects. There are Pooled funds in Namibia known as collective investment schemes and only few assets of pension funds were invested in such schemes.

### **Asset securitisation**

Only 3 (7.9 percent) of pension funds trustees indicated that assets securitisation is 'very effective' in encouraging pension funds' assets to be invested in local economy. A notable of 50 percent of pension funds' trustees felt introduction of asset securitisation is neither encouraging nor discouraging pension funds' assets to be invested in the local economy. Four (57.1 percent) of investment managers indicated that asset securitisation is 'effective' in encouraging pension funds to invest in the local economy and only 2 (28.6 percent) of the investment managers indicated that it is 'ineffective'.

The study is in agreement with Cao (2003) who recommend the securitisation of the backed securities to allow investors to invest in local economy. Asset securitisation can assist commercial banks and other institution with debts in their books to convert them to useable assets that can help to improve their liquidity position and services. World Bank (2015) supported also the introduction of asset securitisation in Namibia as it since deepened the secondary market through the issuances of securities by special purpose vehicle (SPV).

### **Expanding of the capital markets**

All 7 (100 percent) of investment managers point it out that expansion of Namibian capital markets is 'very effective' in encouraging pension funds' assets to be invested in local economy. Investment managers suggested that the capital market can be expanded by increasing the number of the securities listed on NSX, issuing more long term inflation linked-bonds and stimulating the trading in secondary markets.

This survey is in agreements in with Roldos (2004) who also supported the issuing of long-term inflation index bonds to attract institutional investors in Emerging Market Economies (EMEs). Furthermore, Stewart and Yermo (2012) and World Bank (2015) recommended the government, banks and lenders for infrastructure projects to issue inflation-linked bonds. Similarly, United Nation (2014) and NFSS (2011) contend that the capital markets can be deepened by increasing number of local securities on a stock exchange.

Although all investment managers believed that, expanding capital market by increasing the number of listed securities on NSX can encourage them to invest in the local economy. According to Zaaruka et al (2005) there are rigid procedures that have to be followed and adhere to when companies are listing their securities on NSX. Those procedures may also influence the listing of securities on NSX. Thus, the NSX management should also be advised to revise and loosen regulations and procedures of listing securities on NSX to attract small and big companies to list their securities.

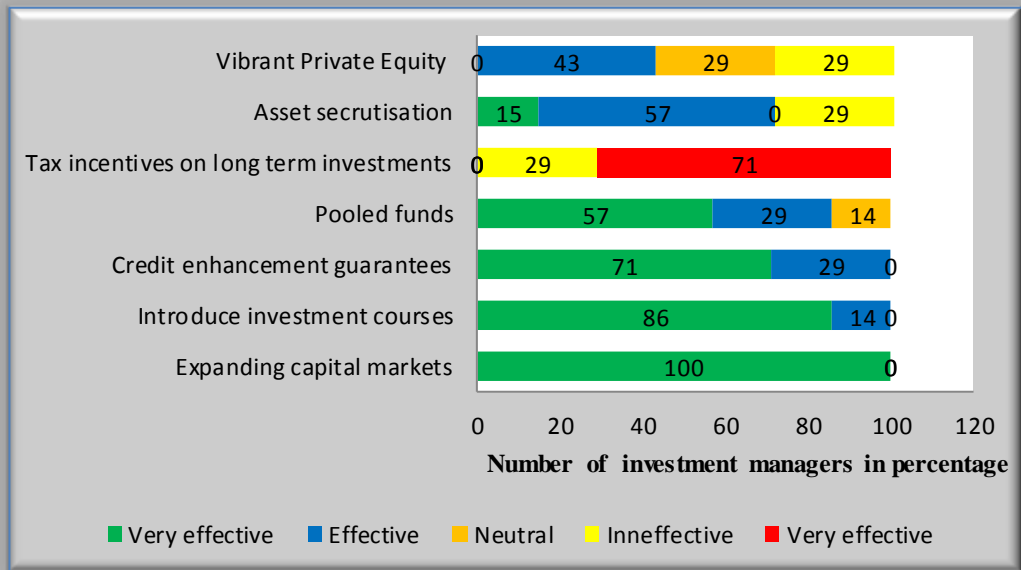
### **Introducing investment courses in Namibia**

Formal and informal training in investment related courses can enable institutional investors to gain better understanding in local assets thus may encourage local investments. Approximately (71.1 percent) of the investment managers who took part in this study suggested the introduction of investment courses in Namibia. The Ministry of Education should advise the universities in Namibia to offers investment and financial modelling courses on undergraduate degrees. Government should also provide training incentives to experts in investments firms to encourage them to transfer their knowledge to junior fund managers or prospect asset managers through mentoring and offering of short investment courses.

About 50 percent of pension funds trustees were suggesting that the Retirement Funds Institute of Namibia (RFIN) to educate pension funds trustees on the investment related issues through structural workshops.

The interventions suggested by the respondents are in agreement with Croce et al. (2011) and IMF (2007) who recommend public awareness and financial education campaigns to address the knowledge gap in investment discipline. Pension funds trustees need information session on benefits of investing in local economy to enable them to allocate their funds in domestic assets. Ashiaghor et al. (2014) confirmed also the need of informational training among pension funds trustees and institutional investors on private equity and other alternative assets.

**Figure 5.8: Strategies to encourage investment managers to invest in the local economy**



Source: Survey, June 2016

## 5.11 Conclusion

This chapter presented the findings and discussions on information collected through questionnaires. The findings include the educational background of the respondents and asset allocations of pension funds' assets. In chapter six the conclusions and recommendations based on findings and empirical study will be discussed.

## **CHAPTER SIX**

### **6. CONCLUSIONS AND RECOMMENDATIONS**

#### **6.1 Introduction**

The previous chapter focused on interpretation and discussion of the results of this study. This chapter presents the summary of the findings, conclusions and recommendations for future studies.

#### **6.2 Summary of findings and conclusions**

Despite of the pension funds' critical role in developing financial sectors and economy growth of the domestic economy as argued by Harichandra (2004) and Roldos (2004), they still face challenges in investing in their home countries. Although, some studies and policies have suggested pension funds' assets to be invested in the local economy, less attention has been paid to identifying the challenges that pension funds' investors may experience in investing in a local economy. In an attempt to fill gaps in literature, the study focused on identifying factors that inhibit pension funds' assets from being invested in local economy and identifying financial instruments in the Namibian markets. The study suggested the strategies and measures to encourage institutional investors to invest pension funds' assets in the domestic economy. The study utilised questionnaires as the instrument to collect data from pension funds' trustees and investment managers investing pension funds' assets in order to achieve the objectives.

The study found the following as major factors inhibiting pension funds' assets from being invested in local economy:

- Shallow capital markets. It was found that there are few bonds issued and few local stocks listed on NSX. The demand of investment by pension funds outweighs the suppliers of investments in Namibia markets.
- Local investments generate low returns. It was found that private equity in Namibia is less attractive, risky yet it generates low returns.
- Skills gap in the investment field. Most of the pension funds trustees have limited knowledge and skills in the investments field. The majority of investment/fund managers are not familiar with investment opportunities in Namibia.
- Lack of published track records on the performance of local asset classes. Even though trading of assets is taking place in Namibia financial markets, there are no records on the performance and returns generated by Namibian assets such as private equity and real estates.

Other inhibiting factors were;

- The illiquidity of the secondary market. There are no opportunities to sell instruments bought in the primary market in the secondary market due to limited assets in the markets.
- The risk averseness of pension funds trustees. The averseness of trustees makes it difficult for the investment/fund managers to convince the trustees to invest pension funds' assets in the domestic economy.

The results of this study also coincide with Oxera (2007) who reported that domestic capital markets are not appropriate for pension funds' investments in term of size, quality, liquidity and availability of the asset classes to meet the increasing demand pension funds.

In regards to financial instruments found in Namibia, the study found out that:

- The Namibian financial market comprises of equities, inflation linked bonds, money market, government bonds (Internal Registered stock), Treasury bills, few corporate bonds issued by public and private companies.
- There are also alternative investments such an infrastructure and private equity which fall under unlisted investments.
- All financial instruments found in Namibia are issued in small volume which makes it difficult for the investor to engage in active trading. The findings of this study is in agreement with Stewart and Yermo (2009), Samuels and Wright (2014) and Gatauwa (2014) who argued that limited securities in African capital markets is one of the challenges facing investors investing domestic economy.

### **6.3 Contribution to the knowledge**

This thesis fills the important gap in literature and contributed to the knowledge on factors inhibiting institutional investors from investing in Namibia: A study of pension funds. The study revealed that, shallow capital markets, low returns on local

investments, skills gap in the investment field, lack of track records of the performance and returns are major factors inhibiting pension funds' assets to be invested in local economy. The study found that, there is need of establishing fund accounting and administration firm or body in Namibia which specialise in auditing investments returns and performance.

#### **6.4 Recommendations**

The thesis recommends the following;

- **To deepened the capital markets**

It is recommended that the government and the central bank should expand bond and equity markets by encouraging public and private companies to issue more bonds, list their stock on NSX, and encouraging SMEs lenders to issue SMEs bonds. Moreover, government and financial regulators should draft the policy or amend the SOEs' Act and Local Authority Act that will make it mandatory for all SOEs and local authorities to issue and list inflation-linked infrastructure bonds on NSX for financing their projects. The government should work together with financial institutions in Namibia to introduce forward rates, swaps and derivatives in Namibian financial markets.

The introduction of inflation infrastructure bonds is in agreement with Croce et al. (2011) who concluded that the introduction on local inflation-indexed bonds can attract long term investors' such pension funds and long term insurance since it assist the investors to manage long term risk better. Furthermore, the government should

stimulate active trading in the secondary markets by encouraging and educating the investors on benefits of selling and buying shares and bonds in secondary markets.

In addition, the government and NSX management should also review their requirements and procedures for listing a company on NSX to ensure the smooth listing of securities.

- **To address the skills gap**

It is recommended that, the Government should have incentivized investment manager experts in public and private companies by providing on job training or formal training to junior fund or investment managers, pension funds' trustees and prospectus investors. Namibia Training Authority (NTA) should assess and accredit formal training to be offered by investment experts. The government and tertiary institutions management should also consider introducing investment courses such as Chartered Financial Analyst and financial modelling in local tertiary institutions.

Retirement Fund Institute of Namibia (RFIN) should educate pension fund trustees on their role and responsibilities in the fund through workshops. RFIN should update the trustees on the changes in the pension fund industry on quarterly basis. This will enable to broaden the understanding and knowledge of pension funds' trustees in investment related issues. Knowledge in investment may allow them to make a well informed decisions regarding pension funds investment in the interest of their clients and Namibia economy.

- **To address the lack information on local assets**

It is recommended that NAMFISA and the government should support the establishment of a funds accounting and administration firm. The firm should develop a database for the performance of all listed and unlisted asset classes in Namibia. The established firm should audit the investments records in Namibia and publish audit findings reports. The published information on the assets performance may enable the investment managers to allocate their assets in appropriate assets class that fit the needs of their clients. A track record will enable the pension funds' trustees to improve their investment policy.

- **To ease the risk averseness of pension funds' trustees**

It is recommended that the government should offer credit enhancement warranty to unlisted investments, SMEs investments and infrastructure investments to ease averseness of the pension funds' assets investors. Pension funds investors will be encouraged to take risk in funding SMES through SME bonds with full orpartial guarantees from the government.

## **6.5 Recommendation for further studies**

In the view of the findings and conclusions of the study the following recommendations for further study are made:

- It recommended that a similar study should be conducted to investigate the challenges that other institutional investors such as insurances are facing in investing in the local economy.
- A study should be conducted to evaluate the impact of local investments on the development of Namibian economy.
- Finally, it is recommended that, a study be conducted to evaluate the extent at which expansion financial market can attract institutional investors to invest in their home countries.

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## APPENDICES

### APPENDIX 1: Pension funds' trustees' questionnaire

#### Acknowledgement of Consent: Pension funds' trustees'

Dear Respondents,

My name is Vistorina Namukwambi and I am a student at the University of Namibia pursuing a Master's Degree in Business Administration (Finance). An integral part of this program is writing a thesis; in this case the title of the thesis is **“Investigating factors inhibiting institutional investors from investing in Namibia: A study of Pension funds”**.

I, therefore, request for your assistance by completing a questionnaire on the on the next pages. The questionnaire seeks your views on investments of pension funds' assets. The survey will take you approximately 15 minutes to complete. Please, email the completed questionnaires to the email below.

The results of the study will be used for academic purposes only as part of my thesis. Be assured that your responses will be treated confidential and only aggregated results will be published in the thesis thus, no individual or company data will be published. You are also, reminded that your participation in the survey is voluntary.

Thanking you in advance for your time and valuable input.

Please sign below to indicate your consent to participate in the research.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Deadline: 25 June 2016

For any further clarifications or questions, please do not hesitate to contact the researcher, on 0812203894

Email address: nangobel@hotmail.com

### Instructions

- Read each question carefully.
- For closed ended questions use a tick (✓) to select the most appropriate answer to the question and for open ended questions use the space given to elaborate more.

### SECTION A

Name of your scheme .....

1. What is your area of specialisation? (Please tick)

Specialisation	Tick
Business Administration	
Economics	
Finance and investment	
Human Resources	
Engineering	
Others ( Please specify )	

2. What type of scheme do you have? (Please tick)

Scheme	Tick
Pension	
Provident	

Hybrid	
I do not know	
Others (Please specify).....	

3. What percentage of your assets is invested in following economies?

Type of economy	Percentage of your total assets
Domestic	
Common Monetary Area(CMA)	
Offshore (Global)	

4. What percentage of your assets is invested in the following instruments in domestic economy?

Financial instruments	Percentage
Government bonds	
Listed bonds	
Listed Equity	
Money market	
Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	
Other instruments (please specify).....	
.....	

5. What percentage of your assets is invested in the following instruments in a CMA economy?

Financial instruments	Percentage
Government bonds (T-Bills)	
Listed bonds	
Listed Equity	
Money market	
Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	

Other instruments (please specify).....	
.....	

6. What percentage of your assets is invested in the following instruments in offshore economy?

<b>Financial instruments</b>	<b>Percentage</b>
Government bonds (T-Bills)	
Listed bonds	
Listed Equity	
Money market	
Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	
Other instruments (please specify).....	
.....	

7. Please indicate whether the following financial instruments are in or not the Namibian economy?

<b>Financial instruments</b>	<b>YES</b>	<b>NO</b>
Derivatives		
Equities		
Government bonds (IRS)		
Treasury Bills (T-bills)		
Corporate bonds		
Money market		
Unlisted investment		
Inflated linked bonds		
Real Estate		
Emerging market equity		
Infrastructure investment		
Others (Please specify).....		
.....		
.....		

8. How often does your scheme use the following investment vehicles to invest in the local economy? Please indicate your answer by ticking (✓) in the column of your choice on each of the following statements.

Statements	Frequently	Sometimes	Rarely	Never	Not sure
The scheme invests through Special Purpose Vehicle & Unlisted Investment Managers					
The scheme invests directly in the local economy (direct investment)					
Both schemes and fund manager invest in the local economy (Co-investment)					
Others (please specify).....					
.....					

9. Please indicate only the top three factors that prohibit pension funds from investing in the local economy?

	Tick
Limited investment instruments	
Legal & contractual issues	
Lack of expertise in the field /know how	
Averse nature of trustees	
Lack of diversification in local economy	
High volatility	
Low returns	
Market illiquidity	
Others (Please specify) .....	
.....	
.....	

10. Use a tick to indicate how effectively the following interventions can encourage Pension /provident schemes to invest in the local economy?

	Very effective	Effective	Neutral	Ineffective	Very ineffective
Establishment of the vibrant private equity industry					
Developing asset securitisation					
Tax incentives for long-term investment in local economy					
Credit enhancement guarantees					
Establishment of pooled funds					

**SECTION: B**

11. How can institutional investors be encouraged to invest in the local economy?

.....

.....

.....

.....

.....

**Thank you for your time.**

## **APPENDIX 2: Investment managers' questionnaire**

### **Acknowledgement of Consent: Investment managers**

Dear Respondents,

My name is Vistorina Namukwambi and I am a student at the University of Namibia pursuing a Master's Degree in Business Administration (Finance). An integral part of this program is writing a thesis; in this case the title of the thesis is **“Investigating factors inhibiting institutional investors from investing in Namibia: A study of Pension funds”**.

I, therefore, request for your assistance by completing a questionnaire on the on the next pages. The questionnaire seeks your views on investments of pension funds' assets. The survey will take you approximately 15 minutes to complete. Please, email the completed questionnaires to the email below.

The results of the study will be used for academic purposes only as part of my thesis. Be assured that your responses will be treated confidential and only aggregated results will be published in the thesis thus, no individual or company data will be published. You are also, reminded that your participation in the survey is voluntary.

Thanking you in advance for your time and valuable input.

Please sign below to indicate your consent to participate in the research.

Name: \_\_\_\_\_

Signature: \_\_\_\_\_

Date: \_\_\_\_\_

Deadline: 25 June 2016

For any further clarifications or questions, please do not hesitate to contact the researcher, on 0812203894

Email address: [nangobel@hotmail.com](mailto:nangobel@hotmail.com)

### Instructions

- Read each question carefully.
- For closed ended questions use a tick (✓) to select the most appropriate answer to the question and for open ended questions use the space given to elaborate more.

### SECTION A

Name of your company.....

1. What percentage of your assets is invested in following economies?

Type of economy	Percentage of your total assets
Domestic	
Common Monetary Area(CMA)	
Offshore (Global)	

2. What percentage of your assets is invested in the following instruments in domestic economy?

Financial instruments	Percentage
Government bonds	
Listed bonds	
Listed Equity	
Money market	

Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	
Other instruments (please specify).....	
.....	

3. What percentage of your assets is invested in the following instruments in a CMA economy?

<b>Financial instruments</b>	<b>Percentage</b>
Government bonds (T-Bills)	
Listed bonds	
Listed Equity	
Money market	
Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	
Other instruments (please specify).....	
.....	

4. What percentage of your assets is invested in the following instruments in offshore economy?

<b>Financial instruments</b>	<b>Percentage</b>
Government bonds (T-Bills)	
Listed bonds	
Listed Equity	
Money market	
Inflation linked bond	
Real estate	
Unlisted investments	
Commodities	
Other instruments (please specify).....	
.....	

5. Please indicate whether the following financial instruments are in or not the Namibian economy?

<b>Financial instruments</b>	<b>YES</b>	<b>NO</b>
Derivatives		
Equities		
Government bonds (IRS)		
Treasury Bills (T-bills)		
Corporate bonds		
Money market		
Unlisted investment		
Inflated linked bonds		
Real Estate		
Emerging market equity		
Infrastructure investment		
Others (Please specify.....)		
.....		

**SECTION B**

6. Discuss how often your company use the following investment vehicles

A. Investing through Special Purpose Vehicle & Unlisted Investment Managers

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.....

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B. Investing directly in the financial markets

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.....  
C. Co-investment (Investment managers investing together with pension funds’  
trustees

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.....  
.....  
D. Other investment vehicle, please specify

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7. Discuss briefly factors that prohibit investment managers to invest pension funds’  
assets in the local economy?

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.....

8. How can institutional investors be encouraged to invest in the local economy?

.....

.....

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.....

.....

**Thank you for your time.**

### APPENDIX 3: Permission to conduct research study



21 April 2016

#### To whom it may concern

Ms Vistorina N Namukwambi of student number: 200132903 is registered for a Master in Business Administration - Finance at the University of Namibia through the Namibia Business School.

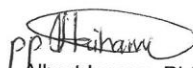
This letter serves to inform you that her research proposal was reviewed and successfully met the University of Namibia requirements.

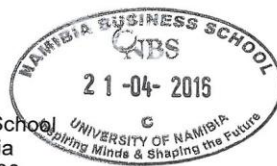
The student has been granted permission to carry out postgraduate studies research. The University of Namibia has approved the research to be carried out by the student for purposes of fulfilling the requirements of the degree being pursued.

If you have any queries please do not hesitate to contact the Business School at the University of Namibia.

Thank you so much in advance and many regards.

Yours sincerely

  
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