

MIT8205: Business Ethics & Corporate Governance

**Term Paper:** *NSSF Uganda's Managing Director's Conviction Over Loss of Sh3b – A Case of Corruption and Abuse of Office*

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## **Abbreviations**

*NSSF-U – National Social Security Fund - Uganda*

*MD – Managing Director*

*PwC - PricewaterhouseCoopers*

*CPA – Certified Public Accountant*

*Ush – Uganda Shillings*

*BOD- Board of Directors*

## **1.0 Introduction and Background Information**

The National Social Security Fund Uganda(NSSF-U) began its operations in 1986 after it was established by an act of parliament – the National Social Security Fund Act, Cap 222 – Laws of Uganda. It is a compulsory retirement savings scheme for all Ugandans employed in the private sector and parastatals and are therefore not covered by the Government’s retirement scheme. NSSF-U’s main mandate is to protect employees against life’s social and economic uncertainties. It is supposed to do this by investing members’ contributions in profitable ventures like equity shares, real estate, government securities and bonds; and subsequently pay accruing benefits to qualified members. Each member is supposed to earn an interest on these investments based on their contributions. The idea is to assure each member of a secure retirement.

NSSF-U had registered about 5,619 employers by June, 2005. With account holders standing at 247,660 members, 138,000 of whom were active contributors. By September 2010, this number had risen to over 460,000.

This fund is obviously a huge money maker and has therefore not missed its share of scandals from greedy individuals. Between 2000 and 2009, NSSF-U had been dogged by massive investment scandals including the purchase of a piece of land from a cabinet minister without the proper bidding process. This led to the firing of a cabinet minister in the President Museveni Government.

The Board of Directors and the managing Director (MD) of NSSF-U are charged with the responsibility of being an investment oversight to the fund. It’s no doubt therefore that because of these scandals, the fund has had a multiple number of MDs, each brought in with a promise of change.

## **2.0 NSSF-Uganda Management – CEO**

David ChandiJamwa came from a good family, his mother TezraJamwa had been a member of parliament and a close political supporter of the President Museveni. His education is also impressive, with a degree in commerce from Makerere University and a number of Post Graduate qualifications like CPA (Certified Public Accountant) and also qualifying among the first batch of Stockbrokers in Uganda. David was admitted as a partner in PwC in 2003 beating the then 13 year partner attainment record by doing it in 10 years. At age 37, he was among some of the youngest partners at the firm. David had also worked for the distinguished financial services firm D.Craven Consulting, as a Managing Partner and Director in 2006. He sat in the board of several private firms including the prestigious DFCU Bank. He was then to be appointed MD for NSSF-U in February 2007, replacing Leonard Mpuma who had been fired on accusations of corruption and abuse of office that bled the firm a cool 8 Billion Uganda Shillings.

## **3.0 Mismanagement/Corruption Dealings**

Over the years Mr. Jamwahad distinguished himself as a professional; but things took a turn on his appointment as Managing Director at NSSF-U. Just like many public officers in positions of power he could not control his greed for the tax-payers coffers. Among several other financial breaches, he paid himself a salary advance of Ush 200 Million within the first two months of his appointment. He was at some point suspended over his involvement in the Ush. 11.2 Mill Temangalo land scandal, where the NSSF had purchased 411.44 acres of land at an inflated price from two Government Ministers. However, even during his suspension he still held an active role in the day to day running of the Fund as he still held favor in the President. Jamwa's tenure had

been the most fruitful for the Fund in a long time, his high intelligence had led to several sound and aggressive investment decisions. Savers for the first time were paid the highest return ever of 14 % up from 7%. The fund had also hit the 1 Trillion Ush mark for the first time ever. Even though the Temangalo land scandal had attracted a lot of negative publicity, most experts agreed it was a sound investment decision.

At the time of his tenure as MD, the NSSF-U boasted ownership to treasury bonds valued at 34 Billion Ush set to mature at the end of November 2007. David, a financial stock broker by training and practice, then ordered the sale of these bonds to Uganda's Crane Bank just 24 days before their maturity yet the Fund did not urgently need the money. The bonds left to term, would have yielded the maximum interest due on them; and this move meant depositors lost just about 3 billion Ush. Even though Mr. Jamwa had followed the right procedures in the sale, his decision could not justify the loss of public funds for the pre-mature sale. Worst of it all, was the fact that the BOD had not even been consulted for this particular sale.

The Public Accounts Committee hearing this case recommended prosecution of Mr. Jamwa for his action. The case was brought before Justice Katutsi who handled the case in haste handing a damning judgment, sentencing Mr. Jamwa to 12 years imprisonment and barred him from public office 10 years after his jail term. The back bone of the judgment was on the fact that shrewd operators commit white collar crimes since they know it's difficult for law enforcement agencies to establish a prosecutable case against them.

### **3.1 Other Scandals at NSSF**

- a. Mr. Leonard Mpuuma also an MD of the Fund at some point had been arrested and prosecuted for his approval of an 8Billion Ush investment into real estate that did not bear fruit. He had been prosecuted together with the board chairman at the time Geoffrey Onegi and the Minister for labor Joe Bakoko.
- b. AbelKatembwe, a former MD of the fund had also been sacked over unrealistic investment decisions of workers' savings. In his term, NSSF-U had bought a 4 bed-roomed house for the managing director at UShs 200 million. Even though its refurbishment had been estimated to cost UShs 215 million, the cost kept rising until it reached UShs 400 million.
- c. \$1.4 million given to Alcon Construction to buy curtain glass material had also been allegedly lost through a local bank. Alcon was the company contracted to build the NSSF Head Quarters - Workers' House.

### **4.0 B.E & C.G Lessons**

#### **Fiduciary Duty**

The NSSF-U's Board of Directors, through Management and CEO have a legal and fiduciary obligation to act in the best financial interest of the Fund's beneficiaries and to exercise the highest standard of care. It was therefore the Board's responsibility to ensure whatever happens in the running of the fund is not only legal but in the best interest of the stakeholders who are Uganda's workers. We are not sure if they failed in this duty for this particular scenario, or it was just lack of information on the happenings at the executive.

## **Agency Theory**

The Government and workers of Uganda had entrusted Mr. Jamwa to handle their financial investments, and this task he had achieved well, raising the fund's profits by about 19%, the largest earnings in a financial year. However, in the process he made several other decisions that discredited him as an individual and MD. He was involved in several allegations of corruption deals as stated in the paper and had over compensated himself in salary. To this the fund lost about 3Billion Ush and 11.4 Billion in a land scandal; this is unforgivable and he betrayed the separation of the management and shareholders in the running of any company.

## **Stakeholders Theory**

Even though some investment decisions undertaken by NSSF-U are of benefit to stakeholders, they remain illegitimate without the stakeholders' input. Previously, both the employers and the workers each had two members on the NSSF Board, but today only employers are represented. The board should be reconstituted to be more representative.

### **4.1 Recommendations**

- That the process of MD selection for the fund be better handled by professional recruitment firms to free it from political interference.
- The Board of Directors for the Fund be more representative from all the stake holder clusters, and also inclusive of professionals from the private sector.
- That the MD be obliged to consult the Board of Directors when making investment decisions of certain magnitudes in order to protect the worker's savings from risky investment ideas.

- That a proper audit function exist both from the Public Accounts Committee and from external private auditors to provide assurance to the public of better handling of the provident fund.
- The MD's compensation should be agreed to on contract and should not be left at his own discretion but rather that of the board

## **5.0 Conclusion**

Mr. Jamwa like many other Public Officers or even CEOs of private companies do take advantage of their offices to advance their interests and to make themselves and their cronies rich. There is no better way to deal with such high level corruption than to bring to book such individuals. The message sent to other officials would be that there will be consequences for this kind of behavior and thereby limit their thieving ways.

I close the paper by giving the Global Corruption Report's statement of the year 2009; that, *“What ails the region's financial sector is poor sectoral and corporate governance, resulting in weaknesses that make pensioners, creditors, employees and depositors extremely vulnerable. These weaknesses include ineffective laws, poor financial sector oversight, a base sector culture and overbearing political and executive corruption.”*

If proper laws on governance and public funds management can be put in place, and we create a culture of corruption free without political influence, then what happened at NSSF would surely be a thing of the past. Mr. Jamwa appealed on his case. Let's wait and see how the same law may end up rescuing him.

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