

# Governance of Public Pension Funds: The Kosovo Pension Savings Trust (KPST)

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David Snelbecker, The Services Group, and Advisor to the KPST  
and Government of Kosovo

Discussant to presentation by Brian McCulloch on  
the New Zealand Superannuation Fund

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Contacts: +1 703 528 7444  
dsnelbecker@tsginc.com  
KPST website: [www.kpst.org](http://www.kpst.org)

# Context – a three-pillar system

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- Kosovo is an autonomous UN protectorate in Serbia and Montenegro with a parallel Kosovar Government and UN administration, population of 2 million, and no stock exchange or publicly traded securities
- Tier 1: Universal basic benefit paid to all over age 65, funded from general state revenues
- Tier 2: 5% from employers, 5% from employees, mandatory contributions to KPST
- Tier 3: Regulatory regime for voluntary schemes

# Policy Objectives

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- Invest KPST assets for the benefit of participants
- Use international capital markets and foreign management experience when necessary for achieving objectives
- Avoid international record of poor financial performance of politically controlled public funds
- Avoid creation of a typical European fiscally unsustainable PAYG system that reduces savings
- Basic benefit is linked to food basket so costs as share of GDP decline over time

# Design of Governance Arrangements

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*"A clearly defined portfolio of financial resources ...*

*... managed by an independent governing body ...*

*... with explicit commercial objectives ...*

*... and clear accountability."*

# *“A clearly defined portfolio of resources ...”*

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- KPST is a legal entity separate from the Government
- Government as an employer is legally bound to contribute for Government employees
- Assets are the legal property of workers
- Policy credibility and commitment

# *“... managed by an independent governing body ...”*

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- Separate legal entity, independent Governing Board (7 members)
- International recruitment by nominating committee formed by central bank\*
- Expertise
- Directions set in legislation, not by Government
- Conflicts of interest
- Board remuneration set by Kosovo top executive

\* Proposed in planned 2003 reform

***“... with explicit commercial objectives ...”***

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***“The assets of the Kosovo Pension Savings Trust shall only be invested ... to maximize returns on investment solely for the benefit of Participants and Beneficiaries. The goals of prudent investment for Pension Assets are:***

- (a) The security of Pension Assets;***
- (b) Diversity of investment;***
- (c) Maximum return consistent with security of Pension Assets; and***
- (d) Maintenance of adequate liquidity.”***

# Few Constraints

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- Non-profit legal entity so no profits tax; for participants taxation is “E-E-T”
- No controlling interests
- Diversification
- No borrowing
- No explicit constraint on domestic investment
- Restrictions on types of assets: must be publicly traded securities, bank deposits, etc; portfolio investments, not direct investments

*“... and clear accountability.”*

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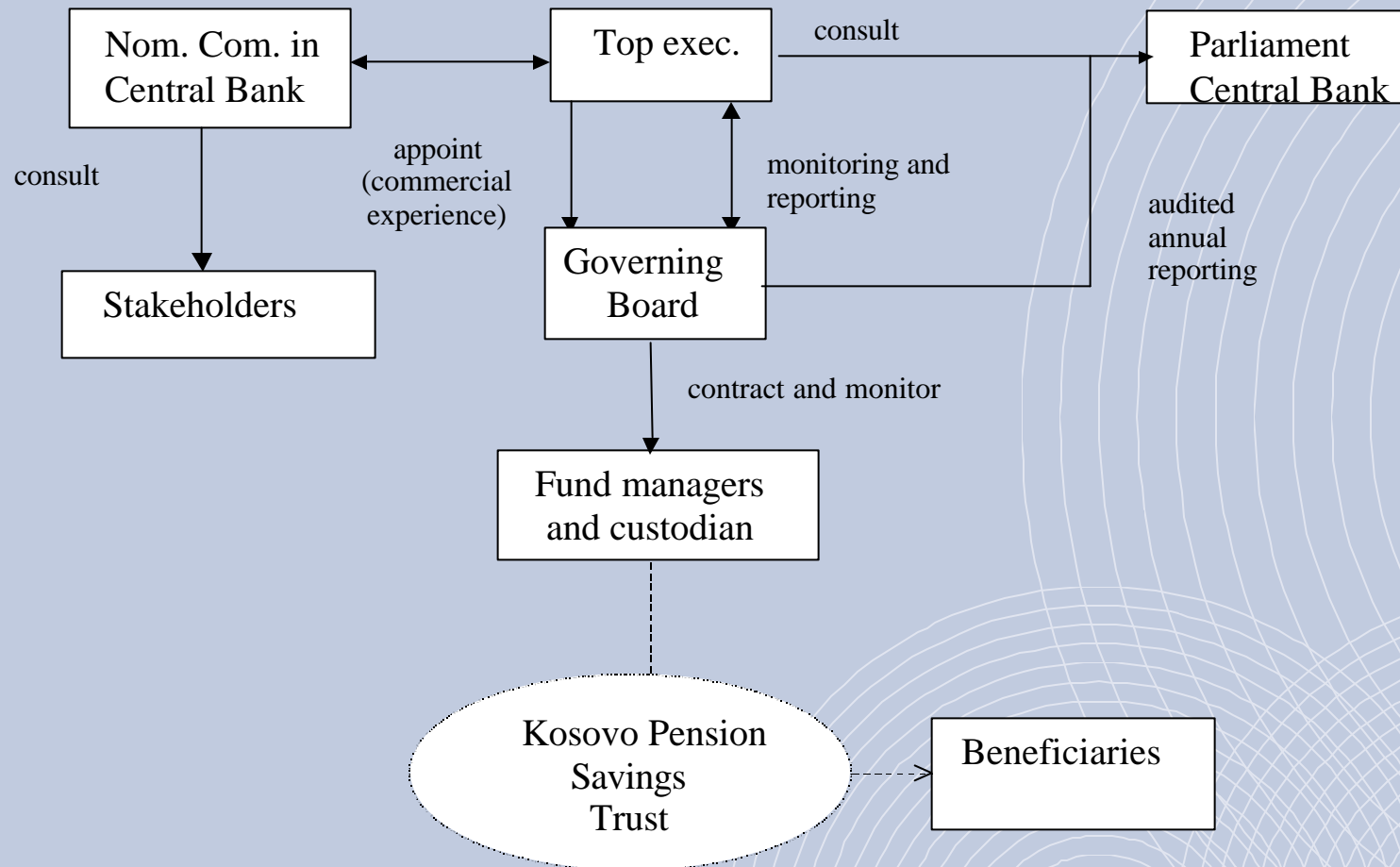
- Statement of investment policies, standards and procedures
- Audited financial statements
- Personal liability of board members
- Official information reported to Government and participants
- Supervised by central bank

# Financial Portfolio

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- From start (August 2002) until March 2003, deposited in central bank
- Since March two asset managers chosen through tender – Legal & General (UK, for Euro money market index funds, 100% of current investments), and ABN-AMRO (for Euro stock and bond index funds, likely for 2004)
- Around 18 million Euro under management

# Organisation Structure



# Kosovo contrasted with New Zealand

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- KPST is independent legal entity
- Appointment decisions at highest political level
- Legislation provides greater protections and broad rules for investments; Government does not direct
- Similar reporting and transparency, plus supervised by the central bank
- Invest in international capital markets
- Use foreign “professionals” as Trustees to make investment decisions (along with Kosovar “representative” Trustees)

# Governing Board and Director

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## **“Professional Members” of the Governing Board**

**Mr. Neil McPherson, Chairman** Mr. McPherson is employed by Standard Life Investments in Edinburgh, where he is responsible for European Business development. Prior to joining Standard Life Investments, in July 2002, his career spanned 23 years with Citigroup, where his last position was European Director of Citigroup Asset Management's Global Retirement Services Group. In a career encompassing significant experience in both investment and administrative services to pension funds in many countries, Mr. McPherson's experience has provided him with a detailed understanding of both the theoretical and practical aspects of designing, implementing and administering funded pensions systems. He is familiar with reform systems used in many developing markets, including Latin America and Central Europe, and has spoken at conferences and to national delegations of various countries on the topic of pension reform and the practical aspects of establishing funded pension systems. In addition to this reform related experience, his career and current responsibilities have also provided him with a thorough knowledge of both the asset management and custody industries, across many aspects. Mr. McPherson was until recently a trustee and Chairman of the Investment Committee of the Citibank United Kingdom Pension Fund.

**Dr. Estelle James** Dr. Estelle James has over 30 years of professional experience as economist and is a distinguished scholar with a record of extensive internationally recognized academic research and writing on pensions. She is currently a Visiting Fellow at the Urban Institute (an institution in Washington DC that specializes in social policy research) and a consultant at the World Bank and other organizations. She was previously a member of the President's Commission to Strengthen Social Security in the U.S., Director of the Pension Flagship Course at the World Bank Institute and Lead Economist in the Policy Research Department of the World Bank. She is principal author of “Averting the Old Age Crisis: Policies to Protect the Old and Promote Growth”, a World Bank study that provided the first global analysis of economic problems associated with population aging. This study has become the basis for much of the World Bank's advice in the social security area and for pension reforms that are now taking place in many countries. She has received many research fellowships and grants, has published numerous articles and presented seminars for the World Bank, governments and private organizations around the world, on pension systems and their reform. Her recent research has focused on the gender impact of social security reform, administrative costs of individual account systems and how to handle the annuitization stage. Before joining the World Bank she was Professor of Economics and Provost of Social Sciences at the State University of New York.

**Mr. Harvey Kember** Mr. Kember is working for the Employee Benefits advisory group within Hogg Robins plc. He has been working as a professional advisor on asset investment and management, and pension administration since 1974, initially with Swiss Life Insurance and later with Hogg Robins. He supervises the investment consulting function, providing services to the Trustees of corporate pension fund clients of the consultancy, and marketing these services to prospective clients. His expertise is in developing asset strategies, investment structures and mandates, selecting and monitoring investment managers, and ensuring compliance with legislative requirements. Mr. Kember established and developed a range of unit trusts and managed funds for the corporate pension fund market. He has developed the investment consultancy function at Hogg Robinson from low-key technical support to a highly profitable center. Mr. Kember also lectured in the Institute of Actuaries course for the Ministry of Social Insurance in Egypt.

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**Mr. Steven Bates** Mr. Bates is a director of a number of companies involved in asset management and serves as an advisor to a major UK pension fund. Until June 2002, he was Managing Director of JP Morgan Fleming Asset Management, a major international financial institution. He began his career as an investment analyst in 1980. Mr. Bates is a senior investment professional with extensive experience and considerable success in both emerging and developed stock markets. Mr. Bates has significant experience as an investor, both in developed and emerging markets, and has also built a number of successful businesses, particularly in Central and Eastern Europe. He has been responsible for all aspects of JP Morgan Fleming's investment management activities in emerging markets and for management of investment teams in London, Brazil, Russia, South Africa, Egypt and the Czech Republic. He has developed and implemented successful investment strategy and processes in many different markets.

#### **“Representative Members” of the Governing Board**

**Mr. Basri Jupolli** Mr. Jupolli represents the interests of Kosovar employers. He is a General Secretary of the Kosovo Chamber of Commerce, an organization established to represent interests of Kosovo businesses. He graduated from the Law Faculty in Pristina and has worked with the Chamber of Commerce since 1978. As part of his responsibilities, he managed the information service, was a chief editor of the Chamber's publications, and served as secretary of the Council for Personnel. He was also a member of the Editorial Offices of Kosovo Economy and Kosova Sot. Mr. Jupolli is the author of various publications on economic issues. He served as a member of the Assembly of the University of Pristina and as a member of the Science, Education and Culture Committee of Kosovo. Mr. Jupolli was involved in the process of drafting various legislative acts. Mr. Jupolli recently has participated in a seminar organized by the World Bank on the issues of pension reform in Central and Eastern Europe.

**Mr. Nexhmedin Shaqiri** Mr. Shaqiri represents the interests of Kosovar employees. Since 1990, he has been an active member of the Independent Union of Workers, an organization formed to represent interests of employees. He was a coordinator of the Commission for Marketing and Strategy, and from 1995 through 1999 he worked with the Department of Foreign Affairs at the Textile Industry Branch. Mr. Shaqiri graduated from the Faculty of Economics in Pristina. He has extensive experience in management and marketing. Mr. Shaqiri recently has participated in a seminar organized by the World Bank on the issues of pension reform in Central and Eastern Europe.

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### **“Ex-Officio Member” of the Governing Board**

**Mr. Mike Ives** Mr. Mike Ives was born in Australia and graduated from Australian National University with a degree in Economics and Accounting. He worked for 38 years as a public servant in the Australian Commonwealth Public Service, where he worked his way up through the Departments of Finance and Treasury and served as First Assistant Secretary, Department of Defense. He has worked as a high level adviser to the Australian House of Representatives Standing Committee on Public Expenditure, and as Counselor, Defense Acquisition and Logistics, in the Australian Embassy, Washington, DC. In the early 90's he was also ex-officio a Trustee of a Superannuation Fund set up during the initial, partial privatization of the Australian Government Aircraft Factory. From 1998 to 2002, he worked as a consultant, generally in the areas of finance, budgeting and resource management. Mr. Ives has been working in Kosovo since August 2000, initially under contract to Barents/KPMG on the USAID Kosovo Fiscal Development project. As Budget Director, he has been responsible for the overall formulation of the 2001 and 2002 Kosovo recurrent budget. His current position is Head of the EU Pillar, Fiscal Affairs. Prior to this, he was the Head of the Central Fiscal Authority.

### **Director**

**Ms. Arieta Koshutova** Ms. Arieta Koshutova was born in Prishtina and finished Secondary school at "Xhevdet Doda" gymnasium, before moving to London. While in London, Ms Koshutova obtained a Bachelor of Science award in Mathematics at University College of London. Thereafter, she worked with William M Mercer Ltd, Retirement Unit, where she carried out pension valuations, individual calculations of transfer values, benefit projections, etc. In August 1999, Ms. Koshutova moved to JLT, Pension Department, another respected British Company dealing with pensions. At JLT she worked as a Team Leader in the Pensions Department.