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Governance of Tanzanian pension fund investment

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Abstract: This study aims to examine how mainland Tanzania pension fund investments are governed and which developments can be foreseen. The literature provides ample leads for a conceptual and practical framework on pension fund investment governance. This framework is filled in along a case research design drawing upon system participant interviews. It is shown that whilst the system is gaining strength, its inherent limitations may call for change measures. The pension fund's investments work out fine and contributors receive value for money. Also, the oversight is thought to work reasonably well. Quirks include investments limitations set by the markets and the government, and also a still low coverage, the heavy weight of the government, a load of administrative costs, employer compliance, beneficiary withdrawal, insufficient education throughout and ignorance in general. The system is governed by complex but strict controls and is being professionalised. To lower administrative costs and raise investment returns, the role of the Ministries versus the Regulator may be amended, while keeping Central Bank in the loop. The paper demonstrates that the hierarchical system engenders agency conflicts that are curbed by a trust grounded common strive for optimal financial value. In specific the paper argues that the investment governance benefits from strict controls and professionalising, especially if financial markets and government limitations are lessened.

Keywords: Tanzania, pension funds, investments, governance
JEL: G11, G23, G28

1. Introduction

In both the public and the private sector, the interest in governance practices has increased, due to alleged deficiencies in the frameworks applied and an increased need for reporting and control. This growing interest has led to major developments in both academics and

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practice. Whereas academic studies on the governance of pension systems are still scarce, supranational bodies are driving individual countries to adapt their overall systems to actual standards. This also affects the corporate governance framework of the pension funds. Although the Tanzanian pension fund system is still relatively small, a fast and sizeable increase may be expected, making the country an interesting candidate for research.

The Tanzanian pension funds cover a small part of the local population and assume a broad social security task profile. The mainland Tanzania pension fund system consists of: 1) the pension funds and 2) the regulatory bodies. It has been deregulated in that the Funds can now compete with each other and governmental oversight has shifted from Ministries to a new regulatory body assisted by the Central Bank. Also, given the role of investments by the Funds in the local economy, the following research question is posed: *how are mainland Tanzania pension fund investments governed and which developments can be foreseen?*

The literature provides ample leads to design a conceptual and practical framework for studying practices on pension fund investment governance on both a macro (regulatory) and a micro (funds) level. This framework is filled in using a case research design, mainly based upon a literature survey and participant interviews on the Tanzanian system. The research exercise provides similarities and differences of views, which ask for explanations. It is shown that whilst the governance of pension fund investments in Tanzania is gaining strength, there are some inherent limitations to the current system, which may call for change measures. It is reasoned that the study may also benefit other developing countries.

The remainder of this study is set up as follows. The next section provides the literature overview. It deals with governance of pension fund investments and the development of the Tanzanian system. Also, the section provides the conceptual framework. Hereafter, the case methodology, in terms of research design, data collection, data analysis and reporting, is described. In the following section, the case research results are shown, whereby interviewee views are highlighted. Furthermore, the results are confronted with the literature and explained. The last section answers the research question posed above and provides implications of the study for both local practice and global academia.

2. Literature overview

Theoretical concepts

International bodies such as the World Bank, the Organisation for Economic Co-operation and Development (OECD), the International Labour Organisation (ILO) and the International Organization of Pension Supervisors (IOPS) lead the discussions on pension fund governance up so far, but there are also increasingly interesting survey reports, country (group) studies and conceptual overviews published. As a matter of fact, academics have been stepping in lately as well. Yet, a focus on investment governance prompts to a limited treatment here.

Pension fund investments are receiving attention from the same bodies as just mentioned, whereas academia mainly sheds her light on this issue with financial performance studies. Yet, the sense for governance of the investments has been growing, in line with the feeling for corporate governance issues in general since the early 2000's scandals. Although the micro perspective on investment governance prevails, the topic is often broadly addressed, such as in the (12) best practice principles of Clark and Urwin (2008b) and Rozanov (2015). Next to this, the macro perspective increasingly receives awareness (OECD 2015).

Theoretical background is provided by the political science construct of hierarchy, the neo-classical agency construct and the neo-corporatist trust construct (Stoker 2006, Osborne 2007), as well as organisational hierarchy (Simon 1960), portfolio theory (Markowitz 1959), agency cost (Jensen, Meckling 1976), inter-firm trust (Nooteboom 1996) and Behaviorial Finance concepts (Ritter 2003). A literature study generated an overview of both macro and micro aspects of governance in pension fund systems. Following, this literature was conceptualised from an investment governance perspective (see Table 1).

The role of missions, plans, charters and procedures in pension fund governance is obvious. Terms such as missions, accountability, responsibility, monitoring and process are in use (Carmichael, Palacios 2003, Greifer 2003, Clark, Urwin 2008a, PPF 2010; Urwin 2011, OPSG 2013, Economou et al. 2013, Rozanov 2015). Board of Trustees and Management Team roles relate to structure, composition, leadership, delegation and auditing issues (Carmichael and Palacios 2003, Clark 2004, Stone and Ostrower 2007, Clark and Urwin 2008a, OECD 2009, ILO 2010, PPF 2010, Thomas 2011, Rozanov 2015).

Table 1 Pension fund investment governance framework

1) *Processes and structures in pension funds*
• Goals, plans, charters and procedures
• Role Board of Trustees and Management Team
2) *Investments and benefits in pension funds*
• Investment strategies and criteria
• Investment and benefit performance
3) *Relationship pension funds with regulators*
• Governance oversight by agency (SSRA)
• Role of Ministries and Central Bank
4) *Pension fund return and fairness*
• Pension fund efficiency and effectiveness
• Investment policy challenges
5) *System sustainability and prudency*
• Tanzanian pension fund system risks
• Legitimisation and independency regulators

Source: authors' own elaboration

Pension fund investments are meant to serve member benefit requirements. According to the literature, investment strategies are led by long- and short-term principles on risk and return, solvency and welfare, in which asset allocation rules and (mainly financial) market factors play a role (Greifer 2003, Gilian 2006, Clark, Urwin 2008b, ILO 2010, Rudolph et al. 2010, PPF 2010, Rajkumar 2010, Hauptmeier, Mannion 2011, Ambachtsheer 2013, Economou et al. 2013, Boon et al. 2014, Lekone, Mukuna 2014, Rozanov 2015).

Pension fund systems are ruled by law and supervision. The literature studies the design, responsibilities, operations, performance, enforcement, independence and delegation of authority (Carmichael, Palacios 2003, OECD 2004, World Bank 2005, Gilian 2006, ILO 2010, Ambachtsheer 2013). Specific to the Tanzanian pension fund system is the role of the Ministries and the Central Bank, as will be shown in the local system description below. This urges a separate treatment in the conceptual framework such as can be drawn from Table 1.

The pension fund investment governance efficiency and effectiveness can be described by looking at institutional arrangements, government interference, administrative operations, coverage, withdrawals and sustainability (World Bank 2005, ILO 2010, Callund Consulting 2013, World Bank 2013). In addition, qualitative and quantitative governmental investment limits on asset classes and investments with different forms of pension schemes should be taken into account (OECD 2015) and may be seen as challenges to the system's functioning.

The governance of Tanzanian pension fund investments underlies specific risks, such as its description below may already indicate. Also, the literature puts in question marks that can be related to concepts discussed above and boil down into hierarchy, agency and trust effects (Stoker 2007, Osborne 2007). It seems as if the system hinges upon the legitimacy and independency of the regulators. In the end, they may be held responsible for building a transparent investment governance system with sustainable and prudent pension funds.

The Tanzanian system

Tanzania's GDP per capita, one of the lowest of the world, is gaining around 7% per year. The social securities' schemes cover about 5% of the population. Their assets have grown to 11 per cent of GDP (Bank of Tanzania 2015b). Membership size and contributions have gone up as well. However, administrative costs are rising at around 15% of the contributions and returns on assets have fallen below the inflation rate of about 5%. Main investment categories include government debt and real estate (both around 20%) and bank deposits (around 10%).

There are five pension funds in mainland Tanzania: the GEPF Retirement Benefit Fund (GEPF), the LAPF Pension Fund (LAPF), the National Social Security Fund (NSSF), the PPF Pensions Fund (PPF) and the Public Service Pension fund (PSPF). First the role of these pension funds in the system and their governance structure is described. Next comes the regulatory oversight on the Funds, with specific emphasis on the role of a Fund's Mother Ministry, the recently established Regulator and the Tanzanian Central Bank. Issues regarding the governance of investments by the funds are specifically zoomed in on.

Tanzania has two types of pension fund schemes. The first type refers to mandatory defined benefit (DB) schemes financed by employers and employees during the working life for terminal and short term benefits. The second type refers to voluntary defined contribution (DC) schemes. Most of the mainland Tanzania pension funds run both types of schemes, but the first type is dominant. Every Fund is erected by its own Act that regulates among others member registration, contribution collections, investments and payment of benefits. Next to this, the Act that established the Regulator and several specific guidelines play a role.

The Tanzanian Funds are set up in an Anglo-Saxon manner (Ambachtsheer 2007). They have a Board of Trustees (Board of Management), comprised of about 10 members as established by Act. The Chairman is appointed by the President, while board members are appointed by the Mother Ministry. The latter will include a representative from the Mother Ministry, the Ministry of Finance and the Attorney General, members representing the Employers, members representing the Workers, and members with experience in social security, financial matters, or business administration, one of whom is from the private sector.

The Director General (DG) of the Fund by establishment serves as a Secretary General of the Board of Trustees. He is also responsible for daily activities such as planning, organizing and coordinating funds' activities with accordance to guidelines, directives, and strategies as approved by the Fund's Board. The Board consists of non-executive professionals appointed by the Ministry. Operational affairs are delegated to the Management Team (MT), which may include a DG (MT President), a Director of Finance, a Director of Operations, a Director of Planning and Investments, a Chief Internal Auditor and a Chief Information Officer.

The Tanzanian pension fund system covers about 5% of the workforce and a major growth to cover especially the informal sector is aimed for by the government. The formation of a Regulator was to deal with major system challenges including fragmentation of legal and regulatory framework, benefits structures as well as lack of investments guidelines. It should also be noted that all the mentioned reforms came as a result of the National Social Security Policy (2003) which required a proper coordination of the social security sector.

Financial institutions (both banks and non-banks) in Tanzania are governed and regulated by the Bank of Tanzania (BoT), which has been involved in the pension sector of Tanzania since the 1990s. However, in 2003 the Government of Tanzania in a joint IMF/World Bank mission conducted a Financial Sector Assessment Programme (FSAP), with the aim to identify the strength, vulnerabilities and general soundness of the country's financial system including the pension sector. The report (FSAP 2003) recommended deregulation and development of long-term investment strategies by insurance companies and pension funds.

In 2006, the committee developed an action plan under the Second Generation Financial Sector Reforms (SGFSRs), which aimed at promoting an efficient and competitive pension sector responsive to market demand and supported by appropriate legal and regulatory structures (Nomi 2008). Following the proposed reforms, the BoT conducted a feasibility study. The study opted on the entry of private pension funds to the financial system, the establishment of an effective supervisory and regulatory framework, the formulation of investment guidelines, the fiscal sustainability of the Funds and improving the governance.

The above mentioned study broadly outlined how reforms should look like and which aspects needed much attention. First, the initial reports proposed a merger of all pension funds into a single public pension fund and design one single fund for private arrangements. The consultant saw no point of having more than one pension fund, instead of competing among each other while being under the guarantor ship of the government. To offload this burden, it made sense to merge all the existing funds. However, the proposal was heavily criticized by different actors including the government and the pension funds.

Second, the report proposed the introduction of an interim regulator of the pension fund who would oversee and supervisor all activities within the pension industry. Following this recommendation, a bill was drafted and the BoT was proposed to be an interim regulator, but the idea was unpopular and thus not welcomed. Following another consultant report it was decided to form an independent regulator and in 2008 the Social Security (Regulatory Authority) Act No. 8 was enacted. This law laid the foundation of the Social Security Regulatory Authority (SSRA) which was formed in 2010 and was pioneered by the BoT.

Investment issues now fall under the SSRA. However, for the time being, the SSRA does not have enough required capacity and skills. Therefore, the current arrangement is that of partnership between the SSRA and the BoT on issuing investment guidelines, which have been released since (Bank of Tanzania 2012, 2015a). It must be noted that the SSRA has the final mandate on investment direction of pension funds in Tanzania, while the BoT offers technical support in designing and implementing investment related guidelines or policies.

In the mandatory schemes, the member contribution rates are 20% by law. The investment guidelines prescribe criteria concerning the required yield (a positive real return), safety of the investments, the investment liquidity, the diversification of investments and the socio-economic utility. Moreover, they specify limits on asset categories proportions, e.g. real estate and infrastructure investments may not surpass the 30% and 25% levels respectively. Also, investment governance requirements are given. Reporting should be risk-based and is required regularly. Lastly, guidelines also regulate membership regulation and pay-out rules.

3. Methodology

Research design

The research relates to the mainland Tanzania pension fund governance system. The following macro system aspects were addressed: 1) the national pension system design and 2) the role of regulatory bodies. The micro system aspects studied refer to: 1) pension fund designs and 2) public reception of pension funds. Since it required specific interest, investment governance became specifically singled out. The specific framework thereon shown above in Table 1 focuses on processes and structures, investments and benefits, pension fund-regulator relationships, pension fund return and fairness, as well as on system sustainability and prudency.

Given the scattered nature of the literature on pension fund systems governance and the limited number of studies on investment aspects thereof in particular, it seems to be rather obvious that a study on the mainland Tanzania system should have a qualitative nature. The choice for a case study design is needed because of the limited amount of publicly available data, the rapidly changing Tanzanian environment after the opening up of the pension fund market and the opaque nature of the problem field to outsiders and even to many insiders. Also, case studies enable to study a topic at depth, which is most helpful with the sensitive topic of governance of pension fund investments in Tanzania (and many other countries).

Key literature on the case research design employed stems from Flyvbjerg (2006), Bereton et al. (2008), Ihantola and Kihn (2010) and Yin (2014). Basic to such a design is a protocol that describes the research plans at length. Much effort was spent on establishing a conceptual framework. When finding out about how investment governance issues would ask for a specific treatment, the case study protocol was refined. Another basic requirement to a case study is triangulation. Data from various formal documents, occasional observations, informal expert interviews, same-body informant interviews, expert checks and multiple-researcher comparative analyses led to data cross-checks and to valuable additions.

Three types of case interviews were used to address the field of interest. The interviewees were chosen such as to examine the Tanzanian pension fund system at large and especially focussing on investment governance aspects. Firstly, background interviews were held with several experts on specific issues. Secondly, the views of the newly created Regulator SSRA, relevant Ministries and the Central Bank were studied at large. This part of the interview series largely employed a macro perspective. Lastly, micro conditions were studied at all five of the mainland Tanzania pension funds. The views of major interest group (employees, employers, government) board members and several types of directors prevailed here.

Data collection

A concepts-based questionnaire was developed from October 2013 to January 2014 to guide the data assembling. Written data were assembled from regulator policy documents and monitoring reports, year reports and other publications from pension funds, as well as public information sources. The field research consists of observations and oral data. The observations included, among others, a visit to a stakeholders' conference of one Fund. Several informal interviews were held with government officials, pension fund members, foreign regulators, academic staff and others. Also, sixteen formal interviews were held.

Formal data stem mostly from open interviews with key informants with major pension fund interest groups and Tanzanian regulators. The interviews lasted between one and two hours, were mostly tape-recorded and transcribed in a written form. Fourteen interviews were done in February - June 2014, with occasional minor follow-ups. In mid-2015, additional interviews with a Secretary of State and an SSRA Board Member were held. Six other meetings were not transcribed, but used for background information. Also, a discussion with a focus group was held and an expert was questioned.

With interviewees quickly pointing at each other by way of snowball sampling, case objects from the groups addressed above were studied rather simultaneously than subsequently (Biernacki, Waldorf 1981). This helped to establish an overview in a short period of time. The interview series basically started with interviews in one Fund and at the Regulator. They ended when officials of all of the five mainland Tanzania funds had participated and the important regulators had been targeted including a Secretary of State almost at the end. We then assumed that no essential new information could be achieved anymore.

Participation was ensured by trustworthy references and pre-interview contacts. About half of the formal interviews from each of the macro and micro level groups were done by one local embedded researcher and one foreign non-insider researcher. This helped to assure objectivity from the very beginning on. The sessions were mostly held at the interviewees' offices. All of the interviews took place in Dar es Salaam, by far the largest city of Tanzania.

Despite multiple traffic jams and other hold-ups, half of the interviews could be held in ten days, making the occasional local presence of one of the authors very productive.

Data analysis

The amount and direction of the interview data that were assembled led to a split up of the original conceptual framework on the Tanzanian pension fund system governance along a board processes perspective and an investment perspective. In this way, for the current study, the general framework was shortened and collapsed to serve the purpose of an investment governance study. The combination of both micro (pension fund) issues and macro (regulatory) issues was maintained throughout, however.

Expert readings provided triangulation of the interview results. The analysis of the formal case interviews took place in late 2015. One researcher boiled down the findings in key words with a data matrix and the other person checked this. The data condensation was led by a framework of pension fund investment governance aspects, leading to a "state-of-the-art" description. Also, several similarities and differences of practices and opinions could be shown. This factual internal benchmarking of the investment governance in the Tanzanian pension fund system showed several interesting characteristics and future perspectives.

The use of various written data sources, both macro system and micro system interviews, multiple-researcher led interviews, interviewee session report checks, as well as periodical discussions with fellow researchers helped to ensure the case validity. The conceptual framework was filled in by analysing the case results and confrontations to the literature added much to the discussion. Generalisations on the Tanzanian system were fuelled by the large amount of documents accessed or received and the high sample of interviews that could be studied, but it also should be noted that the usability of the discussion is largely limited to (developing) countries with similar pension fund systems as the one of Tanzania.

Case cooperation was ensured by targeting interviewees manifold and with pre-interview meetings. Whereas some of them were not able to contribute in the timeframes scheduled, others could step in instantly upon advice of several middlemen and even a Minister of State could be interviewed. The interviewees were all very open to the researchers and did not try to avoid any difficult or delicate issues. Yet, interviewee names were understood to be undisclosed, such as to have people speak up freely. If needed and very rarely, partial confidentiality was warranted by us, such as to protect the so-called innocent.

Reporting

The case results reporting focusses on collecting facts concerning the concepts used, as well as on finding similarities and differences of opinions, since data and arguments matter here. Documents assembled are integrated in the interview transcripts and used for triangulation. If relevant and protecting their actual identities, indications on respondent particulars are given. We note that interviewees are not equally involved with all issues that can be raised. Furthermore, analytical generalisation rather than statistical generalisation is aimed for. So, the reporting is done in the light of interpretations with theoretical concepts (Yin 2014).

The first complete case study report was framed as an academic article draft by December 2015. It was discussed with an expert, leading to several further explanations of the findings and other revisions. Case study participants and interested academics received a copy of the case study report upon request. Several discussions with academics and practitioners led to insights that benefited the discussion. Also, a paper draft was discussed at the August 2016 conference of the International Society for Intercommunication of New Ideas (ISINI).

4. Results and discussion

This section has the results from the formal and transcribed interview sessions. The results are shown on order of the collapsed conceptual framework (see Table 1), starting from the micro (pension fund) level and going into the macro (regulatory) level next. After this, the results are evaluated and confronted with literature. In doing so, several interesting characteristics of the actual investment governance and future governance outlooks on in the Tanzanian pension fund system can be delineated and put in perspective.

Results overview

The division between micro (pension fund) and macro (regulation) level sessions was 9 to 9, with 3 sessions being with trustees with employee, employer or government backgrounds, while 6 sessions were with management team members, including a general director, an operations manager, investment managers, risk managers and auditors. Also, 4 sessions were held with regulator representatives, 2 sessions were conducted with ministry officials, 2 sessions were done with researchers and 1 session was with a Central Bank officer. In general, the interviewees had between 3 and 12 years of experience in the field.

The law sets the outline for the Funds' processes. Visions, missions, strategies and the like are around. Typically, there is a 3- to 5-year planning cycle. Trustees set strategic directions, Management takes ownership of the plan and translates it into business plans. Operations are based on a charter directed by the Trustees and manuals guide the daily activities on e.g. auditing, risks and investing. Customised metrics and strict internal control mechanisms are in place. Management is evaluated and Board evaluations are coming in. Appropriate trainings on e.g. investments foster professionalism and procedures are being harmonised.

The Board as a Fund's highest organ has a tripartite composition. Fund representatives hold that the government is overrepresented, but regulators point at its bailout function. The number of Board members has decreased over time, which is welcomed. However, one Board is missing an auditor and has therefore co-opted an independent accountant. Also, external auditing takers place regularly. A Board typically decides upon recommendations of its auditing, risk and other committees. The CEO and the Chair are on equal foot. The latter is in general Secretary of the Board, which is generally welcomed for streamlining reasons.

As indicated by the law, Funds operate under clear-set investment strategies that typically include annual basis proportions on asset categories, high and low risk investments, as well as sector investments. Some claim that too much emphasis is put on (by law requirement Tanzanian or now also East African Community) real estate and infrastructure investments, but others point at the limited financial markets (bonds, equities, microfinancing) to justify this. Also, the emphasis on Tanzanian treasury bills and investments in weak corporate loans is criticised, as well as government involvement with investments. Others refer to the socio-economic utility criterion here though.

Investments are needed to ensure the pensions and other benefits of the workers. For example, one Fund uses specifically criteria on growth, profit performance (ROI), risk exposure, good reports and sustainability. Growth goals fit with the growing member base. The expected real ROI of each and every investment should be acceptable. Risks are marked as "green, yellow or red", whereby the latter indicate no-go's. Good reports are important with real estate and infrastructure investments. Sustainability refers to the Fund's liquidity and solvency. Next to this, the interviewees refer to modern pay-out and services policies.

Fund representatives point out that their Fund is "sustainable for more than half a century", "leading on ROI", "stable as the return is growing", "paying good services", "targets old and new members", "paying generous benefits", "treating contributors fairly and they get value for money". Other claims are that "there is a limit of 30% income (excluding contributions) on operations", "contributions are based on actuarial rates", "the lowest benefit level has increased substantially", "payments are done within 30 days", and "the Fund has received many awards". Indeed, all but one of the Funds are generally deemed to be healthy.

Mostly, the inception of the Regulator is judged to be a success. The Funds compete and the SSRA assures fair play ("acts as a referee"). It also closes system holes (e.g. on informal sector coverage), helps to improve the governance of the Funds (e.g. via guidelines and law proposals) and its guidelines help to limit government interference. Benefit formulas and structures are harmonised and services do increase. However, overlaps with Ministries occur, competition has increased administrative costs, an administrative charge is levied to the Funds, employer compliance is difficult to ensure and HR departments are being bribed.

Some argue that the Ministries and the Regulator (who reports to the Ministry of Labour) lack the competencies and skills to assist the Funds. For example, the SSRA is said to simply assess collateral, having "no corporate banking mentality". Actually Funds as non-bank financial institutions are to be regulated by the Central Bank. Nevertheless, most of the interviewees view only start-up issues here. The BoT gives technical support to the system and mandates financial guidelines in collaboration with the SSRA, whereby the latter as a regulator oversees the outcomes. The SSRA experiences a "learning curve" in this respect.

The viability of the pension fund system is thought to be good, albeit that one Fund took on members from the state and still has to be compensated for this. The harmonisation of the sector in terms of governance, processes, contributions and benefits helps to immunise system risks. However, efficiency and effectiveness of the Funds is said to be hindered by regulation, other government interference and rising administrative costs for competition reasons. Nevertheless, the coverage increases, costs are being cut, benefits increase and services become better. As to the investments, different rates of return do occur, however.

More specifically, there is still the issue of government directions to do specific investments. Also, Board Members from Ministries urge Funds to undertake bad investments or provide bad loans. Investments in foreign projects are forbidden, only foreign financial investments are allowed. Improperly documented “ghost investment practices” occur. Also, investment limits do not match. Local financial markets are passive and so the Funds remain with real assets. A cut on (unprofitable) real estate and treasury bills is asked for, but government interference makes the funds to go for social welfare. This alleged “final say” is justified by some interviewees in that the government is the guarantor in all of the pension funds.

Interviewees see the following pension fund system risks: government system guarantee (“use of tax-payers money by writing post-dated cheques”), off-balance sheet government financing via pension funds, government interference with Fund decision-making, lack of Board Member independency, Board comprehension in social security issues, employer compliance on registration, administrative cost burden, aggressive competition, low system coverage, fragile member base, uneven distribution of pensions, too high (defined) benefits, contributor withdrawals, beneficiary definitions, transparency issues and public ignorance.

The interviewees recognise that the SSRA is not yet independent, but that independence must be shown by overseeing the law and having professionalism over time. At the time, there are many regulators and this creates confusion. Despite a generally positive outlook, some argue that regulators do not (yet) deliver value for money. A close look at the Kenyan system and trainings (e.g. by the ILO) might help in this respect, as some interviewees note. Quite a few of them plea for a two pillar system, with a separation between government sector and private sector pension funds, or even a merger into one general pension fund.

Results discussion

The interviewees had all witnessed with great interest and at times even co-steered the changes in the Tanzanian pension fund sector that have taken place since the mid-00’s. Although they evaluate some developments differently (see above), the undertone is generally positive. Those who are most involved with the investment governance (changes) have in general also the most positive view and the ones that have retired or who are not close to actual investment governance tend to be more negative. The latter might be related to ignorance, conservatism, knowledge, impatience, independence or other reasons.

Investment processes and structures are governed by governmental regulation and private pension fund rules. The cross-fund existence of various Board committees and units on risk, auditing and investments makes clear that much weight is given by the Funds to these issues. The choice to have an add-on Board audit specialist in one Fund underlines this preference. Nevertheless, specialised (Board) trainings on investment issues may be helpful, cross-fund harmonisation of control systems may stimulate benchmarking and regulators could also further general Board competence requirements.

The actual investments made by the pension funds undergo specific considerations of the government. A regulation-based bias towards local investment limit returns to a suboptimal level from a Fund perspective. One may accept this for socio-economic and government bailout reasons, however. The same goes for other government investment criteria and for investments in government (promoted) projects. Yet, e.g. Kantian categorical imperative considerations ("do as thy wilt be done") will be upheld. In as far as conservatism (else than prudency) plays a role, investment strategies may be reconsidered, however (Ritter 2003).

According to the portfolio theory (Markowitz 1959), pension fund investments should be judged in terms of returns and risks. This makes clear, why requirements on both (real) returns and asset classes are set by regulation and internal rules. The issue of how specific these rules should be is difficult to answer. However, it is evident that even without government regulation, real estate, infrastructure and treasury bill investments may have a high weight in presumably illiquid Tanzanian pension fund portfolios. Nevertheless, the portfolio theory would in principle urge for a drive to adjust these proportions downwards.

Fund representatives employ various measures, in terms of benefits, operations, returns and growth (and pay-outs/services) to describe how well their Fund is performing. In as far as this relates to their roles in the Fund, this is logical. At the Fund level, a comprehensive view should be maintained though. This may be arrived at with multi-faceted performance dashboards, including the Balanced Scorecard (Kaplan, Norton 1992). This system includes financial, customer, business process, as well as learning and growth perspectives.

Although the inception of an independent regulator has brought on several improvements, there are critics on the new system. The repetitive claim that administrative costs have risen severely stands out here. Also, the changes have induced compliance costs at the employer level. The two types of costs are transaction costs according to Williamson (1989). Especially opportunism seems to play a role here. Any market regulation goes with transaction costs, but the costs should be outweighed by the advantages. However, this is difficult to judge here, because of a probable time imbalance between (early) costs and (later) advantages in terms of increased member registration, lower operational costs and higher benefits.

As to the pension fund investments, the oversight is currently shared between the SSRA and the BoT. The issue here is that pension funds are both social security bodies and financial institutions. Despite occasional complaints, the cooperation between the regulators as such is not viewed to be problematic, except for the additional bureaucratic burden created. Another advantage of the current system is that the Central Bank is, at least on paper, more independent than the Regulator that reports to the Ministry of Labour. Also, in transaction cost economics (Williamson 1989) terms, much specificity and uncertainty is involved here.

The ongoing harmonisation of the Funds, with their massive (impact) investments, creates financial risk reduction from the perspective of the Government as a system guarantor. Yet, a certain amount of diversification of investments may even further this at the government portfolio level, as the portfolio theory argues (Markowitz 1959). Also, diverging beneficiary interests on risk appetite, short-term versus long-term investments, pay-out policies and services may ask for differing investment policies. And although relatively still unimportant, voluntary insured members may prefer other polices than compulsory insured members. If all of this this makes the Funds' investment returns to differ mutually, so be it.

If government interference goes with investment policies goes beyond a utilitarianism view and may start to look egoistic, resulting inefficiencies may be at odds with the government's own policies. As a countermeasure, a Kantian categorical imperative based transparency policy may be followed. Furthermore, in as far as interference leads to more social welfare, it can well be grounded in the government's bailout function, despite of the theoretically adverse financial welfare effects. In this way, asset class limits (even down to zero) can be defended well. If a hierarchical pension fund system structure is accepted (Simon 1960), government interference with investments may be acceptable anyway.

The interviewees list many pension fund system risks that may hurt beneficiaries' interests. Government interference is an important umbrella here. Other are Board governance, Fund growth strategies, Member (-ship) issues and public acceptance. It seems as if opportunism, both in the negative and the positive sense, drives the system as a whole. Apart from the Funds themselves as executors, the regulators counteract the risks. If declining the Jensen and Meckling (1976) view with Funds as agents and regulators as principals, a trust-based view on investment governance (Nooteboom 1996) may fit with the pension fund system.

Either way, three issues are on. The first one is independency, of Funds and regulators alike. Whereas the Tanzanian culture may be at odds with independency notions in the end, it is nevertheless worthwhile to strive at for system balancing reasons. The second issue of too much regulators may be justifiable for as long as the system is still learning. Learning from other systems may also help, but it must be said that Kenya is only partly a good benchmark. As to the two pillar system, it is unclear how this fits with optimal investment governance. It may solve some conflicts of interests, but may it also internalise them or create other ones.

5. Conclusion

The research question of this study has been posed as follows: *how are mainland Tanzania pension fund investments governed and which developments can be foreseen?* There are five pension funds in mainland Tanzania. They are set up in an Anglo-Saxon way, with a Board of Trustees, a Management Team and various departments. A strict management control cycle led system is implemented throughout, with Board subcommittees safeguarding auditing, risk management and investment management. Investment procedures are led by law and internal guidelines. Return, risk, financing and utility criteria are in use. In general, the Fund investments work out fine, proper payments are done and Funds are viewed to be healthy.

The Funds are overseen by the Mother Ministries, the newly established Regulator SSRA and the Bank of Tanzania (on investments). The SSRA pushes towards more coverage, proper competition and better procedures, whereas the BoT offers technical assistance. The system is thought to work reasonably well and the contributors in general receive value for money. However, there are some quirks, including the still low coverage, the heavy weight of the government, a load of administrative costs, employer compliance, beneficiary withdrawal, insufficient education throughout and ignorance in general. In specific to the investments, limitations set by the markets and the government are found to be a burden.

Some argue that the solution to the effectiveness and efficiency issues raised above can be mitigated by merging all of the Funds into one Fund. Indeed, in transaction cost economics terms, advantages may be foreseen this way. However, arising agency conflicts between traditional government worker contributors and newly attracted private and informal sector workers will not be evaded then. Whereas the ones will ask for long term investments, the others will have a short term preference (as is already partly true for the in and out movers). Moreover, the market incentive to attract new contributor groups will diminish this way.

The pension fund investment governance in Tanzania can be described in terms of hierarchy (Simon 1960, Stoker 2006, Osborne 2007) in that the government structures the system as a whole. However, agency conflicts (Jensen, Meckling 1976, Williamson 1989, Stoker 2006, Osborne 2007) occur at various system levels, between funds and regulators, but also between the SSRA and the BoT. Nevertheless, a culture-rooted deep trust (Nooteboom 1996, Stoker 2006, Osborne 2007) makes the players to cooperate sensibly. A common strive for optimisation of financial value for the beneficiaries may also be due to this.

So although there is no general answer as to where the Tanzanian pension fund investment governance is heading for, it is found to be governed by a complex but strict control system that is being professionalised throughout. This may inspire plans on leaving the BoT out of the system oversight. Given the financial institution character of pension funds, their heavy weight in the local economy and the large degree of Central Bank independency, this may not be a wise idea though. In search of administrative cost savings and higher investment returns, the role of the Ministries versus the Regulator may be reconsidered, however.

The above statements cannot be definitive. Although the current study is based upon many documents and interviews, ongoing observations and much validation, it is flawed because of delayed public transparency on actual fund performance and administrative cost levels. Also, it researches the Tanzanian system as such, but does not benchmark it to neighbouring and far away countries. Furthermore, a quantitative analysis of investment performance can engender insight, but relies upon fund and regulator ability to cooperate with researchers. A Balanced Scorecard concept (Kaplan and Norton 1992) may help to envision such a study.

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Współrządzenie tanzańskim systemem funduszy emerytalnych

Streszczenie:

Celem artykułu jest przedstawienie, w jaki sposób są zarządzane tanzańskie inwestycyjne fundusze emerytalne, a także jakie są perspektywy rozwoju tych funduszy w przyszłości. Literatura dostarcza obszerny zestaw koncepcyjnych i praktycznych ujęć współrządzenia inwestycyjnymi funduszami emerytalnymi. Niniejsze ujęcie jest oparte na badaniach studiów przypadku poprzez wywiady z uczestnikami systemu. Wykazano, że o ile system się wzmacnia, o tyle jego inherentne ograniczenia mogą stanowić przesłankę do zmian. Inwestycje podejmowane w ramach funduszy emerytalnych funkcjonują poprawnie, a uczestnicy otrzymują wypłaty. Także nadzór jest uznawany za działający dobrze i rozsądnie. Odstępstwa wiążą się z ograniczeniami inwestycji nałożonymi przez rynek i rząd, a także z nadal niskim pokryciem, obciążeniem przez rząd, obciążeniem kosztami administracyjnymi, spolegliwością pracowników, wycofywaniem się beneficjentów, niedostateczną edukacją oraz ogólną ignorancją. System jest zarządzany przez kompleksowe, ale surowe kontrole i podlega profesjonalizacji. Aby obniżyć koszty administracyjne oraz podnieść zwrot z inwestycji, można zmodyfikować role ministerstw w odniesieniu do ciała nadzorującego, przy informowaniu banku centralnego. Artykuł dowodzi, że hierarchiczny system rodzi konflikty, które są ograniczane przez oparte na zaufaniu wspólne dążenia do optymalnej wartości finansowej. W szczególności, artykuł argumentuje, że współrządzenie inwestycjami odnosi korzyści ze ścisłej kontroli oraz profesjonalizacji, zwłaszcza gdy zmniejszone są finansowe ograniczenia rynku i rządu.

Słowa kluczowe: *Tanzania, fundusze emerytalne, inwestycje, współrządzenie*

JEL: G11, G23, G28