

Report to the Government

Good governance in social security

**Issues in the proposed comprehensive
social security framework in South Africa**

**Cooperation project between
the International Labour Organisation and
the South African Department of Social Development**

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Executive summary

This report discusses governance in the proposed new institutional framework for comprehensive social security in South Africa. Among other things the proposed framework will bring existing social security institutions under a single oversight department (SSOD), establish a new national social security fund (NSSF) responsible for managing a new basic public pension system, create a common social security delivery platform (CPISS) and create an auto-enrolment based, private pension savings arrangement with a default fund managed by the NSSF (NSSF-default).

The South African reform agenda holds great prospects. Hence, it can strengthen social security coverage, policy coordination, accessibility, equal treatment, support better case handling overall, counter benefit fraud and strengthen transparency and accountability. Also, it can ensure a stronger evidence and impact-based platform for policy evaluation and development. However, looking to experiences from other countries and acknowledged international standards, good governance is a prerequisite for realizing these outcomes.

The report sets out key governance principles for the overall social security framework. First and foremost, the report stresses the need to ensure that social security overall as well as the individual fund is purpose-driven and guided by clear policies and objectives and that a very high level of transparency and accountability is observed.

A very basic prerequisite to this end is to ensure a genuine and well-harnessed arms-length principle establishing a clear division of responsibilities and prerogatives between the different levels. It is crucially important to keep politics, policy formation, implementation and management separate and ensure that responsibilities and prerogatives are clearly defined and separated. Otherwise, the credibility and efficiency of the structure is jeopardized by potential politicization and mismanagement.

The report proposes the application of a common governance model for all social security funds. The model insists on the boards' ultimate responsibility for all aspects of the funds' business and management and it stipulates that all board members operate under punishment liability. Stakeholders have the prerogative to nominate board members for staggered tenures while appointment is the prerogative of government. It insists on the application of fit and proper requirements for all board members individually and for boards collectively. It further insists on the obligation of boards and board members to focus on compliance with law and other regulation and on the better interest of the fund and its participants rather than the particular views and interests of the nominating constituency.

The report identifies the common social security delivery platform CPISS as a separate and independent institution operating on behalf of all social security institutions. CPISS is a pure implementation vehicle operating on the basis of service level agreements with the funds. It cannot be a brand in itself. It should have a board of directors nominated by the funds – i.e. stakeholder participation on the board of directors in the CPISS is not required.

Revisiting the comprehensive social security narrative, key prerequisites are to define the responsibilities of the different layers of the framework adequately and clearly, to ensure non-interference across these boundaries and ensure good governance, documentation, accountability and transparency at all levels.

The report gives rise to a set of recommendations that may be translated into concrete proposals on organisational and governance issues as the agenda matures. Noting that the report presents further detailed recommendations and discussions of their implications and

implementation aspects, the key recommendations emanating from the analysis can be summarized as follows:

- Ensure a genuine and well-harnessed arms-length principle and ensure that the responsibilities and prerogatives – as well as barriers to interference – of different stakeholders are clearly defined.
- Ensure that politics, policy formation, implementation, management and administration are effectively separated and ensure that responsibilities and prerogatives are clearly defined and separated.
- Ensure that social security overall as well as the individual fund is purpose-driven and guided by clearly stated policies set out by law.
- Form a single oversight department (SSOD) as a government department.
- Bring all social security funds under the authority of the SSOD.
- Form a coordinating council within the SSOD responsible for the coordination of social security.
- Create a common governance standard to be applied by all social security funds.
- Make the board of directors ultimately responsible for all aspects of the respective social security fund.
- Separate the prerogative to nominate board members from the right to appoint them.
- Ensure strong conflict of interest requirements and fit and proper rules for – among other – board members, the chairman of the board and the CEO.
- Stipulate that the nominations and appointment process must consider the board as a whole as well as the individual candidate and that nominated candidates can be rejected based on consideration as to the effectiveness and competence of the board as a whole.
- Stakeholder constituencies may have the prerogative to nominate board members. They can nominate own representatives if they meet fit and proper requirements. Alternatively, they should be invited to nominate trusted external professionals.
- Stipulate the obligation of board members to focus on the better interest of the fund and its participants rather than the particular interests of the nominating constituency.
- Stipulate that boards are responsible for setting out written instructions for the CEO and for ensuring that the organisation is always equipped and organized to undertake its responsibility.
- Stipulate that boards are responsible for defining the internal reporting standards and framework necessary for the board to undertake its responsibility.
- Create the common social security interface for social security (CPISS) as an independent delivery institution under the SSOD.
- Put a board of directors in charge of the CPISS with members appointed among social security fund board members and managers.
- Ensure that the CPISS is organized, equipped and managed adequately to undertake its responsibility.

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- Consider allocating the supervision of social security funds to a dedicated unit under the State Auditor with the financial supervision being undertaken by FSCA.
 - Build a common independent appeals and complaints handling institution applying a layered approach allowing appeals handling to focus resources on non-trivial claims.

Abbreviations and acronyms

This report applies a range of abbreviations – some emanating from international practise and literature others from the South African debate. On the latter it should be noted that the report relates among other things to institutions and systems not yet in place. As far as possible the names and abbreviations used align with the use in the IDTT report submitted in 2012 (DSD, 2018).

CEO	Chief Executive Officer: The senior manager of a given entity. The CEO is hired – and fired if need be – by the board of directors, he/she works under the direct instruction of the board and reports to the board.
CPISS	Common Public Interface for Social Security: A joint delivery platform and organisation covering all aspects of social security and providing the client interface for all social security funds. The formation of the CPISS is a key proposal put forward by the IDTT.
DB	Defined Benefit: A pension design, where the benefit is built on the basis of a particular set of accrual criteria – e.g. wage, years of service, inflation and wage growth. In a DB system, there is no link between the benefit and the accomplished contribution payment and investment result at individual level.
DC	Defined Contribution: A pension design, where the benefit is based on the accomplished contribution payment and investment result over the work-life of the individual participant.
FSCA	Financial Sector Conduct Authority: FSCA is the market conduct regulator of financial institutions covering among other private pension funds and insurance companies.
IDTT	the Inter-Departmental Task Team: A government task team set up in 2009 to design a strategy for comprehensive social security in South Africa. The IDTT concluded its work in 2011/12.
MSSR	Master Social Security Registry: A common central registry holding all contribution-, accrual-, benefit- etc. information for each individual and logging and documenting all case handling and case decisions. The MSSR is a key proposal put forward by the IDTT.
NSSF	National Social Security Fund: The formation of the NSSF is a key proposal put forward by the IDTT. The NSSF is to be a national, public pension fund designed to provide 2nd tier DB old-age pensions, disability benefits and survivors benefits.
NSSF-Default	National Social Security Fund: The formation of the NSSF-Default is part of the proposals put forward by the IDTT. The NSSF-Default is the default arrangement of the proposed auto-enrolment based 3rd tier proposed by the IDTT.
SSOD	Social Security Oversight Department: The formation of the SSOD is a key proposal put forward by the IDTT. The SSOD is to ensure policy coordination between the independent social security funds and provide oversight.
SST	Social security Tribunal: The SST is proposed by the IDTT as a joint appeals and dispute resolution institution for all branches of social security.

Introduction

Governance issues and standards for good governance standards have ranked high in international business debates for decades. The agenda takes its starting point in the very materiality of private businesses and their importance to society. In the words of the Organisation for Economic Co-operation and Development (OECD): Good corporate governance helps to build an environment of trust, transparency and accountability necessary for fostering long-term investment, financial stability and business integrity, thereby supporting stronger growth and more inclusive societies.

The South African King IV framework (see Annex A) is a national representation of this global trend. Among many other things, good governance standards address the fiduciary relationship between the business owner and the manager and the inherent principal-agent issues – e.g. the problem alignment of ensuring that day-to-day management align with the interest of the owners – and they insist on a high level of transparency as a prerequisite for sound business.

The pressure and need for good governance is no less pressing when it comes to public social security institutions and their operation. Only through good governance can institutions deliver on their mandates, respond to their fiduciary responsibility and earn the trust of their participants. This is the basic recognition underlying the ISSA guidelines on good governance focused on social security institutions (see Annex A). These guidelines are structured around five key principles: Accountability, Transparency, Predictability, Participation and Dynamism (ISSA Guidelines on Good Governance, p. 11). While all five are important, transparency may stand out as a first among equals. The reason for this is that it is the very foundation for popular trust and credibility. Good governance matters.

In this context, the objective of this report is to discuss governance of the proposed new institutional framework for comprehensive social security in South Africa. The proposed framework will bring existing social security institutions under a single oversight department (SSOD), establish a new national social security fund (NSSF) responsible for managing a new public pension system (NSSF), create a common social security delivery platform (CPISS) and create an auto-enrolment based, private pension savings arrangement with a default fund managed by the NSSF (NSSF-default), to mention but a few. The paper looks at governance issues in this new framework and how adequate organisation and good governance can support cost efficiency, integrity, transparency, accountability and trust.

The report is structured as follows. In section 2 provides a presentation of the comprehensive social security reform, and its proposed institutional landscape is set out and particular aspects are discussed. Sections 3-8 discusses a range of key aspects of social security governance in the proposed comprehensive social security framework. Section 3 looks at the overall comprehensive social security framework, while section 4 discusses the governance of the proposed new single oversight department – the SSOD. Section 5 looks at the proposed new integrated joint delivery and implementation platform and public interface for social security – the CPISS – and the organisational and governance aspects of this new entity. Section 6 identifies the need for a common governance framework to be applied in all social security funds and it sets out its key characteristics. Section 7 presents a closer look at the governance of the proposed NSSF paying special attention to its twinned investment mandate and financial institution aspects. Section 8 touches briefly on appeals and complaints resolution in the comprehensive social security framework, and it discusses the supervision of social security in the new framework. Finally, section 9 revisits the comprehensive social security narrative as it has been set out, and it summarizes a set of recommendations.

1. Background and policy objectives

This section summarizes the comprehensive social security agenda as set out by the Industrial Development Think Tank (IDTT) (DSD, 2018) and interprets the institutional aspects of this agenda. The purpose of this exercise is to lay out an understanding of the future framework as a basis for identifying key challenges and issues.

South Africa has embarked on efforts to significantly strengthen its social security system. Efforts to do so have been under way for more than two decades and in this course multiple analytical and political inputs have matured the agenda. Particularly important contributions are the 2002 Taylor report and the 2012 Inter-Department Taskforce Team report on comprehensive social security. The 2012 report was endorsed by cabinet in 2016, and it was submitted to Nedlac for consultation. As part of its consideration Nedlac issued a set of first comments in September 2018 (Nedlac, 2018) and in light of these comments the IDTT document is being updated (DSD, 2018).¹

1.1. Identified challenges

The Taylor committee² and the IDTT both reviewed the existing social security landscape. Among the many observations emanating from these efforts, two shortcomings stand out as particularly important.

The first observation is that the existing social security arrangements in South Africa are highly fragmented. They are established by different legislation, and they are overseen by different government departments. In the words of the IDTT: “South Africa’s social security system has evolved in an uncoordinated manner across a number of different government departments and agencies leading to disjointed policy-making, incoherent administrative arrangements and poor service delivery” (DSD, 2018, p. 49).

Fragmented administration leads to operational inefficiency and poor service delivery. The IDTT points to four main consequences of this fragmentation (DSD, 2018, pp. 23–24):

1. *Uncoordinated policymaking*: The responsible entities developing policies aligned to their own mandate without considering the activities of other social security agencies.
2. *Lack of benefit alignment*: The funds have their own benefit levels, eligibility rules, and assessment criteria.
3. *Fragmented administration*: The lack of collaboration on issues such as contribution collection, case management and benefit payment lead to high administrative costs, operational risks and system vulnerability to fraud.
4. *Financial discrepancies*: There are great divergences in the financial positions of the main social security funds, e.g. large surpluses in the Unemployment Insurance (UIF) and Compensation Fund are offset by a large deficit in the Road Accident Fund (RAF).

Further, the fragmented organisation weakens policy formation. This predicament affects the level of government as well as at the individual fund level. The decentralized structure leads to lack of oversight and coordination. This in turn becomes an impediment

¹ The version cited here is identified as “Post-Nedlac Refinement v1 08 September 2018”.

² The Taylor Committee into a social security system in South Africa, was a government committee of inquiry into a Comprehensive System of Social Security in South Africa, chaired by Taylor Vivienne.

for government in its performance of one of its key functions – i.e. the design and implementation of an overall objective-driven social security policy. Further, the structure disintegrates the operational responsibility and the responsibility for policy development by allocating it to many different departments. Each of these departments have a limited responsibility and they will have difficulty in building the required policy development expertise and therefore they will rely heavily on input from the funds in their policy building. This situation may lead to conflicts of interest, policy rigidity, slow innovation and government may have difficulty in maintaining an adequate and structured focus. Hence, the possibilities to align programs along an overall social security policy framework are weak (DSD, 2018).

The second observation is that South Africa does not have a public pension system covering the entire workforce.³ The IDTT identified this aspect as “the most notable gap in the South African social security system” (DSD, 2018, p. 4). A large number of private occupational and voluntary schemes have been established to fill this gap, but private pension coverage is low and low contribution density and early withdrawals further undermines its potential for large segments. A 2009 assessment found that, some 6.2 million formal sector workers in South Africa were not covered by private pension arrangements, and there is no way in which this gap can be closed other than through the formation of a universal basic public pension system (IDTT, 2009a). Along the same lines other research concluded: “Currently, only an estimated 6 per cent of South Africans are able to maintain their lifestyle and replace their income fully at retirement” (National Treasury, 2014).

1.2. The main proposals to address the identified challenges

Responding to these key challenges the IDTT launched two key proposals (DSD, 2018):

- Consolidation of social security by bringing all social security funds under a single oversight department (SSOD) responsible for policy coordination and oversight.
- Formation of a national social security fund (NSSF) with the view of providing an earnings-related public DB pension system (NSSF).

The proposals to build an adequate and inclusive pension system include four further elements. Firstly, the Old-Age Grant is universalized by abolishing the income test. Secondly, a private DC-arrangement (tier-3) based on auto-enrolment into an occupational arrangement or similar offered by the employer is proposed – i.e. new entrants to the labour market and new employees are automatically enrolled in the tier-3 scheme offered at the work place unless they choose to move to the default fund or not to participate at all. Thirdly, it is proposed that the NSSF should create and manage the default fund for tier-3 (NSSF-Default). Fourthly, a new regulatory standard known as an approved funds framework (AFF) is proposed for providers in tier-3 (DSD, 2018).

The proposals involve a fundamental reconfiguration of the institutional set-up for social security in South Africa. A closer look at the proposals indicates that the total reform package has four key institutional and regulatory elements that will be discussed in the following subsections:

1. The formation of a single oversight department – the SSOD.

³ See Olivier, M. and Mpedi, L.G.: “Social security in South Africa” (2009), Juta Publishers.

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2. The formation of a joint implementation and delivery platform and public interface for social security – the CPISS.
 3. The formation of a public earnings-related pension scheme to be managed by a national social security fund – the NSSF.
 4. The introduction of a 3rd tier auto-enrolment based, private DC-arrangement subject to a new approved funds framework, and with a default arrangement provided by the NSSF – the NSSF-Default.

A lengthy implementation is envisaged. The proposal includes an implementation plan by which the SSOD is formed first and given the responsibility of overseeing the implementation of the reform – including the formation of the NSSF – future policy coordination and future social security management.

1.2.1. A single oversight department

The SSOD will be responsible for social security oversight and it will facilitate and ensure policy coordination. In the words of the IDTT, the SSOD will become “a unified policy platform for social security, [and it will] ... then oversee the proposed consolidation of existing institutions and the establishment of the NSSF”. The SSOD “will serve as the point of policy coordination for the social security system. It will be responsible for ensuring that all aspects of the system work efficiently and coherently to achieve the goals of social security, and that the system complements labour-market initiatives as well as broader government projects and priorities” (DSD, 2018, p. 50). The proposal to create the SSOD is a response to the observation that social security is disaggregated and suffers from poor alignment.

Policy coordination is a multifaceted undertaking and it has – what could be termed as – horizontal as well as vertical dimensions. The horizontal dimension refers to the coordination across social security funds. This effort has to do with alignment of approaches and concepts, and it focuses on the coordination of issues such as benefit levels, eligibility rules, assessment criteria and methods and operational aspects must be coordinated. The vertical dimension relates to the alignment of social security policies with overall policy objectives in the particular field – e.g. unemployment insurance in the framework of labour market policy.

It follows that close cooperation between the SSOD and the dedicated ministries, their departments and the funds become crucial. Hence, the objective of the SSOD is to ensure horizontal coordination while vertical coordination and broader policy formation remain responsibilities of the dedicated ministries and their departments. Both tasks in turn require a stable and reliable flow of data, information and research documenting the effects and impact of the social security funds’ activities and facilitating and providing evidence-based policy advice.

The social security oversight role of the SSOD focuses on the implementation and operation of social security. A key objective is to ensure that the individual social security funds align operationally with an overall framework discussed above, and that they are managed and operated prudently. Key operational objectives are to ensure efficient operation, adequate and efficient delivery, financial and administrative prudence, accountability and transparency. The oversight function in this context is to ensure that the strategies and frameworks in place supports these objectives. Once more, undertaking these

tasks requires a stable and reliable flow of data and information and research documenting the operation and performance of the social security funds.⁴

As a benchmark the SSOD and the focus on policy coordination should improve policy formation and policy efficiency. This objective should be met without the SSOD taking over policy making and program operation. Therefore, the change management aspect of the efforts become important – particularly the formation of the SSOD as such, the reallocation of the funds under the SSOD and the restructuring as necessary of the individual funds and their governance structures. Getting the SSOD safely of the ground requires a clear view on the distribution of responsibilities between the policy-makers, the SSOD, the dedicated ministries and departments and the social security funds and it requires a clear framework for collaboration.

A joint contribution collection system is envisaged. The objective is to streamline the current fragmented processes and save costs. The expectation is that contribution collection will be undertaken by the South African Revenue Service (SARS). SARS will document collections in the MSSR, and it will forward the contributions collected to the relevant fund.

The joint collection platform cannot stand alone. The reason for this is that social security should remain open to self-employed workers, short term contract workers, workers in the informal sector and others with less stable income – many of whom may not be filing tax returns at the moment. In order to accommodate contribution payments from such groups a separate contribution collection channel is needed.

The design of the separate contribution collection channel should be considered carefully. Hence, it is important to consider whether the individual funds should be able to form their own channels – partly retaining the very disintegration that the formation of a joint platform seeks to address – or whether it should be a common platform. Integration objectives, the need to increase overall collection efficiency and the need to avoid sub-optimization by individual funds may speak strongly in favour of the latter option.

1.2.2. A joint public interface for social security

A joint implementation, delivery platform and public interface for social security – the common social security delivery platform (CPISS) has been proposed. The proposal seeks to improve management of, increase accessibility, ensure equal treatment and activate economies of scale of the delivery of social security. On the one hand, the different social security funds will retain independence under the comprehensive social security framework in the sense that they continue to exist as separate entities, with own governance structures, separate streams of finance and separate funds. On the other hand, the formation of the CPISS will commit all social security funds to align their operation with common standards and join the CPISS. In this sense the consolidation of social security involves an element of “centralized decentralization”.

Further to the joint contribution collection platform, the CPISS includes a range of different transversal functions. Among other –a joint social security master registry built on the unique individual identifier provided by the Civil Registry, a joint case handling interface, a joint case handling documentation and a joint payment platform (DSD, 2018, pp. 37–38 and 50–51). The CPISS is summarized in box 1 below.

Another transversal function is a joint platform for disability assessment. Hence, the IDTT proposed to harmonize assessments of disability in order to achieve transparency and

⁴It should be noted that oversight and supervision are two different undertakings. Oversight relates to the day-to-day operation and the design and implementation of frameworks, while supervision is focused on ex-post evaluation, accounting and auditing.

consistency.⁵ The proposal is to create a joint platform for disability assessment based on a single disability assessment metric be established for all social security schemes. This assessment tool should be applied evenly across the country, which in turn might require a dedicated capacity for the performance of disability assessments. Further, the tool should seek to encompass a needs-assessment that takes into consideration the type and severity of disability or illness as well as other social, economic, physical and environmental factors and focus on the applicant's capabilities, rather than only on the degree of disability.⁶

Box 1
The joint implementation and delivery platform and public interface
for social security – the CPISS – as set out by the IDTT

The joint implementation and delivery platform will include four different components:

- (1) Consolidated public interface for social security (CPISS). A consolidated agency interface will provide client interaction and service, front-end enrolment, and education and awareness programs. It will draw on labor centers and offices currently run by SASSA and other entities. South Africans will be able to access the system at physical offices, or over the telephone or the internet. This interface will be linked to public employment services to ensure social security recipients remain in close contact with labor-market initiatives.
- (2) A unified payment platform. This platform is expected to be built of the infrastructure of the existing SASSA.
- (3) A master social security registry (MSSR) will be formed. The MSSR is based on a unique individual identifier based on the official Home Affairs Civil register. The MSSR maintains individual records of all social security contributors and beneficiaries. The register will keep social security information provided by the unified collection agency, the unified payment arrangement, the consolidated public interface for social security and the individual social security funds, and it will – presumably – log and document all case handling and decision making.
- (4) A joint platform for disability assessment based on a single disability assessment metric be established for all social security schemes.

Source: Based on DSD, 2018, pp. 37–38 and 50–51.

The CPISS is assumed to be an independent entity providing operational services to all social security schemes. This will presumably be based on a set of service level agreements. In terms of governance the CPISS will presumably be controlled by the participating funds.

The CPISS is a complex technical and administrative undertaking. The framework will require strong local and regional representation, centralized ITC support and a strong business support framework. A rather high number of offices and client service centres will require a robust management system and a strong framework of process descriptions, work instructions, methodologies, documentation standards, etc., to ensure equal treatment, standardized, credible and stable case handling and robust control systems.

Further, the CPISS is a critical political undertaking. The CPISS is a pure delivery platform and its integrity and credibility depends on its insistence on this identity and its ability to remain depoliticized. In order to meet this objective, the CPISS must remain transparent and consistently – and in a documented manner – meet policy objectives and best practise standards as regards service, equal treatment, delivery, documentation, costs and other relevant aspects.

There are some local and international examples of relevance to the further considerations. Locally, the formation of the Government Pensions Administration Agency as a joint delivery platform for public sector pension funds is built on similar objectives and assumptions albeit in the narrow space of contributory private pensions. Internationally, the Australian Department of Human Services stands out as a peer example in point. DHS is the

⁵ Taylor Committee Report No. 9: *Social security for people with disabilities* at 405.

⁶ Ibid.

oversight authority for six different social security programs in Australia. Even the formation of a joint delivery platform for social security in Denmark has some resemblance to the South African CSS proposal (see Annex C).

The rationale of building a joint implementation and delivery platform is based on the expectation that it can yield economies of scale and improve accessibility. In order to realize this objective, the individual social security fund must be required to sign up with the services of the CPISS. If this requirement is not met, funds will be able to sub-optimize and give priority to own needs at the expense of overall efficiency concerns. If this happens, the overall rationale is at risk.

It should be noted however, that the rationale of the joint implementation and delivery platform requires further qualification. Hence, while the assumption of significant efficiency losses in the existing set-up may seem reasonable, there are currently no available data to document this aspect. Similarly, there are no data available allowing an assessment of the implementation costs and the efficiency gains to be yielded from the formation of the CPISS.

Control and consumer protection are further strengthened. Hence, the IDTT proposes that all social security funds should come under the supervision of a centralised social security supervisory agency (SSSA) and that they should align their appeals and complaints procedures under a new external and independent social security tribunal (SST) (DSD, 2018, pp. 50–51).

1.2.3. A public earnings-related DB pension scheme

The proposed NSSF is to operate a new public earnings-related DB pension scheme. According to the proposal, the NSSF is expected cover all workers and self-employed and it is expected to be open to informal sector workers. The scheme will provide old-age, survivors and disability coverage to its participants and their dependents. The scheme will be contributory and financed from a contribution rate tentatively set at 10 per cent ⁷ with indications that contribution payments will be subsidized for low income workers. Contributions will be paid on income above a low level and up to a certain tax-threshold – tentatively indicated as the R 20,000 to R 178,000-bracket. The accrual rules of the NSSF and its overall financing remain to be fleshed out in detail – this is the theme of another project under the DSD/ILO cooperation. However, a funding ratio around 25 per cent is tentatively foreseen ⁸ and a set of automatic financial balancing mechanisms are planned for (DSD, 2018, pp. 30–35).

The NSSF will be an important cornerstone in the overall comprehensive social security framework. Through the formation of the NSSF South Africa is set to move towards a multi-pillar pension system, with the same architecture combining public and private components offered to all workers.

The NSSF will be an entirely new social security fund vis-à-vis the existing funds. A current separate work stream is looking at the design and the funding of the NSSF and when completed it will provide a forecast for the future development of the NSSF. However, based on the IDTT proposal alone it is safe to assume that the NSSF will become a significant financial entity in the South African economy.

⁷ The contribution rate to be proposed is currently subject to actuarial evaluation.

⁸ The funding policy to be proposed is currently subject to actuarial evaluation.

The formation of the NSSF serves to dramatically improve pension cover and coverage in South Africa in the mid-to long term. Also, it carries an invitation to participate in the formal economy. It creates a basic pension coverage over and above the old-age grant and a basic pension cover to be complemented by other means.

The need for change is clearly illustrated by recent survey findings. For example, estimates indicate that only some 48 per cent of formal sector workers contribute to a retirement fund and that only some 6 per cent can hope to achieve decent living standards in retirement (Sanlam, 2018).

1.2.4. A third tier auto-enrolment based, private DC-arrangement

The objective for the emerging new pension system is to ensure a minimum replacement rate of 40 per cent for full career workers. However, workers will not meet this target through the NSSF alone: the old-age grant will continue to contribute to income in retirement – an element particularly important to lower workers and informal workers – while higher-income earners will need to build supplementary savings to achieve an adequate retirement income (DSD, 2018, p. 31).

Therefore – and as a complement to the NSSF – a new tier-3 is proposed. Tier-3 is supposed to cover income above the income fraction to be covered by the NSSF. Tier-3 can be an existing occupational DB scheme, or it can be a private DC-arrangement with individual accounts and individual ownership rights. While the provision of tier-3 access is to be defined by law, participation is expected to be based on auto-enrolment for workers with income above the NSSF-ceiling. The individual participant will be able to opt out and not save for retirement in the third tier.

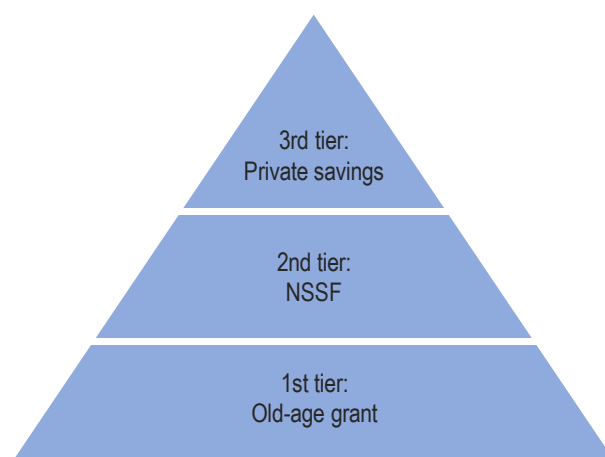
Funds managing tier-3 savings will be subject to an approved funds framework (AFF). The IDTT propose that the AFF should establish standards relating to disclosure, investment strategy, risk management, administration and governance. Further, compliance with AFF criteria is to determine if a particular fund can be licensed to operate tax-incentivised supplementary savings (DSD, 2018, pp. 39–40).

The NSSF will provide the default fund under tier-3 (NSSF-Default). NSSF-Default will manage tier-3 savings for workers want to participate in the third tier but do not want to participate in the scheme offered by the employer. Hence, NSSF-Default will enter into direct competition with private funds (DSD, 2018, pp. 39–40).

1.3. The envisaged new overall pension scheme

The reform will establish a new multi-tier pension system in South Africa. The system is intended to strengthen coverage as well as adequacy while observing financial sustainability. Figure 1 and graphic 1 below illustrate the three pillars, their roles and the relationship between them.

Figure 1. The three tiers of the proposed new pension system in South Africa



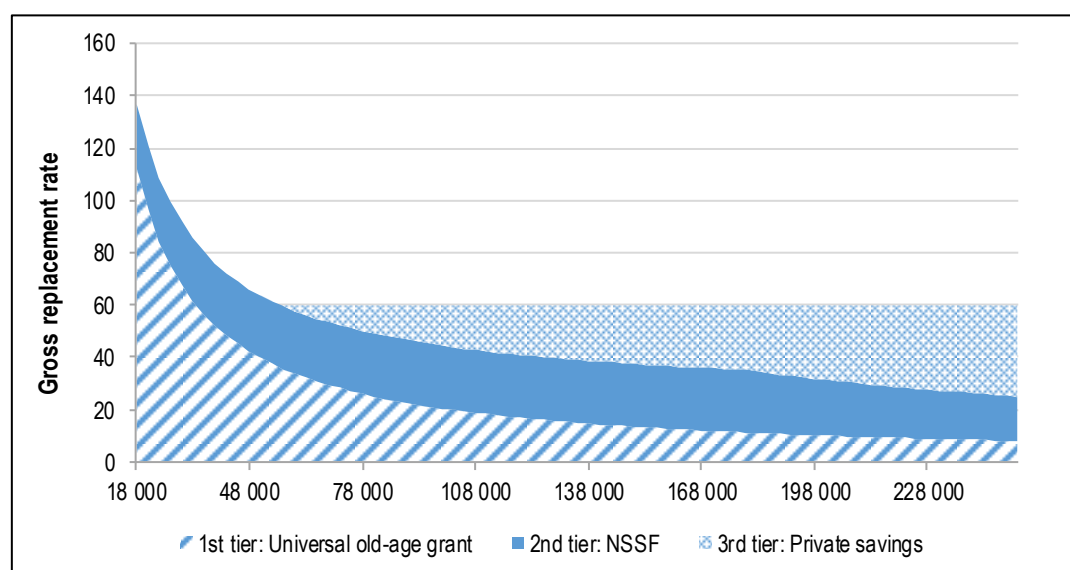
The first tier will be the existing old-age grant. As part of the reform, the old-age grant will be universalized, and the current income test will be abolished. The key objective of the first tier will be to provide a minimum income guarantee and address old-age poverty.

The second tier will be the new earnings related NSSF. The NSSF will be contributory, and as such it will first and foremost strengthen pension provision for workers in formal employment. Modalities to include workers in the informal economy will have to be further explored. The key objective of the second tier is to complement the old-age grant and ensure a reasonable replacement rate on income up to certain level.

The third tier will be approved private savings arrangements. The third tier will be contributory, and as such it will first and foremost strengthen pension provision for workers in formal employment. Even here, modalities to include workers in the informal economy should be explored and considered. The key objective of the third tier is – first and foremost – to complement the first and the second tier and ensure a reasonable replacement rate for workers with income above the NSSF-ceiling.

The tiers are complementary, they serve different objectives and their relative importance will vary substantially by income. This aspect is illustrated in graphic 1 below. Based on a stylised microsimulation the chart shows how replacement rate and retirement income composition relates to income for a theoretical full time, full career worker.

Graphic 1. Gross replacement rate and income composition in the proposed new pension system



The graphic 1 illustrates the theoretical situation in the first year of retirement (vertical axis) for a full career worker with a specific stable life-long wage level expressed in today's Rands (ZAR) (horizontal axis). Source: Own calculations based on DSD, 2018.

1.4. The overall proposed social security framework

The comprehensive social security reform establishes a new delivery framework. New institutions emerge, new consolidated procedures are developed and implemented, and new governance standards and new regulatory requirements are adopted. Box 2 below seeks to describe the new framework by “following the money” from the collection of contributions to the payment of benefits, while figures 2 and 3 seek to provide a graphic illustration of the main elements focusing on the contribution collection and distribution process and the benefit claims, case handling and benefit payment process respectively.

The consolidation of social security and the formation of the CPISS creates a new delivery framework. Policies are set out by parliament and specified in law and supporting regulations. Policies are interpreted and implemented by the social security funds under the oversight of the SSOD. The social security funds are responsible for the practical policy implementation in accordance with law and other legal framework elements and for linking with the CPISS.

Box 2 **The overall social security framework**

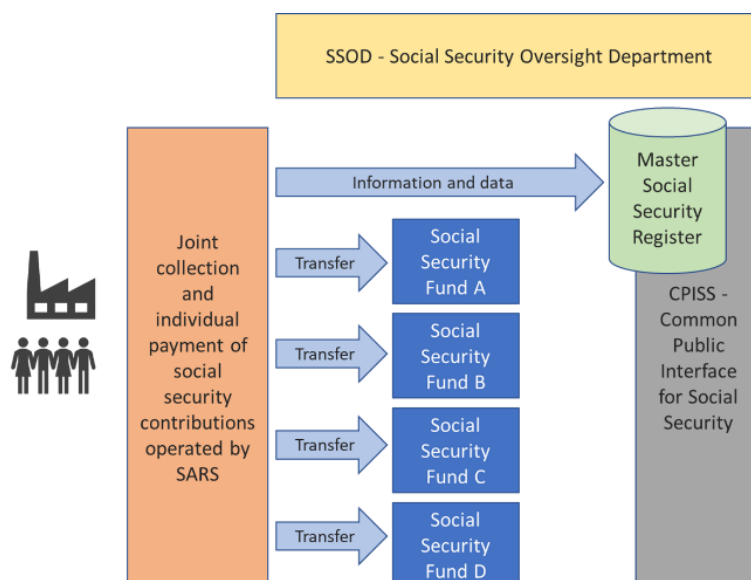
Following the money and the information, the proposed social security framework can be interpreted as follows:

1. The single collection system operated by SARS will collect all social security contributions, and it will perform adequate compliance tests and address arrears:
 - Self-employed, informal workers and others will have an opportunity to pay individually via SARS.
2. The single collection system will connect all contributions to individuals and update the information to this effect in the MSSR, and it will allocate the collected contributions and upload the related information to the MSSR.
3. When an individual raises a claim – or wants information on individual rights – the individual will turn to the CPISS.
4. The CPISS will provide the requested information from the MSSR or it will handle cases in accordance with law, a service level agreement with the relevant fund and statutes based on information from the MSSR:
 - Most cases will be handled by the CPISS based on instructions from the individual funds. In cases involving more detailed assessments or non-standard assessments the CPISS will liaise with the relevant fund as needed.
 - If a disability assessment is required, this assessment will be based on common disability definitions, a common framework and a common assessment procedure.
5. Acting on behalf of the relevant social security fund the CPISS informs the individual on the result of its assessment.
6. The CPISS issues a benefit payment order and the relevant social security fund will execute the payment – or commence the stream of payments – through to the unified payment arrangement.
7. All steps will be recorded and documented in the MSRR.
8. All social security funds are subject to auditing and reporting requirements.
9. All social security aspects of the comprehensive social security framework are supervised by a central Social Security Supervisory Authority (SSSA).
10. Individuals and employers can appeal decisions made in the social security framework. First appeals must be reviewed by the individual social security fund. The result of a reviewed decision can be appealed to a unified independent social security tribunal (SST).

Source: Based on the September 2018 version 8 of the IDTT report on Comprehensive Social Security (DSD, 2018).

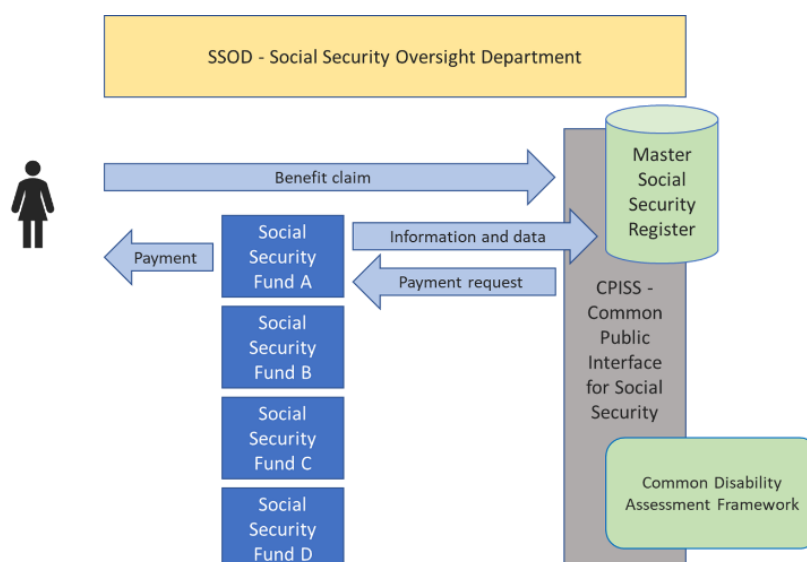
Structures will be in place to safeguard the system. All funds and the CPISS are under the oversight of the SSOD, they are subject to clear auditing and reporting requirements, they will be supervised by a central Social Security Supervisory Authority (SSSA) and individuals and employers can appeal decisions made in the social security framework – ultimately through an independent joint social security tribunal.

Figure 2. Contribution collection, distribution and documentation in the comprehensive social security framework



The figure covers steps 1 and 2 in box 2 above. Based on the September 2018 version 8 of the IDTT report on Comprehensive Social Security (DSD, 2018).

Figure 3. Benefit claims, case handling, benefit payments and documentation in the comprehensive social security framework



The figure illustrates the handling of a claim raised with social security fund A. The figure covers steps 3 to 7 in box 2 above. Based on the September 2018 version 8 of the IDTT report on Comprehensive Social Security (DSD, 2018).

The delivery framework must support policy evaluation and development. Therefore – as already mentioned – it is critical to ensure a stable and reliable flow of timely data, information and research documenting the operation and performance of the social security funds. Policy makers and senior policy officials are dependent on this flow and therefore it is essential to ensure that information and data streams are not tainted or influenced in other ways by conflicts of interests, sub-optimizing agendas or other emanating from the operational levels. This stream of data and information is also crucial to the building and maintenance of popular confidence and trust.

2. Governance in the CSS framework – division of responsibilities

The comprehensive social security proposal involves a reconfiguration of the institutional set-up for social security. The proposal holds great promises, but its ability to deliver on these promises depends strongly on organisation and governance in the new framework. This section discusses a set of key requirements for good governance.

Key observations in this section

- Clear divisions of responsibilities between policy makers, boards of directors and managers is a key prerequisite for good governance.
- Social security funds must be rules-based, purpose-driven and guided by clear policies.
- Transparency and accountability are prerequisites for trust, confidence and popular support.

The proposed new structure is complex, it has many layers and it makes important promises. The formation of the SSOD and bringing the social security funds under its umbrella can improve policy coordination, strengthen policy impact and improve policy formation, a common implementation and delivery platform can yield significant operational benefits and improve cost/efficiency and the formation of the NSSF can strengthen social security in South Africa.

However, none of these promises will be fulfilled automatically. The ability to exchange the promise of “can” into a firm “will” depends heavily on the organization under the new CSS framework. In addition to the organisation under the new framework, its governance and management are crucially important to reform outcome as these strongly interrelated.

A first prerequisite is to ensure a clear division of responsibilities and prerogatives between the different levels. This is a key message from international experience as well as internationally acknowledged standards (see Annexes A, B and C). It is particularly important to keep politics, policy formation, implementation and management separate. If this requirement is not met, the credibility and efficiency of the structure is jeopardized by potential politicization and mismanagement – i.e. the application of an arms-length principle should be taken seriously and literally.

An arms-length principle separates responsibilities and protects integrity as it the clear distribution of responsibilities, while at the same time ensuring and safeguarding the transparency and accountability of social security institutions. The principle implies that day-to-day implementation and management is out of reach for policy makers, just as managerial staff and boards of directors cannot decide on political matters. The implications are many. It therefore follows that board members and managerial staff cannot be political appointees.

The arms-length principle is a key element in the ISSA guidelines and there are strong international examples as to how it can be established. Drawing on the ISSA guidelines described in Annex A and the experiences outlined in Annex B, the overall framework could be structured as follows:

- Policymakers can raise policy-discussions and propose policy changes. They can call on the necessary analytical support and data from the SSOD – and through the SSOD from the funds – for this effort, and if proposals are adopted by parliament, policies will change. However, policymakers cannot influence or interfere with the hiring or firing of the board chairman, board members, senior managers or other staff, and they

cannot interfere in the day-to-day operation of individual social security funds other than through change of law.

- The SSOD will be responsible for policy coordination and as such it should require social security funds to align policies with adopted overall policies. The SSOD can raise policy-interpretation issues with the funds, but it cannot as such interfere with the day-to-day operation of individual social security funds. Through its oversight function the SSOD can raise issues as regards the management and governance of individual social security funds and require alignment, but the SSOD cannot interfere with the hiring – or the firing – of the board chairman, board members, the CEO, other senior managers or other staff, and it cannot interfere in the day-to-day operation of individual social security funds other than through initiatives focusing on policy and practise alignment.
- The board of directors of a given fund has ultimate responsibility for the management of the fund, and it must ensure its ability to always undertake its responsibilities. A social security board of directors has clear managerial responsibilities – i.e. it is not an advisory board. In collaboration with the SSOD it is responsible for the interpretation of legislation and the policies adopted, and it is responsible for implementing these policies accordingly. The board of directors is responsible for hiring – and if need be firing – the Chief Executive Officer and ensures adequate instructions for the management team, business processes, organization, finances, transparency, accountability, data and reporting. Stakeholder groups – e.g. the social partners and civil society can have the prerogative to nominate board members subject to clear fit and proper requirements. While the board of directors play an important role in the interpretation of legislation and adopted policies, it does not decide on policy matters. Board members are individuals with clear managerial responsibilities. They are not political representatives.
- The management team of a given fund executes the policies as set out by the board of directors and it operates the fund according to law and board instructions and ensures adequate documentation. While the management team supports the board of directors in undertaking its responsibility it cannot in itself decide on policy matters or other matters outside its written mandate.

A second prerequisite would be to ensure good governance in the individual social security fund. Policy coordination and the entire comprehensive social security agenda may be in vain if the governance of the individual fund is inadequate. An evaluation of the current governance structures shows that the models adopted are varied and that most of them have severe shortcomings. Therefore, the obvious step is to ensure a common and suitable governance and reporting structure for all social security funds while still respecting their relative independence (DSD, 2010).

A third prerequisite is to ensure that both social security overall and the individual fund are rules-based, purpose-driven and guided by clearly stated policies set out by law. Policies must be based on law in order to be transparent and credible and in order to avoid the development of discretionary informal arrangements. Social security funds should not have the discretion to, for example, define new benefits, close existing benefits, or divert from equal, rules-based treatment that would breach the arms-length principle, destabilise the division of responsibilities and undermine policy coordination and consistency.

While policies are set out by policy makers and adopted by parliament their material content is developed in collaboration with the SSOD and the individual social security funds. This in turn raises further requirements in order to make sure, that policies can be well-documented and evidence-based. Hence, it is vital to ensure the documentation, streams of data, information and research discussed above and to ensure systematic evaluation of impact and effect.

A fourth prerequisite is to guarantee a very high level of transparency and accountability in social security. In order to do so, business processes must be adequately logged, documented and audited, and all funds must come under a common adequate and clear reporting framework. A particular aspect of this is to ensure adequate documentation and logging of case handling and case handling practices.

International peer examples illustrate these requirements and how they can be served. Annex B presents cases from Sweden, Denmark and Canada. While all four examples are built on a clear arms-length principle and a clear distribution of responsibilities between government, board of directors and senior management, they are different in how this is structured. The differences reflect national contexts and policy traditions. Annex D presents a briefer overview of management structures from other African countries. The variation among these examples is greater as regards the design, maintenance and protection of an effective arms-length principle.

3. The governance of the SSOD

The comprehensive social security proposal will bring all social security funds under a single oversight department – the SSOD. This section discusses the governance issues related to the SSOD and its oversight role.

Key observations in this section

- The SSOD is a government department.
- All social security funds will come under the SSOD.
- The SSOD will collaborate with the line ministries on policy formation and ensure policy coordination.
- The SSOD will have oversight over otherwise independent social security funds.
- There cannot be stakeholder involvement in the management of the SSOD.
- A coordinating social security advisory council should be formed under the SSOD.
- The advisory council should count senior level representatives from all the line ministries and all social security funds
- It is not advisable for the Minister – and other policy makers – to be on the coordinating council of the SSOD.
- The SSOD must ensure adequate data and information, impact assessments, benefit statistics, etc.

The SSOD is an ordinary government department. This means that it is placed directly under a ministry and that the Director General of the department work closely with the minister. The Director General leads the department subject to the same rules and requirements as applies for any other department. The Director General leads the functions of the SSOD policy coordination, policy development and policy oversight.

A key question is, where the responsibility for the social security laws reside going forward? A possibility would be for it to fall under the SSOD and its possibly new ministry, or the dedicated ministries and their departments. The need for policy coordination is evident and this need and the poor track record on this aspect speaks strongly in favour of reallocating the social security funds and their legislation to the SSOD. This will create a strong platform for coordination in the short term – identifying overlaps, discontinuities, conceptual discrepancies, policy misalignment, double management, design and implementation barriers to coverage and access and other needs for adaption to the comprehensive social security framework.

The longer-term benefit is a strong platform for alignment and policy coordination as an on-going effort. The potential downside of this approach is the risk of discontinued vertical integration, dislocation from the expertise of the dedicated ministries and less efficient use of social security as a policy tool in the particular policy areas. This challenge underlines the need to ensure the voice of the dedicated ministries in the governance of the SSOD.

Less disruptive, albeit less efficient alternatives exist. The reallocation of responsibilities and oversight under the SSOD is seen as a necessary prerequisite for policy coordination by the IDTT. Further, the need for a stronger effort is underlined by the actual policy experience. However, it should be noted, that a less ambitious alternative may be to create a cross-ministerial policy coordination council responsible for ensuring policy alignment. Such an approach is likely to be less efficient in ensuring the coordination and alignment discussed above. Hence, it will be based on declarations of intent rather than formal institutional commitments and obligations. The current situation and the past experience indicate that such a framework is likely to be inefficient in accomplishing this goal in South Africa.

In sum, there is little choice but to bring the social security funds under the SSOD. The SSOD will collaborate with the line ministries on policy formation, it will ensure policy coordination, and it will be responsible for oversight of the social security funds and their management. This means that the SSOD can be viewed as a group structure where the SSOD is a government department and the funds retain their relative independence. Hence, the SSOD cannot have a group management board with responsibility for the day-to-day operation of the individual funds.

An obvious option is to form a coordinating council for the operation of social security. Such a council should have representatives from the line ministries, as well as senior management representatives and board representatives from all social security funds. It can be headed by the SSOD Director General and it must convene regularly to coordinate and deliberate on matters of common interest. Accuracy is required in defining the role of such a council in order to ensure clear division of responsibilities.

It should be noted, that it may not be advisable to have the Minister as a member of such a coordination council. The reason for this is that it risks diverting the focus of the council from operational implementation matters towards political aspects. If such a line is followed, the minister should have the prerogative to request the opportunity address the council just as the council should be able to request the Ministers' attendance of a council meeting when such is deemed relevant. The composition of the advisory council of the SSOD – and as part of that government participation – should be considered further in the course of developing the CSS agenda. These considerations should take the necessity of a clear arms-length principle and the related issues discussed above as its starting point.

The SSOD is a government department, and as such there is no stakeholder involvement in the management of the SSOD. Stakeholder involvement in social security management will be ensured via representation on the boards of directors of the various social security funds. The SSOD coordinating council can decide to call for stakeholder input on particular issues.

The competence requirements for the SSOD Director General are significant and spans a wide range of insights and experience. Hence the requirements on personal skills, social security insight, policy development experience, financial insight and senior management experience are significant. Also – considering the nature of the business of the social security funds – it is relevant to subject the Director General to fit and proper requirements.

Similarly, the competence requirements for the SSOD as such are significant. In order to undertake its responsibility, the SSOD must have strong social security expertise and policy expertise. This is necessary as practical policy development will take place in a collaborative relationship between the SSOD and the relevant fund. The fund will provide the detailed programmatic expertise, while the SSOD will be responsible for the alignment with the overall policy agenda.

Information, data, performance reporting and research are key prerequisites for this effort. Therefore, an important role of the SSOD is to ensure that adequate information, impact assessments, benefit statistics etc. are available and that evidence-based and research-based advice are available to policy makers in formatting policy discussions as well as policy proposals. The formation of the MSSR and the CPISS will strengthen potentials on these aspects substantially, because more and better information will be available. It is up to the SSOD to ensure that the potentials are realized systematically – preferably in close collaboration with Statistics South Africa.

The SSOD has oversight of the social security funds and of the overall social security policy and its results. As such the SSOD must have an ongoing dialogue with the funds based on performance, service, impact, costs etc. The SSOD should report regularly to parliament and to the public on performance, finances, policy results and on key challenges.

4. The CPISS and its governance

The CPISS will service all social security funds and provide the necessary case handling operation and local presence. This section identifies the CPISS as a separate independent entity and discusses its governance.

Key observations in this section

- The CPISS is a joint service delivery entity – it is not a policy institution.
- All social security funds are required to operate through the CPISS.
- The CPISS will be a very large entity in terms of manpower.
- The CPISS will operate according to law and based on service level agreements with the individual social security funds.
- The social security funds should be on the board of directors of the CPISS.
- There is no need for stakeholder involvement in the management of the CPISS.

The CPISS will be the joint public interface for social security. It will provide the various social security funds with a wide range of operational services and local representation. In this capacity, the CPISS plays a crucial role for the overall success of the comprehensive social security agenda. If organized and managed well it can improve social security administration, streamline case handling, ensure rules-based equal treatment, stable and credible data and documentation and improve accessibility – and vice versa.

CPISS activity will engage a very large number of staffs presumably working at a large number of different workplaces around the country. In fact, the vast majority of social security staff will be working within the CPISS. These staffs will be operational in orientation, and they will be engaged in a wide range of activities such as case-handling, ITC, documentation, logging, compliance, risk management, etc.

The organisational structure – and the management – of the CPISS will be equally complex. The CPISS will include front-, middle- and back-office operations, ITC and other infrastructure, compliance and control functions as well as functions focussed on overall delivery strategy and performance. Senior management must ensure that all functions align with a common strategy and that parallel operational sections follow the same strategies and apply the same methodologies and practices and follow the same logging and documentation framework.

There is little choice but to see the CPISS as a separate entity. This is due to the size of the operation, its geographical distribution, the complexity of its operation and management and to the fact that it is to service several different independent funds. These aspects point to a separate institutional arrangement and separate management.

An obvious option is to place the CPISS as an independent entity under the SSOD vis-à-vis the funds. In such a framework a second obvious step is to provide a governance structure with a board of directors appointed by its key stakeholders – i.e. the social security funds. In this way it can be ensured that the CPISS remains an operationally oriented delivery agency. Further arguments in favour of this model are that the operational responsibility will be placed with the sponsoring stakeholders and that direct communication and board attention as regards operational issues will be ensured. In such a framework, the board of directors appoints and hires the CPISS manager based on personal qualification, experience and competence and subject to a rigorous fit and proper assessment. The head of the SSOD should be on the board of directors of the CPISS – possibly as its chairman.

The CPISS should be a pure and technical, delivery agency – i.e. it should not be a brand in itself. In addition to the components listed above the CPISS can – and probably should – be responsible for the MSSR and the joint payment platform. The CPISS will operate based on a contractual relationship – i.e. service level agreements – with the individual fund. The contract will specify services to be rendered, service levels to be met, case handling procedures to be followed, reporting requirements, penalties in case of defaults etc. and it will format all relevant aspects of CPISS/fund collaboration. These contracts should be formed according to a common standard, and they should be monitored and reviewed regularly.

Certain functions are particularly important in the CPISS framework. This is due to its size and complexity and its role as a subcontractor providing services to the social security funds. These functions should be given strong priority in the organization of the CPISS and some of them may even require special board attention – e.g. through the formation of particular committees:

- *Business and performance reporting:* The CPISS will act as a sub-contractor handling the client interface of many different social security funds. As such it needs to document its business and performance in a timely and accurate manner. Hence, the board of directors must design an adequate standard reporting framework through which relevant aspects of the operation and its financial and material performance are documented and communicated to the board.
- *Business process design and evaluation:* The CPISS must ensure adequate, safe and reliable management of social security rights and it must ensure equal treatment and well-documented case-handling. Hence, the board of directors must ensure that clear written instructions are issued on all case handling activities and it must ensure that business processes are adequately designed, monitored and reported upon.
- *Compliance and control:* The CPISS shall handle the social rights of millions of South Africans and its decisions allocate large sums of money and there is a potential for benefit fraud as well as internal wrongdoing. Part of this risk is amplified by geographical distribution of the operation. Hence, the board of directors must define a clear risk policy and risk management policy allowing the organisation to identify, measure, monitor and manage relevant risks and ensure that the framework is reviewed at regular (short) intervals.
- *Internal auditing:* The CPISS will need an internal auditing team referring directly to the board of directors and authorized to plan and prioritize its own work and to investigate any business aspect at any particular location on its own accord.
- *Accounting and auditing:* The CPISS being a sizeable entity needs to ensure good governance and transparency. Thus, it should be required to issue annual accounts and it should be required to undergo external auditing – possibly by the Auditor General.
- *Data and information:* The MSSR will hold substantial data on social security. This data is a significant resource. As such it is essential for policy formation and evaluation, for the individual social security funds, social security policy more broadly, for policy research as well as the general public. The CPISS must liaise with Statistics South Africa and ensure adequate data and open data access for research.

International peer examples can inform the development of the CPISS. Among other Annex C provides a brief description of the Australian Department of Human Services (DHS) and the Danish Udbetaling Danmark (UDK):

- The DHS provides operational services to six different independent social security funds based on service level agreements.

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- The UDK is a national social security delivery platform operated by the national pension fund ATP. UDK manages for a wide range of social security schemes previously handled by its 98 municipalities.

5. A common social security governance framework

In their current format, social security funds are diverse and often they do not meet standards for good governance. This section identifies the formation of a common governance standard to be applied by all social security funds as a key prerequisite for the success of a comprehensive social security reform. Referring to international experiences and standards, this section sets out key design requirements for such a framework.

Key observations in this section

- Social security funds are delivery organizations.
- Social security governance must be based on an adequate and clear separation of powers and distribution of responsibilities.
- Governance should be strengthened through the adoption of a common governance model for all social security funds.
- A social security board of directors have managerial responsibility – i.e. it is not an advisory council.
- Boards members are individually and collectively responsible for all aspects of the operation of the fund.
- The prerogative to nominate and to appoint board members should be separated.
- Policy makers cannot interfere in the management of funds or in the responsibilities of their boards.
- The Board of Directors hires – and fires – the manager of the fund.
- Fit and proper requirements and conflicts of interest regulations apply to all board members.
- Board members must always pursue the better interest of the fund and its members regardless of the views of the nominating constituency.
- A strong and appropriate whistle-blower scheme with adequate protection of the individual must be provided.

The governance structures of the existing social security funds are diverse and often they do not meet standards for good governance. Therefore, a previous analysis proposed the adoption of a common governance framework and standard for all social security funds (IDTT, 2009). There is no indication that governance structures have changed and improved in recent years. Hence, the need for stronger and more adequate governance structures persists and the proposal remains valid.

The proposal for a common governance framework and standard for all social security funds outlined below differs slightly from the 2009 proposal. Hence, it puts greater emphasis on the own technical competence of the board, it underlines the fact that all board members must be both fit and proper and have the time and resources to undertake the duties of a board-member. Further, it underlines, that while the individual board member may be nominated by a particular stakeholder constituency, the board-member is not as such a representative of that constituency – i.e. once on the board, the obligation of the board-member is to focus on the best interest of the fund and its participants regardless of the views held by the nominating constituency. Figure 4 below summarises key aspects of the proposed common governance model to be applied in all social security funds with further detail provided in the following subsections.

5.1. Adequate separation of powers and responsibilities

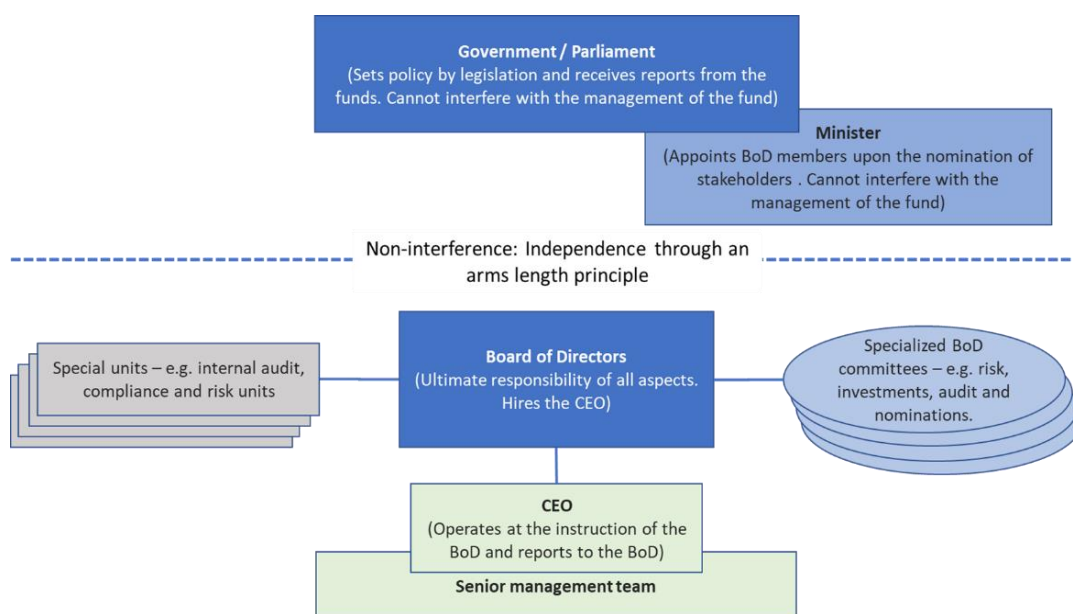
The arms-length principle is fundamental to good governance in social security. This aspect is already discussed in section 3 above describing the separation of powers and the distribution of responsibilities between policy makers, the board of directors for the

individual social security fund and its senior management. The key points can be summarized as follows and they are further illustrated in figure 4:

- Policymakers can raise policy-discussions and propose policy changes, but they cannot interfere in the day-to-day operation of individual social security funds other than through change of law.
- The board of directors of a given fund has ultimate responsibility for the management of the fund, and it must ensure its ability to always undertake its responsibilities as defined by law and they are accountable to this effect.
- The management team of a given fund executes the policies as set out by the board of directors and it operates the fund according to law and board instructions and ensures adequate documentation.

These points reflect internationally agreed standards and best practice. As such they are based on institutional experiences from around the world, and in that sense, they reflect a set of evidenced principles. It should be noted however, that principles cannot be better than their implementation and enforcement. Disappointing experiences exist in many countries – including South Africa. However, as a general rule disappointing results reflect poor implementation and enforcement of the principles rather than shortcomings as regards the principles as such.

Figure 4. Key elements of a common governance model for all social security funds



International peer examples can inform the development of a common social security governance framework. While the country examples in Annexes B and D do not always necessarily apply a common governance framework to their social security funds, they underline the importance of good governance and legal frameworks supporting good governance, an effective arms-length principle and transparency.

In the same vein, the best practise standards and recommendations set out by international organisations – the ISSA in particular – can inform the process. Annex A summarises recommendations related to governance in relation to social security as well as good governance more broadly. These standards all stress the arms-length principle, clear divisions of responsibilities, transparency and accountability as the key foundations of good governance, and they set out organisational principles and conduct standards in its support.

5.2. The board of directors – its responsibilities and its work

Public social security funds should have a board of directors assuming ultimate responsibility for the fund and its management. Hence, a social security board of directors has managerial responsibility – i.e. it is not an advisory council. This means that while the board can call on external advice or decide to outsource particular activities, it cannot allocate the responsibility. In fact, the board and the individual board members assume their responsibilities and perform their duties under punishment liability.

It follows that the board of directors should have the power – and the obligation – to make all relevant management decisions regarding the fund. Consequently, the board of directors should have the following powers and obligations (the list is not exhaustive):⁹

- develop, implement and oversee an overall business plan and strategy;
- appoint and remove the chief executive officer (CEO);
- set out clear written instructions for the CEO;
- develop and monitor a performance contract of the CEO;
- define and frame by way of written policies and instructions the role of the CEO, risk-management and supervision of business conduct;
- ensure that the fund is always adequately organized and equipped to undertake its responsibilities and conduct its business;
- set out – and review on an ongoing basis – policies on all relevant business aspects. These include – but are not restricted to – management policy, investment policy, risk policy, risk management, financial policy, procurement policy, ITC policy, service contract with the CPISS, audit policy and reporting policy;
- ensure that the risk management framework enables the fund to identify, measure, monitor and manage relevant risks and that the framework is reviewed at regular (short) intervals;
- approve strategic decisions made by the organization and not falling within the remit of the instructions for the CEO;
- Approve the annual budget;
- review and approve quarterly and annual financial reports;
- design internal reporting requirements for the CEO as regards business conduct, investments, risks, performance and impact;
- review internal reports at regular (short) intervals and take relevant management steps based on the information provided;
- conduct and disclose an annual board self-assessment and evaluation against fit and proper requirements and conflicts of interest regulations.

⁹ The list is inspired by a similar list from the 2010 proposal. However, there are significant differences as the oversight responsibilities of the board of directors are strengthened.

The board of directors should be able to call on external advice. Such can be relevant as a standard element if a particular expertise is not adequately represented on the board or as an ad hoc service in relation to particular decisions. However, the general rule should be that the board has the relevant expertise internally, and that it is able to take the lead in all considerations even when external advice is called upon.

The board of directors should be required to form committees focusing on particular issues. This is to ensure adequate focus on key business issues. The number of committees and their focus may differ from fund to fund. Standard committees should be audit committee, risk committee, investment committee, remuneration and nominations committee and management committee. A committee is a support function – it does not transfer responsibility from the board, and committees cannot make decisions.

Committees serve to prepare matters for the consideration of the board. An important aspect of the work of committees extends to ensuring adequate checks and balances on the powers of the board of directors. These aspects should be given priority when appointing committee members. It is essential that the committee actually has the expertise needed to address the areas under its remit and that the committees are free of conflicts of interests – hence for example it is not suitable to allow the chairman of the board to be on the audit committee. The formation of committees provides an opportunity for the fund to maximise its benefit from the experience and expertise represented on its board of directors.

The board is a collective – it is not a representation of factions, and hence should act as one. While it may be necessary – presumably on very rare occasions – to put decisions to a vote, the board can only make decisions as a collective. Hence, individual board members are equal in their responsibility for board decisions and management regardless of their individual position on particular matters.

The chair facilitates the deliberations of the board. This means that the chair plans and leads meetings, ensures that meeting activity is sufficient, ensures that the work of the board of directors is adequately focussed on the key strategic issues and challenges, ensures that relevant information is provided, that the foundations for decision making are adequate, that deliberations adequately cover the issues and the options and that the board overall meets its responsibilities in a systematic manner. The chair should have the deciding vote in the board when necessary. However, if board deliberations are facilitated adequately, putting decisions to the vote should be the exception rather than the rule.

5.3. The nomination and appointment of board members

The prerogative to nominate and the prerogative to appoint board members should be separated. This is important to protect the integrity of the board of directors and avoid politicization of its work. Key stakeholders such as the social partners and civil society, to mention but a few, can be given the prerogative to nominate board members with a few qualifications underlined:

- Stakeholder appointees does not have to be stakeholder representatives – they can be e.g. experts trusted by the nominating stakeholder.
- Even a stakeholder appointed board member has the obligation to focus on the best interest of the fund and its participants regardless of the views held by the nominating constituency.
- Even stakeholder-appointed board members must be fit and proper (see also section 6.8–9 below).

The nominations should be assessed by the boards' remuneration and nominations committee. This committee will assess the nominations against relevant criteria – individual, as well as collective fit and proper requirements, overall skill set and possibly other considerations such as gender equality – and establish a nominations proposal to be presented to the board.

If approved, the board will forward its proposal to the relevant minister and invite the minister to make the proposed appointments. The minister can seek the advice of the relevant supervisory authority – presumably the FSCA. If the nominations are turned down the reasons for this should be explained and in writing and the matter should be returned to the board for renewed consideration and consultation following the same procedure as outlined above.

Board members and senior managers undertake their responsibility under punishment liability. This means that an individual can each be held accountable in case of for example – but not only – failure meet obligations set out in law, disclosure of incorrect information and negligence incurring losses for the NSSF. Penal regulations in social security law may be superseded by provisions in other law.

5.4. Board tenure and board size

The tenure of board members should balance continuity concerns against the need for renewal. Hence, the tenure should be long enough for board members to really learn “the trade” and for the board to benefit from this effort. Hence, a tenure of 4 years, for example, could be considered. In order to ensure continuity board appointments should be staggered – e.g. combining a 4-year tenure with a practice where at least one-quarter ($\frac{1}{4}$) of all board seats are up for appointment each year. Continuity concerns speak in favour of allowing reappointment, while renewal concerns speak strongly in favour of limiting the number of allowed reappointments.

Board composition and size considerations come with dilemmas. On the one hand stakeholder representation on the board of directors may be considered important. This consideration may not only be based on political considerations but also on acknowledgement of the importance of political competences and representation of key social interests in the management of the fund. On the other hand, the management of a social security fund is a complex and demanding undertaking, and it cannot be done safely and satisfactorily without strong and focussed representation of key professional insight and experience on the board.

An option is to seek “the best of both worlds”. A solution to this effect is to stipulate that the nominations and appointment process should consider the board as a whole as much as the individual candidate. Hence, some board members – but not all – can be lay persons while others must have a relevant professional background. In such a framework, proposed candidates can be rejected based on consideration as to the effectiveness and competence of the board as a whole. Assessing these issues is a key responsibility for the remuneration and nominations committee. The assessment that this requirement is not adequately met can be one of very few reasons for the minister to reject a nomination proposed by the board of directors.

There is no golden rule as regards the size of the board. A small board may be easier to convene but it may also be vulnerable as it may have difficulty to adequately cover its entire span of responsibilities and it may increase the risk of malpractice. A larger board may have better possibilities to adequately cover responsibilities and competence requirements while it may be more difficult to convene, and political factions may form. Looking to international

examples – see Annexes B and D – a total number of board members (excl. the chairman) of 8-12 could be considered.

International peer examples can inform the South African deliberations. Particularly interesting examples may be that of the Canadian CPP-IB and the Danish ATP. Situated in their particular historic and political contexts both countries establish a clear arms-length principle and they separate the nomination and appointment prerogatives. ATP has a board of 13 while CPP-IB has a board of 11 (both including the chairman). The ATP applies a double management structure with a separate board of representatives. The board of representatives first and foremost serves to broaden stakeholder insight with the ATP.

5.5. Removal of board members – and of the entire board if need be

A situation where the integrity and credibility of an individual board member is compromised can arise. For example, board members can act criminally, fail to meet responsibilities, fail to comply with set-out criteria or in other ways fall out of line with standards related to the position of a board member. If this happens the position of a board member can be terminated before time.

The power to terminate an individual board member should be in the hands of the board itself. The decision to do so must be supported by a majority in the board including the chairman. The decision to terminate a board member must be motivated and documented in writing and the decision and the documentation must be submitted to the Minister and to the Supervisor for orientation. The Minister cannot terminate an individual board member on his/her own accord, encourage the board to do so or reject a decision by the board to do so.

If a board member is terminated, a replacement must be nominated and appointed following the standard rules. The duration of the replacement is for the remaining duration of the terminated board member. Service as a replacement board member may be left out when assessing eligibility for reappointment.

A situation where the integrity and credibility of the entire board is compromised can arise. Such a situation will typically involve one or another form of institution capture, breach of conflicts of interest rules, fraud or other criminal acts. The Minister has the opportunity to propose the removal of the entire board. The removal of the entire board should be motivated and documented in writing and require the assessment of the supervisor. Further, it should require confirmation by a third party – e.g. the President or the relevant Cabinet Minister.

5.6. The Chairman of the Board of Directors

The board chairman is a key sparring partner for the Chief Executive Officer (CEO). Hence, the personal skill, substance insight and experience and personal integrity of the chairman is essential. Further, social security administration should not be politicized and therefore, it is essential to ensure non-affiliation with particular political or other interests.

The appointment process for the chairman of the board should reflect these concerns. One particularly interesting option is to follow the example of the Danish ATP (see Annex B) and put the prerogative to nominate the chairman in the hands of the board itself and let the minister appoint on the basis of the boards' nomination. The requirement should then be that the chairman cannot be nominated from among the board members, that the nominated candidate must be free of any conflict of interest and meet fit and proper requirements, meet the required skill set and experience requirements and that the candidate

cannot be affiliated with any stakeholder or particular political or financial interests. This model can ensure that the nominated chairman enjoys the necessary support from all board members and their constituencies. Another option is to follow the example of the Canadian CPP-IB and appoint the chairman from among the board members based on extensive consultations.

5.7. Removing the chairman of the board

The power to terminate the chairman of the board should be in the hands of the board itself. The decision to do so must be supported by a majority in the board. The decision to terminate the chairman of the board must be motivated and documented in writing and the decision and the documentation must be submitted to the Minister and to the Supervisor. The Minister cannot terminate the chairman of the board on his/her own accord, encourage the board to do so or reject a decision by the board to do so.

5.8. The Chief Executive Officer

The board of directors appoint and hire the Chief Executive Officer (CEO). The CEO should be selected and appointed based on relevant criteria related to personal skills, professional skills, professional experience and integrity. The remunerations and appointment committee will undertake the necessary groundwork and propose candidates to the board of directors. In doing so the committee can seek the assistance of the relevant supervisor – presumably the FSCA – on issues related to professional background and fit and proper requirements. The board of directors can reject the nomination, in which case the matter will revert to the nominations committee for renewed consideration. The CEO should preferably be employed on a fixed term contract in order to ensure renewal. The duration of the contract can be up to e.g. five years, with the possibility to renew the contract as the board of directors sees fit.

The board of directors can remove the CEO. This can happen during the contract period if the CEO fails to follow the instructions set out by the board of directors or if the terms of the contract have been breached, if performance is deemed unsatisfactory or if the boards' confidence in the CEO is lost. A majority in the board of directors including the chairman of the board can decide to remove the CEO.

The relationship between the CEO and the board of directors is key. The CEO will lead the day-to-day business of the fund and be entirely focussed on that job. The board of directors assume overall responsibility for the organisation, and they set out the strategic objectives, the business framework and the directions for the CEO. However, board members will only work part time on their responsibility, and they will not benefit from day-to-day insight. Therefore, they will to a large extent rely on the cooperation and the support of the CEO and the senior management team in undertaking their responsibility. Therefore, the relationship between the board and the CEO becomes essential and instructions, reporting structures and business orders become key tools to ensure the ability of the board to undertake its responsibility and control principal-agent issues appropriately.

5.9. Fit and proper requirements

Fit and proper requirements are essential to ensuring adequate management, trust and credibility. Being fit means that the board members individually are able – by their expertise and experience – to undertake the responsibility of a board member and to contribute in a meaningful manner to the work and capacity of the board as a whole. Being proper means that each individual should have the required integrity and standing to be suitable for board

responsibility and authority. It follows that the position of board member or as chairman of the board cannot be given by virtue of position, political affiliation or other.

The fit and proper rules should be rather detailed, the general framework should be set out in law and the detailed rules should be under constant review. The legislation should allow the supervisor to issue more detailed rules and require the supervisor to maintain oversight over the rules, assess their effectiveness and address the issues as they may evolve. Presumably FSCA is the relevant supervisory authority and the fit and proper rules applied to public social security funds should by and large be identical to the rules applied to financial institutions. The rules should apply to board members, the chairman of the board, the CEO and all other members of the senior management, all staff referring directly to the board and all staff with responsibilities where failure to comply can expose the fund to significant risk.

As is the case in relation to conflicts of interest rules, fit and proper assessments are first and foremost based on information provided by the individual. Again, the individual covered by these rules must be required to submit all relevant documentation and to inform adequately on all relevant matters and inform on any changes to such matters as it may occur during the service tenure. Once more – in view of the fundamental importance of this aspect – the individual should be subject to punishment liability. In order to emphasize the importance of this aspect and incentivize compliance, consequences for the individual in case of breach should be significant. Failure to honour these requirements could for example lead to the individual being barred from undertaking any board position or senior management position for a period of at least e.g. five years.

The general fit requirement is that the individual must have adequate experience and competence to undertake his/her position. Too stringent rules in this respect may be prohibitively difficult to meet for some constituencies. In order to address this barrier board education efforts should be provided, and board membership may be dependent on completion of such education in a relatively narrow timespan, and further education may be offered. While such rules may seem harsh, it should be noted, that while such education efforts can barely provide more than basic insight into the subject matter, they will be essential for some board members to meet the fit requirement. Also, it should be noted, that the acquired insight will help the individual substantially in undertaking the responsibility of a board member, assist the board member in contributing meaningfully to the work of the board, and that the acquired competence can be relevant to the individual outside the narrow context of the board in question.

Allowing lay members on the board is important, but this concern should be balanced against the professional needs of the board and the fund. When considering the board as a whole it should be stipulated, that a significant part of the membership – e.g. at least half – must have a relevant professional training and background in e.g. finance, law, accounting, actuarial science or senior management. Again, while stakeholders may be given the prerogative to nominate board members, they should be invited to not automatically appoint own representatives. Alternatively, they can consider mixing lay members with professionals whom they trust.

Time and commitment are important aspects of the fit requirement. Boards of directors have important and significant responsibilities, and all board members must commit to undertake this effort and invest time and resources accordingly. Board members are required to participate in all meetings – meaning e.g. that absence from e.g. more than 2 meetings in a row and more than 2 meetings in a rolling year should lead to revocation of the appointment. The time and commitment aspect should be considered as a standard element in the nominations process. To put it crudely, an individual who serves on a high number of other boards – possibly alongside maintaining a senior business or social partner position –

may very well be proper, but if the person does not have the time necessary to assume the responsibility of a board member, he or she is hardly fit.

The general proper requirement is that the individual must have demonstrated integrity commensurate with the responsibility of the position in question. Hence, standard rules focus on the individuals' criminal record, convictions in general and offences of dishonesty, fraud, financial crime under business law, money laundering, market manipulation or insider trading in particular. Rules will also cover aspects of business involvement and business behaviour and it will consider e.g. involvement in businesses subject to investigation. While rules should be quite detailed, they should also provide the necessary powers to the supervisor to ensure that regulation remain effective and address the issues as they may evolve as markets and practices develop and change. Financial sector regulation and fit and proper regulation in other countries – particularly European law – as it has developed in recent years may serve as relevant benchmarks.

The effect of rules depends on their implementation. The current practice in the financial industry in South Africa is that it is up to the institutions to observe the rules. Fit and proper assessments are not verified by the FSCA, while FSCA can raise concerns. Given the nature and importance of this issue in relation to public social security funds and to strengthen integrity and credibility a more rigorous approach should be considered – at least for a number of years forward.

A key aspect of a more rigorous approach is to require the fit and proper assessment to be documented. As a standard, the fit and proper assessment should be conducted by the remuneration and nominations committee. In order to do this well a detailed process template for the assessment and the information to be collected and considered should be developed. Further the assessment should be documented, and the report and its results should be shared with the supervisor. If deemed necessary, the board of directors should be able to call upon the advice and assistance of the supervisor.

The supervisor is an important source for the fit and proper assessment. The supervisor should be required to maintain a register of all individuals in – or having undertaken – management or board positions in the financial sector or in a public social security institution. This register should hold information on the board career of the individual and any issue that might affect a fit and proper assessment. The supervisor should check nominees with the register, and it should bring any relevant information it may have to the attention of the remuneration and nominations committee. Taking this procedure, a step further, a financial sector and public social security fund sector passport could be developed.

Strong fit and proper requirements are essential to good governance. Looking to international standards as described in Annex A, such requirements are emphasized by the ISSA and the OECD in particular. Such requirements are stipulated in the laws covering the peer examples described in Annex B, and similar criteria are also stipulated in most of the examples described in Annex D.

5.10. Conflicts of interest

All senior officials must be free of any conflict of interests. The objective is to ensure that no senior official or key staff member is permitted to benefit – directly or indirectly – from any decision made by the organization or any information acquired in the line of service. Rules to this effect should cover all board members, the chairman of the board, all senior management team members, all staff referring directly to the board and all other staff for whom the risk of conflicts of interest is considered significant. The individual covered by these rules should be required to submit all relevant documentation and to inform

adequately on all relevant matters and inform on any changes to such matters as it may occur during the service tenure.

In view of the fundamental importance of this aspect the individual should be subject to punishment liability. Further, to emphasize the importance of this aspect and incentivize compliance consequences for the individual in case of breach should be significant. For example, failure to honour these requirements could lead to the individual being barred from undertaking any board position or senior management position for a period of e.g. 5 years.

Material conflicts of interest include – but are not limited to – the following: ¹⁰

- Financial and professional interests of any nature – whether direct or indirect – which may influence the objectivity of decisions made. This includes interests held by spouses, registered partners and common law partners, children and parents.
- Party political affiliations. This would apply to any person who holds some official position in a political party, and it includes – as a minimum – spouses, registered partners and common law partners.

The legislation should authorize – and require – the supervisor to set and issue detailed regulation to this effect. These rules should be in line with international standards and they should be informed by local experience relevant to the issue. The board of directors in turn should be required to set detailed regulations as regards conflicts of interests related to non-senior management staff. Also, the external auditor should be required to audit and assess the adequacy of regulations.

Strong conflicts of interest requirements are essential to good governance. Looking to international standards as described in Annex A, such requirements are emphasized by the ISSA and the OECD in particular. Such requirements are stipulated in the laws covering the peer examples described in Annex B, and similar criteria are also stipulated in most of the examples described in Annex D.

5.11. Ensuring adequate oversight and strategic outlook

Reporting is essential for the board of directors' ability to undertake its responsibility. Day-to-day management is in the hands of the CEO and the management team, and the board of directors will be strongly dependent of the management team and on information and input flowing from the management team. In order to ensure prudence in this relationship and in order to minimize the need for external advisors the board should develop a strong and timely internal reporting framework illuminating all relevant aspects of the business on an ongoing basis. Timely and frequent standardized reports from management and separate units on investments, risk, compliance, internal audit, performance and delivery are essential components. As part of this framework even standard reports from the board chairman and permanent board committees are required. The standardized and systematic character of these elements are crucial to ensuring that board members can take a managerial approach and focus on performance, development and strategy.

A strong board business order is essential to systematize board work and ensure that it is safe in managing its responsibility. The chairman of the board facilitates board meetings and board work. In doing so a key objective is to ensure that the board can actually undertake its responsibility, remain safely assured of its ability to do so and allow it to focus on and

¹⁰ Conflicts of interest regulation has developed significantly in recent years. Examples to consider could include.

take a lead on strategic issues. In order to do so, it should be required to define a working order ensuring that the board is adequately informed and that board discussions are adequately prepared and balanced. In addition, the number of board meetings and the duration of the individual board meeting should adequately facilitate good board work and timely deliberations.

5.12. Whistle-blower protection scheme

Individual staff may witness actions violating regulation and/or the fiduciary responsibility of the fund or being deemed illegal or unethical. Individuals can bring such information to the attention internally in the fund or externally. However, looking to the amassed experience in South Africa and elsewhere individuals who do so risk reprisals and retaliation – often individuals lose their jobs and face difficulties in their future careers. Many countries have adopted laws to protect whistle-blowers, but the success is limited and often whistle-blowers are faced with criminal charges over e.g. breach of confidentiality and disloyalty.

Learning from this imperfect experience, a strong whistle-blower protection scheme is needed. Among other things, the program must protect individuals who report evidence from direct or indirect retaliation. It should protect the individual from criminal prosecution and corporate lawsuits over damages resulting from their whistleblowing. While the world may not be rich in good and successful examples in this field, the EU Whistleblower Directive adopted in May 2019 is often referred to as a current best practice example. Among other things, the EU directive ensures the whistle blowers' right to independent and free legal advice, assistance in facing harassment at the workplace, job security and legal protection in the event of transgression of confidentiality clauses.

6. Aspects particular to the NSSF governance

The NSSF is a social security fund like any other, but due to its character and expected financial size some governance aspects are particularly important in the context of the NSSF. This section identifies and discusses these aspects:

Key observations in this section

- Some requirements will be particular to the NSSF as it will eventually become a very large financial institution.
- The investment mandates for the NSSF and NSSF-Default are different.
- The Board of Directors must set out – among other things – a written investment strategy and a written risk management strategy and ensure adequate monitoring of activities and results.
- As the NSSF grows and builds expertise, it should be able to develop e.g. by insourcing more activities and by diversifying into new asset classes.
- Transparency and accountability must be supported by strong independent specialized units – an actuarial unit, internal auditing, risk and compliance.

The NSSF will be one among several social security funds. The approach outlined above advocates a common governance structure for all social security funds. Hence, the general framework and principles will be the same for all funds with variations solely related to the specificities of the actual business.

The NSSF stands out some several aspects. Firstly, the NSSF can – in the longer term – become a very sizeable fund, and by its assets under management it can become one of the most significant investment funds in Africa. Secondly, it will have two very different investment mandates under management and the investment performance will have direct impact on welfare in old age for the participants. Thirdly, some board responsibilities may be particularly important and demanding in the context of the NSSF. Overall, these aspects have implications for the configuration of board responsibilities, the organization of board deliberations and for the NSSF organization as such.

6.1. Two investment mandates: NSSF and NSSF-Default

The investment mandates of the NSSF and the NSSF-Default are very different. It follows that the two funds must follow separate investment strategies, be kept financially separate and be reported upon separately.

The NSSF is a buffer fund for the NSSF – i.e. it is to support the financing of the NSSF while the NSSF is not expected to be fully funded. The exact character of the investment mandate for the NSSF depends on the design of the NSSF – the details of which are currently being detailed under another project. The decisive point is if and how investment performance affects pension rights.

Two opposite extremes as regards the relationship between fund performance and benefits may be considered. Under the first extreme the state underwrites pension promises and their future indexation in full and hence fund performance and pension results are decoupled. In this case the fund becomes a sovereign wealth fund rather than a pension fund as such. Under the second extreme, the fund is subject to clearly defined funding requirements and it is equipped with automatic stabilizers related to e.g. longevity development, total wage sum, interest rate and funding. In this case, the fund is closely linked

to the pension scheme as a buffer fund, and its performance will have direct benefit implications.

The NSSF investment mandate must reflect the relationship between fund performance and benefits. This relationship will emerge in due course from the exact design of the NSSF and its funding policy. On the one hand, the NSSF will be designed to share longevity risk and support social solidarity. On the other hand, it must also be designed with the view of ensuring long term sustainability and ensure intergenerational equity.

The NSSF-Default is different. Being a DC-arrangement, all risk is with the individual and hence, a key responsibility of the NSSF and its board is to design and manage the NSSF-Default in such a way that this risk is controlled and addressed in a systematic way on the individuals' behalf. The design aspects related to this effort concerns both the savings and the pay-out phase and the transition between the two. All three aspects of NSSF-Default design need to be considered:

- The savings phase leaves all market and investment risk to the individual. However, the individuals' risk appetite will vary over time and require a still greater focus on lower risk and stable returns as the individuals approaches retirement and during retirement.
- The pay-out phase exposes the individual to significant interest rate risk as annuities are generally based on a safe long-term interest rate. The lower the long-term interest rate, the higher the capital requirement for a given stream of income.
- The transition incurs risk related to the way in which the two phases are bridged. Absolute separation will increase the risks just mentioned and reduce the ability to take investment risk after retirement even though expected retirement duration may be 20 years or more. Other designs can amend this at the cost of somewhat higher individual risk after retirement.

The NSSF-Default must be designed and managed with the best interest of the fund and of its individual participants at heart. There can be no other competing objective, since the savings are personal and since all risk are with the individual. This aspect has significant implications for the management of the fund, and it will be a separate aspect in NSSF reporting. The design of the NSSF and of the NSSF-default are the themes of separate projects under the DSD/ILO cooperation.

The implication is that the fiduciary responsibility related to the two mandates differ. As regards the NSSF, the fiduciary responsibility is towards broader and generalized participants' interests and/or the state, and the framework guiding the investment strategy may be relatively broad – e.g. allowing return fluctuations to be levelled out over time. As regards the NSSF-Default, the board will answer not only to generalized participants' interests but also to the best interest of the individual participant, and the investment strategy must be organized accordingly. Consequently – as already stated – the two mandates must follow different investment policies and strategies and they must be accounted for and reported upon separately.

6.2. Investments: universe, regulations and practise

The investment universe of the NSSF must be defined positively by law. This means that the asset classes and the types of investments open to the NSSF must be specified directly in law – with the prerogative of the supervisor to provide detailed interpretative regulation. It should be noted, that capital markets change and that the investment needs and

capacity of the NSSF will change over time. Therefore, it is essential that the investment rules are reviewed and up-dated as required.

The initial NSSF investment universe should focus on well-regulated and transparent markets. Hence, it is obvious to focus on listed assets and assets with an acknowledged and high rating – e.g. listed equities and rated fixed income assets publicly traded at a rated stock exchange – and restrict the use of external mandates to managers under supervision – e.g. UCITS funds and licenced and supervised investment managers.

In the longer term the investment universe may be expanded. This should happen as NSSF builds scale and expertise and demonstrates competence and diligence. Looking to experiences from other countries and from the global pension funds industry, areas to consider include more risky assets such as real estate, private equity, infrastructure, alternative investments, derivatives intended for hedging purposes and public private partnerships.

Looking to the actual investment strategy, the law should define maximum limits for each allowed asset class in order to support balanced risk-taking. These rules should also consider aspects such as concentration risk, single issuer risk and currency risk. The law should not stipulate particular investments or set minimum limits for particular exposures. In the longer term it may be relevant to follow the current trend of mature pension and capital markets and consider shifting to a risk-based framework and prudent man rules. The legislation should stipulate a risk/return balanced investment approach directed by the objective of the fund.

The investment practise will – and should be allowed to – change over time. In the initial phase NSSF will have little choice but to base its asset management on external mandates. However, as the fund grows and matures and as NSSF builds internal capacity it may – and probably will – be relevant to insource still larger fractions of the asset management operation. As this happens the use of external mandates is likely to concentrate increasingly on specialized mandates and alternative assets only – e.g. investments in private equity and infrastructure. The law should leave decisions related to the formatting of the investment business to the board of directors.

International peer examples can inform this discussion. A general trend in countries with a strong and well-developed private pension sector is a move towards a risk-based approach where the traditional delineation of the investment universe as well as the design of the investment strategy are replaced by a prudent person approach. The legislation and regulation behind the institutions summarized in Annex B share this trend. A prudent person approach may be considered for NSSF in the longer term.

6.3. Investment policy

The board of directors must design an investment policy for each NSSF arrangement based on the investment rules discussed above. The legislation should stipulate a risk/return balanced approach directed by the fund objective. Within this framework it will fall on the board to develop a strategy aligned with the objective of the particular fund, the better interest of the individual participants and participants in general, well aligned with its capacity and adequately considering risk aspects.

The investment strategy must be translated into written instructions and frameworks, and the policy must specify how risk/return performance is reported upon and documented and how the policy is evaluated.

6.4. Risk management

The board of directors must ensure that all relevant risks are identified, measured, managed and reported upon. In order to do so, an adequate risk management function must be formed. While, the risk management function must be independent of the investment function, the work of the risk management function should feed into the investment policy. This can be done e.g. by defining a measurable framework for the types and levels of risks that the NSSF can take. In this context the risk management unit should develop and maintain the measuring and monitoring framework necessary for risk management to feed into and inform the investment policy.

The risk management function should be independent, and it should report directly – and at short intervals – to the board of directors. This is an essential prerequisite allowing the board to manage its responsibility. In order to do so, the risk management must develop a risk matrix defining and categorizing risks and it must develop an adequate – yet simple – standard risk reporting framework and it must ensure timely availability of all relevant data.

6.5. Risk policy

The board of directors must design a risk policy back to back with its investment policy. The risk policy must be translated into written instructions and frameworks, and the policy must specify how the investment should respond to observed changes in relevant risk patterns. Hence, the risk policy must be designed in such a way that it can inform the investment strategy and investment management and facilitate adequate and timely response to market changes.

6.6. Insurance plan and actuarial evaluation

The NSSF will accrue liabilities, and it will be the keeper of social insurance rights on behalf of its participants. NSSF must be designed to remain financially sustainability in the longer term – if it is not it will accrue increasing liabilities for the state and for younger generations, it will spur intergenerational conflict and it will undermine public trust in the system.

In order to counter these challenges, the NSSF must be based on a clearly defined insurance plan. Hence, the NSSF must be designed and regulated to meet the sustainability requirement and remain sustainable. This aspect is the theme of a different project under the DSD/ILO collaborative agreement.

Also, the NSSF must undergo current actuarial evaluation at regular (short) intervals and this evaluation must be presented to the board of directors as well as the supervisor. NSSF is a public insurance institution. Therefore, the NSSF should be required to have an independent actuarial function with the responsibility to draft and evaluate the insurance plan and its funding, conduct actuarial evaluations of the scheme and to present assessments of scheme sustainability and advise to the board of directors. This responsibility must be assumed by a qualified actuary.

The actuarial function should be independent. This means that the actuarial function must report directly to the board rather than management, and it means that it has the right and the obligation to report directly to the supervisor if considered relevant.

The Board of Director must consider the advice presented by the actuarial function. If the board decides not to follow this advice, it should immediately report this decision in writing to the regulator. The decision should be accompanied by a detailed explanation of

the motives behind this decision and clear indications of how the NSSF will address the consequences of this decision. The regulator should have the power to call on the NSSF to reconsider its decision if it goes beyond the legal mandate, jeopardizes intergenerational equity and/or jeopardizes long term sustainability.

6.7. Other specialized functions

The NSSF – and other social security funds – should be required to form particular units. The reason for this is to ensure prudent management in general and adequate risk management in particular. The risk management function mentioned above is particularly important. Other functions will be an independent internal auditing function and an independent compliance function responsible for monitoring compliance with defined policies, issued board instructions and law. Specialized functions such as the internal auditor and the risk officer should ultimately report to the board of directors.

7. Complaints resolution and supervision

The comprehensive social security proposal includes the proposal to strengthen the protection of participants' interests and rights. Hence, the formation of a new independent Social Security Tribunal (SST) to deal with disputes and appeals is proposed along-side initiatives to strengthen the supervision of social security funds. This section discusses these two aspects.

Key observations in this section:

- A common and independent Social Security Tribunal (SST) – an independent complaints and appeals board – may be created as proposed by the IDTT.
- A five-step process should be applied in order to solve trivial matters outside the SST and only bring principled matters to the SST.
- The IDTT proposed the formation of a separate Social Security Supervisory Authority (SSSA).
- However, rather than building a full separate supervisory framework, social security supervision can be undertaken through exiting institutions.
- Under such a framework, financial aspects would be supervised by the FSCA while social security aspects would be supervised by a separate entity – e.g. a unit under the Auditor General.

Social security play important roles in most peoples' lives, and hence trust and credibility is essential. Trust and credibility are supported by the assurance that individuals can have their cases retried if they are not convinced that claims are handled adequately and fairly, and by competent and adequate supervision of social security.

7.1. Appeals and complaints resolution

Social security decisions can have far reaching consequences for the individual. Therefore, the ability to file complaints and raise disputes concerning such decisions is an important aspect of good social security governance. Such an arrangement must be managed by an independent institution with the necessary powers to perform its duties. This requirement is among other spelled out in e.g. the ISSA guidelines included in Annex A, and it is an integral part of the peer examples described in Annexes B and C.

Currently, different types of such appeals options exist in the existing social security framework. The IDTT proposes the formation of a new Social Security Tribunal to deal with disputes and appeals. Presumably, this tribunal would then cover all social security programs and create a one-stop shop framework in this field (IDTT, 2009; and DSD, 2018).

Consideration of complaints and appeals by the SST should remain steps of last resort. Complaints and appeals can be raised by the individual insured or by his/her beneficiaries or by an employer. However, appeals and dispute procedures are typically very costly and therefore a balanced approach is required. Generally, complaints and appeals handling should follow a five-step approach:

1. A complaint can be directed to the CPISS or the social security fund in question for consideration and review. The social security fund will issue a first review decision.
2. If the individual disagrees with this first review decision – the case can be presented to the independent SST.

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3. Cases that are brought to the attention of the tribunal must be vetted by the social security tribunal secretariat before presentation, and cases that are clearly trivial can be decided upon administratively.
 4. A summary of administrative decisions will be reviewed by the tribunal before execution.
 5. Cases that have a non-trivial material element will be prepared by the tribunal secretariat and considered by the tribunal. The decision of the tribunal should be binding.

Further steps can be taken to strengthen and simplify access. Particularly, the process should be structured such that cases can be raised and handled free of charge for the complainant and without the need for the complainant to give presence or seek external assistance.

The social security tribunal itself should be an independent entity with an own secretariat. The tribunal itself should combine legal and social security expertise with relevant thematic expertise – or the latter can be called upon when needed. The hearings of the tribunal should be planned and prepared by the secretariat in collaboration with the tribunal chairman.

7.2. Social security supervision

Strong supervision is important to ensuring good governance and compliance with legal obligations. The IDTT points to the need for a new regulatory framework to “ensure that the NSSF, social insurance funds and supplementary retirement arrangements comply with their legal obligations” (DSD 2018, p. 50). The underlying principle is that social security schemes must be rules based, that the management of the funds must be guided by clear principles and requirements and that the management and operation of the schemes and their funds must be accountable and subject to adequate auditing and supervision.

It is further argued, that the supervisory responsibility needs to be with a separate social security supervisory institution – the SSSA. Hence, it is argued that while the regulation of the mandatory NSSF will be influenced by the Twin Peaks Model applied to private financial sector regulation this regulatory framework “should take into account the special requirements of a fund that needs to achieve social protection goals such as risk-pooling, social solidarity and income cross-subsidization” (DSD, 2018, p. 50).

The NSSF is a contributory, rules-based social insurance scheme. The rules of the scheme will specify how rights are accrued and financed and it will set out any other requirement relevant to its workings. The rules of the scheme will also specify the ultimate responsibility of its board of directors, how the board should address the funding of the scheme and their obligation to address intergenerational equity concerns. The NSSF will be held accountable and be audited and supervised against these rules.

The need for a separate social security supervisory institution should be carefully considered. The reason for this is, that it increases institutional complexity, and that it creates risks of functional duplication and different treatment of otherwise similar risks. The alternative approach is to allocate supervisory responsibilities to existing bodies where possible and then consider methods to address remaining issues and needs.

On the social security side, the key requirement is to ensure that benefit programs etc. are managed according to law. The accrued rights of the individual participants must be honoured and respected – no more, no less – equal treatment must be ensured, and case

handling must be adequately documented and accounted for. This aspect points to particular program- and IT-auditing needs, local branch auditing needs and supervision needs.

On the financing side the key requirement is to ensure the financial health of the fund. As such, social security institutions must be supervised against their particular regulations on funding, asset allocation and management. While the rules may be different from e.g. the funding rules of a private pension fund, the supervisory techniques and powers necessary for its supervision are essentially the same.

Therefore, an alternative approach to social security supervision building on existing institutions may be considered. Under such an approach the supervision of financial aspects – i.e. investment, risk, risk management, market conduct and governance – would be allocated to the existing supervisory agency FSCA, while the supervision of case handling and program administration could be allocated to a special unit with for example the Auditor General. Regardless of the choice of supervisory model, it is critical to ensure, that the institution(s) have adequate resources and powers to undertake its responsibilities effectively.

If following this approach, the legislation must be clear in its allocation of responsibilities. Hence, the role of the financial supervision is to ensure that the NSSF stays within its legislation and other standards set out for its operation, while it is not as such to assess the social security policies pursued by the fund. One example as to how such an approach can be structured is that of the Danish national pension fund ATP. In its legislation financial supervision is allocated to the Danish Financial Supervisory Authority by specifying the sections to be supervised by the FSA.

If such an approach is adopted, it may incur new requirements for the FSCA. Firstly, the task will be rather broad as the approach should be applied to all social security funds and not only the NSSF. Secondly, the FSCA should ensure that it has the necessary skill set and insight related to social security financial supervision.

The NSSF-Default should be supervised along the standard framework for pension fund supervision. The NSSF-Default will be a financially separate DC-arrangement with individual ownership rights, and it will need to be accounted for and reported upon as such. The NSSF-Default is a choice option among competing private alternatives in the tier-3 space. It follows that the rules for the NSSF-Default must be fully aligned with those covering its private competitors, and it will have to be supervised along the same lines as the private tier-3 providers and by the same institution. Failing to meet this criterion, will potentially discredit the NSSF-Default, and it is likely to spur destructive controversies over the fairness of competition.

8. Key recommendations in summary

This last section explains how the analysis and observations described in this report informs the comprehensive social security agenda. It also summarizes key recommendations emanating from the analysis.

The comprehensive social security agenda is far reaching. Coverage expansion, system completion, policy coordination, greater efficiency and administrative consolidation are just some among the many objectives pursued. If followed through, the reforms will reconfigure the institutional landscape for social security in South Africa.

The different reform elements serve different objectives. Bringing the different social security funds under the same single department would strengthen policy coordination and it can ensure better alignment with overall policy objectives. The formation of a joint delivery and implementation platform can strengthen accessibility, equal treatment, support better case handling overall, reduce costs and counter benefit fraud. The cooperation between the SSOD and the individual funds along with better data-access can ensure a stronger evidence and impact-based platform for policy evaluation and development. A uniform governance model for social security funds coupled with stronger reporting standards and stronger supervision can strengthen transparency and accountability, while a single tier independent appeals tribunal can strengthen consumer protection.

Revisiting the narrative, this approach broadens the governance discussion. The key aspects are to define the responsibilities of the different layers of the framework adequately and clearly, to ensure non-interference across these boundaries and to ensure good governance and transparency at all levels.

The report gives rise to a set of recommendations. The recommendations may appear somewhat general but even so they point in a particular direction and it will be rather simple to expand them and translate them into concrete proposals on organisational and governance issues as the agenda matures. Bearing this context in mind – and noting that the report presents further detailed recommendations and discussions of their implications and implementation aspects – the key recommendations emanating from the analysis can be summarized as follows:

- Ensure a genuine and well-harnessed arms-length principle and ensure that the responsibilities and prerogatives – as well as barriers to interference – of different stakeholders are clearly defined.
- Ensure that politics, policy formation, implementation, management and administration are effectively separated and ensure that responsibilities and prerogatives are clearly defined and separated.
- Ensure that social security overall as well as the individual fund is purpose-driven and guided by clearly stated policies set out by law.
- Form a single oversight department (SSOD) as a government department.
- Bring all social security funds under the authority of the SSOD.
- Form a coordinating council within the SSOD responsible for the coordination of social security.
- Create a common governance standard to be applied by all social security funds.

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- Make the board of directors ultimately responsible for all aspects of the respective social security fund.
 - Separate the prerogative to nominate board members from the right to appoint them.
 - Ensure strong conflict of interest requirements and fit and proper rules for – among other – board members, the chairman of the board and the CEO.
 - Stipulate that the nominations and appointment process must consider the board as a whole as well as the individual candidate and that nominated candidates can be rejected based on consideration as to the effectiveness and competence of the board as a whole.
 - Stakeholder constituencies may have the prerogative to nominate board members. They can nominate own representatives if they meet fit and proper requirements. Alternatively, they should be invited to nominate trusted external professionals.
 - Stipulate the obligation of board members to focus on the better interest of the fund and its participants rather than the particular interests of the nominating constituency.
 - Stipulate that boards are responsible for setting out written instructions for the CEO and for ensuring that the organisation is always equipped and organized to undertake its responsibility.
 - Stipulate that boards are responsible for defining the internal reporting standards and framework necessary for the board to undertake its responsibility.
 - Create the common social security interface for social security (CPISS) as an independent delivery institution under the SSOD.
 - Put a board of directors in charge of the CPISS with members appointed among social security fund board members and managers.
 - Ensure that the CPISS is organized, equipped and managed adequately to undertake its responsibility.
 - Consider allocating the supervision of social security funds to a dedicated unit under the State Auditor with the financial supervision being undertaken by FSCA.
 - Build a common independent appeals and complaints handling institution applying a layered approach allowing appeals handling to focus resources on non-trivial claims.

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¹¹ Two versions of the guidelines exist – a short open source version and an annotated version. The link is for the former, as the latter is available to ISSA members only.

Annex A International standards on corporate governance

A.1. King IV – principles for good governance

King IV is a framework of principles and standards for good governance set out by the Institute of Directors South Africa (IoDSA). The term King IV refers the fourth version of this framework set out in a comprehensive report (IoDSA, 2016).

King IV constitutes a comprehensive local South African contribution to the formation of standards and principle for good governance and it plays an important role in forwarding the debate on corporate governance issues in the country.

An underlying and defining aspect of King IV is its application of a framework seeking to capture multiple and multi-dimensional aspects of the organisation under an “integrated thinking” heading focusing on the company as an integrated part off society, stakeholder inclusivity and corporate citizenship. The framework is voluntary and based on a comply and explain approach.

The King IV framework focus on the role and responsibilities of the governing body and its interaction with management and material stakeholders. It aspires to be applicable to all organisations and it is designed to focus on the principles and the intended outcomes without prejudice to the concrete organisational identity or form.

The King IV identifies four primary governance responsibilities for the governing body:

- Steer and set strategic direction.
- Approve policy and planning
- Oversee and monitor
- Ensure accountability.

The King IV sets out 17 principles for governing bodies alluding to these above-mentioned responsibilities. The definition of these 17 principles are guided by four desirable outcomes:

- Ethical culture
- Good performance
- Effective control
- Legitimacy

The 17 King IV principles are listed in the table below.

King IV principles	
1	The governing body should lead ethically and effectively
2	The governing body should govern the ethics of the organisation in a way that supports the establishment of an ethical culture
3	The governing body should ensure that the organisation is and is seen to be a responsible corporate citizen
4	The governing body should appreciate that the organisation's core purpose, its risks and opportunities, strategy, business model, performance and sustainable development are all inseparable elements of the value creation process
5	The governing body should ensure that reports issued by the organisation enable stakeholders to make informed assessments of the organisation's performance, and its short, medium and long-term prospects
6	The governing body should serve as the focal point and custodian of corporate governance in the organisation
7	The governing body should comprise the appropriate balance of knowledge, skills, experience, diversity and independence for it to discharge its governance role and responsibilities objectively and effectively

King IV principles	
8	The governing body should ensure that its arrangements for delegation within its own structures promote independent judgement, and assist with balance of power and the effective discharge of its duties
9	The governing body should ensure that the evaluation of its own performance and that of its committees, its chair and its individual members, support continued improvement in its performance and effectiveness
10	The governing body should ensure that the appointment of, and delegation to, management contribute to role clarity and the effective exercise of authority and responsibilities
11	The governing body should govern risk in a way that supports the organisation in setting and achieving its strategic objectives
12	The governing body should govern technology and information in a way that supports the organisation setting and achieving its strategic objectives
13	The governing body should govern compliance with applicable laws and adopted, non-binding rules, codes and standards in a way that supports the organisation being ethical and a good corporate citizen
14	The governing body should ensure that the organisation remunerates fairly, responsibly and transparently so as to promote the achievement of strategic objectives and positive outcomes in the short, medium and long term
15	The governing body should ensure that assurance services and functions enable an effective control environment, and that these support the integrity of information for internal decision-making and of the organisation's external reports
16	In the execution of its governance roles and responsibilities, the governing body should adopt a stakeholder-inclusive approach that balances the needs, interests and expectations of material stakeholders in the best interests of the organisation over time
17	The governing body of an institutional investor organisation should ensure that responsible investment is practiced by the organisation to promote good governance and the creation of value by the companies in which it invests

A.2. ISSA good governance guidelines

The ISSA Guidelines for Social Security Administration consist of internationally-recognized professional standards in social security administration. The ISSA Guidelines were launched in 2013 and they form part of a broader set of social security guidelines developed and offered by the ISSA.

The ISSA Guidelines are underpinned by a governance framework that spans the range of internal governance issues that are involved in the administration of social security programs. The guidelines recognize accountability, transparency, predictability and participation as key principles of good governance, and introduce dynamism as an additional important characteristic.

The ISSA is a global organization and the guidelines seek to accommodate the great diversity in governance practices around the world as a reflection of differences in the political, social, economic and cultural histories of countries. The basic axiom is, that good governance is aimed at delivering what is mandated and ensuring that what is delivered is responsive to the evolving needs of the individual and society. It also recognizes increased expectations of the public for accountable and transparent administration, including constant improvements in the delivery and performance of social services.

The ISSA Guidelines fall in two sections:

- Part A focuses on good governance guidelines for the board and management of the social security institution. The guidelines align with the five governance principles mentioned above and include suggestions on governance structures and mechanisms to enable the implementation of the guidelines.
- Part B focuses on specific areas in social security administration and addresses nine specific areas:
 - strategic planning;
 - operational risk management;
 - internal audit of operations;

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- actuarial soundness;
 - enforcing the prudent person principle;
 - prevention and control of corruption and fraud in contributions and benefits;
 - service standards for members and beneficiaries;
 - human resources policies: Development, retention and succession;
 - investments in ICT infrastructure.

A.3. ILO on Social Security Governance

The ILO has not issued formal guidelines for the design and management of social security governance as such. Rather the organisation has issued a set of general guidelines for board members serving on the governing bodies of social security institutions in Africa (ILO, 2010).

The basic starting point for this – rather detailed – effort is the fact that good governance is the key to effective social security schemes and that good governance involves a systematic focus on strategic and macro policy issues, organizational arrangements and administrative operations. This is the framework for the conception, development and monitoring of sound and viable social security programs.

Quoting from the report (ILO, 2010, pp. 8–9):

[...] Good governance of a social security scheme involves:

- **Strategic and macro-policy issues** (Determining the social protection structure):
 - policy formulation which balances social protection needs with national resources,
 - a balanced national policy ensuring wide coverage and adequate benefits, and the desired level of income redistribution,
 - a legislative procedure to give effect to policy decisions and subsequent changes.
- **Institutional arrangements** (Deciding how to implement the structure):
 - institutional arrangements which are appropriate for implementation of the scheme,
 - opportunities for contributors and beneficiaries to influence decisions and to monitor the administration of the scheme,
 - financial control mechanisms to monitor the allocation and management of resources.
- **Administrative operations** (Making the structure work):
 - efficient collection of contributions and accurate accounting for contributions and for benefits, which must be promptly paid,
 - a minimal cost of administration within the desired level of service,
 - contributors and beneficiaries are aware of their rights and obligations,
 - monitoring and reviewing administrative performance.

[...]

Board members, supported by quantitative analysts (financial managers and planners), are the custodians of resources entrusted to social protection schemes that organize the transfer of resources between different population groups. [...]

The report goes on to underline the importance of a clear distribution of responsibilities and an effective arms-length principle while at the same time ensuring and safe-guarding the transparency and accountability of social security institutions.

The role of a board member “is to exercise a reasonable standard of care on behalf of all the beneficiaries of that entity. This means that a board member should:

- Act in accordance with the rules of the scheme, within the framework of the law;
- Act prudently, conscientiously, and with good faith;
- Act in the best interests of the scheme’s constituents and strike a fair balance among the different categories;
- Seek advice where necessary on technical and legal matters; and
- Invest the funds (where this is part of a board member’s role) in line with those principles.

A.4. Transform learning package

The Transform Initiative is a learning package on the administration of national social protection floors in Africa. Its prime objective is to build critical thinking and capacities among policy makers and practitioners at national and decentralized levels to improve the design, effectiveness and efficiency of social protection systems.

The Transform module on “Governance, institutions & organizational structure” focus on non-contributory social protection schemes. It splits its discussion into three main areas – institutional framework, organizational structure and capacity building respectively.

Given its focus on non-contributory social security, the Transform template is not completely aligned with the South African comprehensive social security agenda. Even so, the module provides an interesting overview of historical contexts, issues and structures related to social security organization and governance pointing especially to the importance of law, protection against political – or other – interference, risk, risk management, transparency and accountability.

A.5. The OECD Principles of Corporate Governance

The OECD principles of corporate governance constitutes a comprehensive internationally recognized set of guidelines. The principles constitute an international benchmark for policy makers, investors, corporations and other stakeholders and they are adopted by the Financial Stability Board’s Key Standards for Sound Financial Systems (OECD, 2013).

The principles do not advocate a particular governance model. Rather they seek to identify and establish key elements of good governance more broadly allowing the actual implementation to be adapted to the particular governance models applied. As a fundamental underlying axiom good governance is seen as conducive to and a prerequisite for growth, innovation, development and credibility.

The principles focus on publicly traded companies, both financial and non-financial. In many areas however, the principles may be relevant and help raise awareness of good corporate governance even in other types of businesses. Hence, some of the principles – e.g. on disclosure and transparency and on board-responsibilities – can even be relevant for independent public entities. This is particularly the case for independent public entities with significant financial responsibilities and controlling very large public capital such as the as the NSSF.

The six OECD principles are:

- I. Ensuring the basis of an effective corporate governance framework.
- II. The rights of shareholders and key ownership functions.
- III. The equitable treatment of shareholders.
- IV. The role of stakeholders in corporate governance.
- V. Disclosure and transparency.
- VI. The responsibilities of the board.

For the purposes of this report particular attention is paid to principles III, V and VI. Each of the principles are supported by set of sub-principles accompanied by annotations.

Principle III. Institutional investors, stock markets, and other intermediaries

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.

Among other things sub-principles specify a range of requirements linked to the undertaking of fiduciary responsibilities.

Principle V. Disclosure and transparency

The corporate governance framework should ensure that timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company.

Principle VI. The responsibilities of the board

The corporate governance framework should ensure the strategic guidance of the company, the effective monitoring of management by the board, and the board's accountability to the company and the shareholders.

A.6. OECD Core Principles of Private Pension Regulation

The OECD Core Principles of Private Pension Regulation (OECD, 2016) is an extensive set of guidelines and standards for the management and regulation of private pensions. While the principles focus on private pensions, they are to a very large extent applicable even in a public social security regime.

The OECD principles focus on a wide range of aspects related to pension design, management and supervision. Sectioned into three main groups the principles cover the following aspects:

General principles:

1. Conditions for effective regulation;
2. Establishment of pension plans, pension funds, and pension entities;
3. Governance;
4. Investment and risk management;
5. Plan design, pension benefits, disclosure, and redress;
6. Supervision.

Principles Specific to Occupational Plans:

1. Occupational pension plan liabilities, funding rules, winding up, and insurance;
2. Access, vesting, and portability of occupational pension plans.

Principles Specific to Personal Pension Plans:

1. Funding of personal pension plans, wind-up and insolvency;
2. Equal treatment, business conduct, competition and portability of personal pension plans.

The OECD Core Principles of Private Pension Regulation adopts the Principles of Private Pension Supervision set out by the International Organisation of Pension Supervisors (IOPS). These principles constitute OECD principle 6 on supervision.

In this context Principle 3 on governance is particularly relevant. This principle stipulates the need for governance to focus on the best interests of the participants and of the fund itself through fit and proper requirements and conflicts of interest regulation. It states that good governance requires a

clear and appropriate division of responsibilities, and measures to safeguard the accountability and suitability of those with such responsibilities. It goes on to specify the need for appropriate control, communication and structures that encourage good decision-making, proper and timely execution, transparency, and regular review and assessment.

Annex B. Peer examples of public pension fund governance structures

B.1. The Canadian Pension Plan Investment Board

The Canadian Pension Plan (CPP) is the second tier DB public pension system in Canada. The CPP assumes a role much like that of the proposed NSSF and the related fund – managed by the Canadian Pension Plan Investment Board (CPP-IB) – are earmarked to supporting the CPP public pension system. However, the CPP-IB is a separate independent entity outside the CPP pension system as such. The Canadian Government Actuary decides the need for transfers from the CPP IB to the CPP.

The CPP IB board has 11 members. The board members are appointed by the Governor in Council on the recommendation of the Minister of Finance who in turn can form an advisory committee with one representative from each of the participating provinces (all but Quebec). This committee will advise the minister on proposals for candidates. The Minister must consult the appropriate provincial Ministers of the participating provinces before making any recommendation to the Governor in Council with respect to the appointment of directors. Board tenure is three years with any number of reappointments allowed. Tenures are staggered with the view of supporting continuity. The Governor in Council appoints the chairman of the board from among the 11 board members. This is done on the recommendation of the Minister of Finance based on the Ministers consultation with the board of directors and the provincial Ministers. All CPP IB board members are professionals and fit and proper requirements apply.

The CPP IB does not as such have liabilities. Its investment mandate is to maximize returns without undue risk of loss.

CPPIB is an independent institution set up by law and operating under an arms-length principle. It is operated based on a strategy set out by the board of directors within the general regulatory framework. The institution reports annually to government and parliament on its business, but it does not and cannot take instructions or directions from government or parliament.

B.2. The Danish ATP

The ATP is a statutory insurance-based, fully funded pension fund forming the 3rd tier of the Danish 5-tier pension system. ATP has some 5.4 Mio. Members and total assets under management stood at DKK 784 Bio. (€ 102 Bio.) at half-term 2018.

ATP offers contributory pensions based on a variable rolling guarantee system. There is no government underwriting or other commitment of any kind involved. In terms of regulation, accounting, reporting and supervision ATP is generally treated as would be any private pension insurance company.

ATP has a Board of Representatives (30 members + the chairman) and a board of directors (12 members + the chairman). In both cases member candidates are nominated by the social partners – half by either side and with the distribution between different private sector and public sector employer representatives and different unions specified in the law. The nominees are presented to the Minister of Employment for formal appointment. When nominating and appointing board members consideration must be given to the overall representation of important experiences and skill and to gender equality. Tenure is indefinite.

The Board of Representatives has an independent chairman nominated by – but not among – the members of the Board of Representatives. The Chairman is appointed by the Minister of Employment. The Chairman is also Chairman of the board of directors.

The board of directors is ultimately responsible for ATP, while the Board of Representatives has a broad oversight role and broadens stakeholder involvement and commitment. ATP is required to always invest in the best interest of the fund and its participants and with the objective of ensuring

the fund can meet its liabilities at all times and with the view of ensuring the real value of the funds. Around half of ATP board members are professionals and fit and proper requirements apply for all members. The board of directors hires the CEO, and the CEO leads the day-to-day business of ATP in accordance with law and written instructions and policies set out by the board of directors.

ATP is an independent institution set up by law and operating under an arms-length principle. It is operated based on a strategy set out by the board of directors within the general regulatory framework. The institution reports annually to Government and Parliament on its business, but it does not and cannot take instructions or directions from Government or Parliament.

B.3. The Swedish AP Funds – AP1-4

The AP funds – AP1, AP2, AP3 and AP4 – are buffer funds related to the Swedish 2nd tier NDC public pension system. The NDC scheme assumes a role much like that of the proposed NSSF and the AP-funds are earmarked to supporting the NDC public pension system. However, the four AP-funds are separate independent entities outside the pension system – i.e. the pension scheme as such is operated by the Swedish Pensions Authority, while the buffer-funds are operated by the AP-funds. Government can decide to allocate money from the AP-funds to the Pension Authority if contribution income is insufficient to cover benefit payments.

The four AP-funds operate on identical mandates. The AP1-4 do not as such have liabilities. They are required to manage assets with the objective of maximizing its benefit to the basic public pension system. The total risk level must be low, and at a given risk-level funds must be invested with the objective of achieving a high long-term return.

Total assets under management at year-end 2017 in the four AP-funds stood at SEK 1,412 Bio. (EUR 138 Bio.).

Each of the for AP-funds has a board of directors with 8 members and a chairman. All board members are appointed by the government with the prerogative given to the social partners to nominate 4 board members – 2 from either side. Appointment must be based on merit. The merit clause is defined as “competence benefitting the asset management”. Tenure is limited to the time at which the annual accounts for the third calendar year after the year of appointment is presented. Reappointment is not allowed. Government appoints a chairman and a deputy chairman among from among the board members that are not nominated by the social partners.

The board of directors is ultimately responsible for the fund and its assets. The majority of AP1-4 board members are professionals and fit and proper requirements apply for all members.

AP1-4 are independent institutions set up by law and operating under an arms-length principle. They are operated based on strategies set out by their Boards of Directors within the general regulatory framework. The institutions report annually to Government and Parliament on its business, but they do not and cannot take instructions or directions from Government or Parliament.

B.4. The Swedish second tier default fund – AP7

The Premium Pension forms the 3rd tier of the Swedish 5-tier pension system. Its role is largely parallel to the role envisaged for the proposed statutory DC savings arrangement in South Africa. AP7 is the default fund of the system and as such it assumes a role similar to that of the proposed NSSF-Default.

AP7 has two building blocks – an equity fund and a fixed income fund – and combines the two in a lifecycle based default product. AP7 even offers three competing choice options under the Premium Pension – even these are combinations of the two basic building blocks. Total assets under management at year-end 2017 stood at SEK 430 Bio. (€ 42 Bio.).

AP7 has a board of directors with 8 members and a chairman. All board members are appointed by the government based on merit. The merit clause is defined as “competence benefitting the asset management.” Tenure is limited to the time at which the annual accounts for the third calendar year after the year of appointment is presented. Reappointment is not allowed. Government appoints a chairman and a deputy chairman among from among the board members. All AP7 board members are professionals and fit and proper requirements apply.

The board of directors is ultimately responsible for AP7 and its assets. As a DC savings fund the AP7 does not as such have liabilities. However, participant expectations equate liabilities in this respect and AP7 is required to always act in the best interest of the participants.

AP7 is an independent institution set up by law and operating under an arms-length principle. It is operated based on a strategy set out by the board of directors within the general regulatory framework. The institution reports annually to Government and Parliament on its business, but it does not and cannot take instructions or directions from Government or Parliament.

Annex C. Examples of integrated social security administration

C.1. The Australian Department of Human Services

The Department of Human Services Australia (DHS) is a national entity providing services on behalf of six different social security programs and entities in Australia. These programs cover among other child support, income support and medical aid.

The SA is the current end-result of a lengthy development process starting with the formation of Centrelink in 1997. The objective throughout the process has been to integrate and coordinate social security administration and strengthen accessibility.

Citizens are served face-to-face, by telephone, via digital mail and on-line. A key aspect of the DHS business platform is a one-stop-shop approach. Citizens can access services for all programs in the same place. DHS has 346 service centres around the country. Efforts are made to further strengthen on-line case handling and self-service.

DHS is headed by an executive committee with a secretary and 7 deputy secretaries responsible for particular businesses. The executive committee has formed 8 supporting committees – ITC, finance and investment, enterprise transformation, strategic governance, audit, service delivery and workforce management. Some of the committees which have independent chairs and/or include external experts.

The DHS has a central role in policy coordination and policy development. Being a government department SA reports to the minister and to parliament. The SA issues a comprehensive annual report and financial statement.

C.2. The Danish Udbetaling Danmark

Udbetaling Danmark (UDK) was formed in 2012–13 as a national entity undertaking the administration of a wide range of social security benefits previously managed by the country's 98 municipalities. UDK is responsible for managing and paying among other things the state-funded old-age pension, disability benefits, housing benefits, child support, family benefits sickness benefits and maternity benefits. ATP (see Annex B.2) operates UDK and provides the technical and administrative framework at cost recovery basis for UDK.

Citizens are served by telephone, via digital mail and via the internet where citizens can view their data, apply and write to UDK. If 'face-to-face' service is needed, this takes place via Borgerservice (Citizen Service) in the local municipality. UDK is responsible for client compliance control. UDK is overseen by the Minister of Social Affairs. The entity must present and publish an annual account and the annual account must be subject to external auditing.

UDK is led by a board of 8 members and a chairman – all of who are appointed by the Minister of Social Affairs. Five board members are nominated by the association of municipalities and one by the Minister of Employment. The board of directors of UDK sets out standards and requirements for the services to be provided by ATP. The CEO of UDK is the CEO of ATP – or a person authorized to undertake this role by the CEO of ATP.

Policy development and evaluation is generally in the hands of the individual policy departments – the ministry of social affairs and the ministry of employment. The ministries can – and often do – request the contribution UDK to contribute and provide proposals.

Annex D. Overview of models applied in the region

The tables in this Annex summarizes key aspects of the governance structure applied in social security institutions in a number of countries in the Sub-Saharan region – Kenya, Uganda, Tanzania, Zimbabwe, Mozambique, Rwanda and Zambia. The information is mainly derived from the relevant legislation.

The information was gathered, and the tables compiled by the ILO prior to a regional social security round table event in November 2018.

Table D.1. Overall institutional framework and linkages with policy makers

Institution	Kenya	Uganda	Tanzania		Zimbabwe	Mozambique	Rwanda	Zambia
	NSSF	NSSF	NSSF		NASSA	INSS	RSSB	NAPSA
Legal status of entity	Body corporate with perpetual succession and a common seal.	Body corporate with perpetual succession and a common seal.	Not mentioned.		Body corporate.	Autonomous legal personality.	Legal personality, administrative and financial autonomy.	Body corporate.
Supervision	Ministry of Labour and Social protection.	The Minister of Finance Planning and Economic Development.	Department of Labour (Office of the Prime Minister) and Social security regulatory authority.		Ministry of Labour and social welfare.	Ministry of Labour, Employment and Social security.	Prime Minister to determine supervising authority (Ministry of Finance in practice).	Ministry of Labour and Social security.
Unit in Ministry	No.	No.	Yes.		No.	No.	Not available.	Yes. Most comprehensive unit of 10 Social security officials.
Political intervention (per Law)	Cabinet Secretary in consultation with the Board may make regulations on any matter related to benefits payable from the fund, etc.	Minister may make regulations by statutory instruments (extensive list on benefit determination, etc.).	Minister directs remuneration, allowances and other benefits of Trustees; Minister may approve or disapprove the annual budget or approve subject to amendments as he seems fit; Minister may give directions to the Board of general or specific nature as to the performance of the Board of any of its functions in relation to any matter appearing to the Minister to affect national interest and the Board shall give		The Minister after consultation with the Board may give to the Authority such directions of a general character relating to the exercise by it of its function as appear to the Minister to be requisite in the national interest. The authority shall with all due expedition comply with any direction given to it. The Authority submits to the Minister such other reports as the Minister may require, and the Authority shall give to	Not available.	Performance contract between supervising authority and RSSB defining roles and obligations.	Ministry shall prescribe monthly retirement pension (and other benefits) conditions for qualifications based on Statutory Instrument. Minister may issue Statutory Instrument for better carrying out of provisions of the Act. If Authority fails to act on recommendations of actuarial study, Minister may exercise powers of the authority.

Institution	Kenya	Uganda	Tanzania		Zimbabwe	Mozambique	Rwanda	Zambia
	NSSF	NSSF	NSSF		NASSA	INSS	RSSB	NAPSA
			effect to every such directions.		the Minister all information relating to the undertakings of the Authority as the Minister may at any time require.			

Table D.2. Composition, membership criteria, nomination, appointment and removal of board members

	Kenya	Uganda	Tanzania	Zimbabwe	Mozambique	Rwanda	Zambia
Composition of board	<ul style="list-style-type: none"> – PS Social security; – PS Finance; – 2 nominated by representative employers (of opposite gender); – 2 nominated by representative workers (of opposite gender); – 3 non public officers (one of opposite gender) nominated by CS; – Managing Trustee ex officio. 	Chairperson, Managing Director 6 to 8 other members (not in law but in practice, 2015 board: Employers, workers, government).	<ul style="list-style-type: none"> – 1 Chairperson; – 1 PS Social Security – 3 ATE Employers – 3 FTU Trade Unions – 3 Government. 	<ul style="list-style-type: none"> – The general manager – ex officio; – 6 members from employers and workers representatives; – 3 recognized professionals (after consultation with employers and employees). 	<ul style="list-style-type: none"> – 2 representatives employers, – 2 representatives workers; – 2 government – 1 representatives from Ministry of Labour – 1 chairman. 	Members chosen for their competence.	<ul style="list-style-type: none"> – 2 representatives employees designated by the Minister; – 2 employers designated by the Minister; – 1 Ministry of Finance; – 1 Ministry in charge of social security; – 1 Bank of Zambia; representative from Bankers association of Zambia; – 1 representative from Pension Managers association.
Criteria for the selection of board members	<ul style="list-style-type: none"> – Gender; – Employers on the “basis of their knowledge and experience in matters to do with human resource, investments, banking or corporate management”; – Workers Reps based on labour relations, law or business management; 	Trustees must be licensed under the Uganda Retirement Benefits Regulatory Authority Act of 2011, which defines several qualifying criteria.	Persons with experience in social security, financial matters or administration.	The 3 members appointed by Minister after consultation are chosen for their ability and experience in administration or finance or professional qualifications or for their suitability otherwise for appointment as members.	Not available.	Members of the Board are selected on the basis of their competence and expertise.	Not mentioned.

	Kenya	Uganda	Tanzania	Zimbabwe	Mozambique	Rwanda	Zambia
	– Experts appointed by virtue of their knowledge and experience in matters related to administration of scheme funds, actuarial science, insurance, accounting and auditing and law.						
Nomination	5 nominated by Government and 4 by Employers Reps and Workers Reps.	Not mentioned in the Law but nominees from workers, employers, government in practice (2015 Board).	Nominated by organizations or Ministry concerned.	Nomination by organizations or failure to do on time, Minister to appoint persons who he deems fit to represent their interests.	By organisations and government.	Not mentioned.	Nominated by organizations designated by the Minister (as per Act) and government.
Appointment	Staggered. One third of the board for three years; 1 re-appointment; by the CS.	Appointed by Minister for 3 years; eligible for reappointment.	By the Minister for 3 years but may be re-appointed.	By the Minister for 3 years as the Minister may fix on his appointment.	By Council of Ministers (Cabinet).	A Presidential order appoints members of the Board of directors.	Appointed by the Minister.
Removal	By CS; absence 3 consecutive meetings; bankrupt; disqualified for public office; criminal offence; prolonged illness.	Not indicated in Law.	By Minister on absence of 3 consecutive meetings.	By Minister; on member being guilty of conduct, failed to comply with conditions of office fixed by the minister, mentally or physically incapable.	Not available.	Not mentioned.	By Authority with approval of the Minister for absence for 3 consecutive meetings; if the continuation is prejudicial to the scheme.

Table D.3. Nomination, Appointment and removal of the chairman of the board

	Kenya	Uganda	Tanzania	Zimbabwe	Mozambique	Rwanda	Zambia
Nomination	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.	Not relevant.
Appointment	Cabinet Secretary appoints the Chair from pool of trustees.	Appointed by Minister for 3 years; eligible for reappointment.	Appointed by the President for 3 years; eligible for reappointment.	Minister appoints one member as Chair for max 3 years as the Minister may decide.	Appointed by Cabinet.	A Presidential order appoints chairperson of Board of directors.	Chairperson shall be the Minister.

Removal	Removed by CS under same conditions as any member of the board.	Not mentioned.	Same as any board member; absence of 3 consecutive meetings.	Financial interest with interests of authority; insolvent, bankrupt, ben sentenced to imprisonment over 6 months with no pardon.	Not available.		
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Table D.4. Criteria, nomination, appointment and term of Office and Removal of CEO

	Kenya	Uganda	Tanzania	Zimbabwe	Mozambique	Rwanda	Zambia
Criteria	Masters degree: 10 years working experience at managerial level in pension funds, accounting, auditing, insurance, investment, law, banking, etc.	Not mentioned.	Not mentioned	No mentioned.	Not mentioned.	Not mentioned.	Only professional criteria for the actuary “fellow of the institute of actuaries of London, Scotland or America or equivalent...”.
Nomination	Competitive process.	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.	Not mentioned.
Appointment & terms of office	Board shall appoint a Managing Trustee – the CEO of the Fund for 6 years non re-eligible for appointment.	CEO appointed by Minister for such period and on such terms and conditions as the Minister may deem fit.	CEO is appointed by the President.	The Board appoints a general manager on such conditions as seems fit, a person approved by the Minister.	The Minister appoints the CEO.	Whole general directorate appointed by Presidential decree.	Appointed by the Minister for a three year renewable term and is eligible for re-appointment.
Removal	Board may remove for reasons of incompetence, insubordination, corruption, misconduct, etc. He shall be afforded ample opportunity to be heard before being removed.	The Minister shall remove in case inability to perform, insolvency or bankruptcy; conviction of an offence, fraud or dishonesty.	Not mentioned.	Minister may require to vacate office in same conditions as members.	Not mentioned.	Not mentioned.	Not mentioned.

