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Article

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Public pension fund structure and mechanisms: A case study of the Tanzanian pension fund system

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Abstract:

Aim: Good governance structures have become an issue of public interest, including public pension systems. The quality and performance of the trustees of the funds influences the income flows to which members are entitled and promised, as well as any shortfalls thereof that may require interventions. We aim to examine the pension fund governance in Tanzania, by focusing on structures and mechanisms of boards of trustees, as well as its perceived challenges and future directions.

Design / Research methods: An extensive literature review provides the conceptual and practical framework for studying the pension funds governance on both a macro (regulatory) and a micro (board of trustees as a governing body) level. This case study describes the system in mainland Tanzania, where various regulators and five pension funds play a role.

Conclusions / findings: Board of trustees are important for funds governance. The pension fund structure and mechanisms in Tanzania uphold high standards. However, a major issue is that the board selection seems to be politically motivated and that the government claims most board seats, making conflicts of interest likely to occur repeatedly.

Originality / value of the article: The Tanzanian experience shows the importance of transparent mechanisms and structures, overseen by an independent and virtuous board of trustees.

Implications of the research: Further works need to be considered to account for heterogeneity in pension systems especially in developing countries.

Keywords: Public pension funds, structure and mechanisms, governance, Tanzania, board of trustees, case study

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1. Introduction, problem definition and objective

Public pension fund governance debates are top in both academic and public policy agenda worldwide. This is partly because the design and governance of pension funds has significant implications for the welfare of participants (Clark, Urwin 2010). In addressing fundamental pension fund governance challenges, Ambachtsheer et al. (2006: 15), along with a seminal survey, posed a few interesting questions: “what is the true economic value of good pension fund governance? (...) What are the best routes to address the weaknesses in pension fund governance (...)? Should government legislation/regulation play a pro-active role?” These questions and many others, provide a good basis for analysing pension funds governance as it has direct bearing on the interests of stakeholders (Clark 2004). Pension fund governance is a complex and wide topic which defies a straightforward categorization (Thornton, Fleming 2011). This is true because, in assessing pension fund governance, one could focus on the funds designs, processes and structure or funds’ investments performance (Rozanov 2015).

Governance in a pension funds’ perspective implies a framework that the governing bodies (directors or trustees) use in decisions making. The framework may include, among others, “the structure of the governing body (including legal basis and segregation of functions); the decision making processes within the governing body (including internal controls, risk management, compliance functions and internal oversight structures); the requisite skills and competencies of the governing body; and the means by which the governing body is accountable to stakeholders (principally plan members and beneficiaries, but also a wider stakeholder set including employers, supervisory board, supervisors, regulators and government)” (OECD/ISSA/IOPS 2008: 5).

As a result, good governance is an essential ingredient of any institution’s functional performance, which is the capacity of an organization to function in ways consistent with desired goals. Pension funds are subject to many governance problems like other modern corporations. These include substantial agency problems, since the beneficiaries (principals) trust their assets to be managed by trustees (agents), and at the same time the principals are unable to monitor the

actions of the agents. In such settings, pension funds governance differs from governance of corporations or other financial institutions. This is partly because corporate governance mechanisms and structures are mostly focused on the interests of shareholders, whereas pension fund governance is focused on a multiple set of stakeholders (beneficiaries, employers, and financial institutions) that will, in some instances, have interests quite different and sometimes opposed to the interests of shareholders or other owners of the governing body (Stewart, Yermo 2008; Clark, Urwin 2008; Ambachtsheer 2013).

To address potential pension funds governance problems, international agencies have issued regulations and guidelines for best pension governance practices. These international pension governance regulatory guidelines have only been provided recently (OECD 2009; ILO 2010; IOPS 2013; OECD 2015). The guidelines relate to governance structure and governance mechanisms. The governance structure covers issues such as responsibility identification, governing body, accountability, suitability, delegation and expert advice, auditor, actuary, custodian and the governance mechanisms part covers risk-based instruments, reporting and disclosure. Ashcroft et al. (2009) divide pension governance into four areas: independence, which requires clear clarifications of duties and responsibilities; accountability, which is partly about a fitting internal organisation; transparency, to ensure objectives are communicated to stakeholders and are understood; and lastly, integrity, which refer to having codes of conduct and applying them.

This article aims to examine the pension fund governance in Tanzania, by focussing on structures and mechanisms of boards of trustees, as well as its perceived challenges and future directions. The pension sector in Tanzania has witnessed substantial reforms in the last decades, such as the inception of a regulatory agency and introduction of private pension funds systems (SSRA 2015). With the introduction of a regulator, pension funds board of trustees are faced with new regulations and codes of conduct in performing their fiduciary duties. In particular, this article tries to answer the question “what are main governance structures and mechanisms present in Tanzanian pension funds board of trustees, using independence, accountability, transparency and integrity perspectives?” With this research question, we basically refer to the agency issues as singled out by the

survey of Ambachtsheer et al. (2006), whereas the governance effectiveness and investment/risk management issues that they stress are left to another article (Westerman, Chande 2016).

A comprehensive literature review provided the conceptual and practical framework for studying the pension funds governance on both a macro (regulatory) and a micro (board of trustees as a governing body) level. This study describes the pension funds governance systems in mainland Tanzania, in which various regulators and five pension funds play a role. It applies a case research approach whose findings suggest similarities and differences of views along the concepts applied. The discussion shows that there are improvements in pension funds governance on both the macro and micro aspects. Moreover, there are prevalent weaknesses and problems within the system that require attention. Board selection procedures should be depoliticised to smoothen the pension funds system.

The remainder of the study is structured as follows. Section two has a literature review focusing on the regulatory structure, and the board of trustees' structure and mechanisms with specific attention to independence, accountability, transparency and integrity issues. Section three covers the (case) research methodology adopted, while section four describes the results and discusses these. Our conclusion is drawn up in the last section.

2. Literature overview

2.1 Governance structure and mechanisms

The governance of public pension funds differs from one to another depending mostly on the legal form of the funds and may basically assume three types: institutional, contractual and trust-based legal form (Stewart, Yermo 2008; OECD 2009). Under the institutional type, the pension fund is an independent entity with legal capacity and personality and has its internal governing board. Such arrangements can be found in most developed countries like Germany, Netherlands, Switzerland, Japan, Poland Italy and Denmark. Except for Germany and the Netherlands, which have dual-board structure, other countries have single governing

boards with representatives from both workers and employers. The contractual type is mostly seen in countries like Portugal, Mexico, Slovakia, Turkey and some in Italy and Poland. Under this system, pension funds are not independent entities with legal personality or capacity, but the governing bodies are separate entities; usually financial institutions such as insurance companies or banks. It is interesting to note that in most countries under the Anglo-Saxon rule, the pension models are neither contractual nor institutional (Stewart, Yermo 2008; OECD 2009). These countries follow a trust-based legal form whereby trustees have the legal title over pension funds' assets. In these arrangements, trustees, whether appointed or elected, are expected to make decisions solely for beneficiaries' interest. Trustees are not part of trust and could be of corporate type, as seen in United Kingdom, Australia or Ireland.

Despite increasing recognition over the importance of pension funds governance, challenges are still prevalent in both developed and developing countries. Most studies have found a positive link between governance and pension funds' performance and thus lack of governance affects the pension industry globally. Ambachtsheer and McLaughlin (2015) found out that despite improvements in pension funds governance, compared to the earlier Ambachtsheer et al. (2006) study, various countries such as Australia, Canada, New Zealand, UK and the USA still encounter many problems requiring attention. Mercer (2006) conducted a multinational survey on corporate pension governance: the author found out that most pension funds lack clear governance plans globally. These also included lack of skills and the competence of the governing bodies. Another report (OECD/ISSA/IOPS 2008) shows that transparency, information disclosure to beneficiaries; governing body competency and internal controls are still major governance problems in the countries studied.

In Ireland, a Pensions Board (2006) report shows that there is huge variation in awareness and understanding of trustees' responsibilities and conflicts of interest among nominated trustees of defined benefit plans. Also, consistency in trustee decision-making is an issue with UK pension funds (Clark et al. 2007). Likewise, Clark (2007) found an increasing tension between representation and expertise in several UK pension funds. The findings suggest that most trustees lack the necessary

competence and skills to challenge experts' opinions; therefore, continuing training was pointed to be vital in improving the situation. In general, poor performance in trust based-system is partly associated with weaknesses in governing boards, such as unclear defined duties and responsibilities, trustees being selected as representatives rather than for their knowledge, lack of self-assessments, and poor handling of conflicts of interest.

Furthermore, various empirical studies have found a positive relationship between board of trustees' characteristics and pension fund performance. Jackowicz and Kowalewski (2012) found a direct relation between composition and motivation of the board members on Polish pension fund performance. Also, Ambachtsheer et al. (2006) found board competency and boards understanding of their roles as two fundamental challenges in pension governance. In their analysis, board competency is a complex issue since it depends on how trustees are brought in, either selected or elected. Competency in this regard does not imply trustees to become experts but rather being able to think strategically and govern the funds using defined standards. With respect to qualifications, the best practices recommend boards to have qualified and experienced individuals dedicated to protect members (PPF 2010, Mercer 2014). As a group the board should be composed of individuals with portfolios of skills in various areas that will allow it to exercise the fiduciary duties and make sound decisions on behalf of beneficiaries (Ambachtsheer, McLaughlin 2015; Ronazov 2015).

As Stewart and Yermo (2008) report, very few pension funds require trustees to be experts or to have any financial or investment background. While best practice guidelines provide room for varied experiences and qualifications, they do list core competencies and qualifications that each trustee should possess. For instance, a trustee must have at least five years of management experience in financial or social security from any public or any reputable organization. Furthermore, studies continue to raise concerns over the politically appointed trustees, since politicians are likely to interfere in board's decision making for political gains (Hess 2005; Yang, Mitchell 2005; Stewart, Yermo 2008; Fitzpatrick, Monahan 2015). One example of politically influenced decision may include investment of fund assets in the local economy or in certain ventures. In this regard, independent trustees (elected

by beneficiaries) are outsiders and thus are more likely to monitor members' interests than politically selected trustees who are seen as insiders.

As to Fitzpatrick and Monahan (2015: 1321), "despite the structural problems inherent in public plan governance, comprehensive studies of the issue are lacking in both developed and developing countries". Consequently, few studies on pension fund structures and mechanisms of board of trustees are found in Africa. Interesting is a document by Rusconi (2008) who found the most governance challenges in South African pension funds to be: knowledge gaps among trustees, conflicts of interests among consultants and assets managers, and weak board discipline. Njuguna (2011) found out that funds leadership and designs have positive impacts on governance in Kenya. As for Tanzania, one of the present authors stated a need for more body independence and transparency (Chande 2011). Okoye and Eze (2013) note that minimum standards in disclosing corporate governance practices should be applied and that practitioners should adhere and comply with the requirements on the new pension scheme in Nigeria.

2.2 Background to the Tanzanian pension funds system

The theoretical foundation of most pension funds governance studies is based on the agency theory (Hess, Impavido 2003; Ambachtsheer, McLaughlin 2015). Partly, this is because potential governance structure and mechanism problems in pension funds are agency problems. The governing bodies are agents that work on behalf of beneficiaries who are principals. In this relationship, the agent may take actions that are not in favour of the principal. Consequently, "institutional performance is conditioned by the inherited practices of various bodies that are responsible for these funds" (Clark, Urwin 2008: 2). We will use agency theory and assess its applicability in studying pension funds governance in Tanzania. This section will briefly discuss potential agency problems in public pension funds and mechanism to deal with such problems.

Tanzania provides a relevant case study since it has undergone major reforms in the pension industry. In the last decades, the pension sector in Tanzania has witnessed substantial reforms, such as the inception of a regulator and the introduction of private pension funds systems. With the introduction of a regulator,

pension funds are faced with new regulations and codes of conduct in relation to good governance which emphasize positive returns. These new developments pose potential agency problems, since governing bodies are expected to adapt to the changes and produce optimal outcomes.

The pension schemes in Tanzania fall under the social security system (SSRA 2015), of which the social assistance schemes fall outside of the scope of this study. The Mainland Tanzania pension fund system comprises of five funds, which are regulated by the Social Security Regulatory Authority (SSRA). The funds are categorized as social security funds since they offer more than pension benefits as stipulated in specific funds' Acts. The benefits and eligibility criteria used to differ per fund (World Bank 2014). In general, all funds offer benefits such as old age pension, invalidity pension, survivors' benefit, funeral benefits, social health insurance (only offered by one fund) and maternity benefit (provided by only two pension funds). Nonetheless, the current regulation has harmonised the benefit formula.

The system has both a mandatory and a voluntary tier, but the first tier clearly dominates. The mandatory tier is for all employees in public and private sectors, and is defined benefit, while the voluntary tier is for workers in the informal sectors and is under defined contribution (SSRA 2015). Moreover, the contribution rates vary depending on the sector. Nevertheless, the law requires members or employees to contribute a total of 20 percent (divided equally with the employers) or 5 percent from the employee and 15 percent paid by the employers.

Like most pension funds in sub-Saharan countries, pension funds started as provident funds and converted into pension or social security funds after independence (Dorfman 2015). The reforms were a step towards ensuring adequate income during retirement by paying monthly pensions to retirees than lump-sum as it was the case under provident systems. Additionally, all funds cover anyone who wants to join, including workers and employees in the public and private sector, NGOs, international agencies, workers and persons from informal sector, self-employed, and other people working under non-pensionable basis. As stipulated in their respective Acts, a fund's roles include registering of new members, collecting contributions, paying its members benefits, and investing prudently, as prescribed in

the law. To achieve their goals, all pension funds have a specific mission, vision and objectives which are all set in strategic plans which run into three to five years' cycles.

The pension funds play a major role not only in the financial sector of the country but are a major source of income for retirees and their dependents. The sector comprises of five pension funds, which by 2013 had net assets that grew from TZS 5.3 trillion to TZS 6.5 trillion. According to a recent financial report, the total pension funds' assets account for over 21 per cent of the financial system (BOT 2015). The membership size grew from 1.95 million members in 2013/14 to 2.14 million in 2014/15 (including National Health Insurance Fund members), reflecting a 10 per cent growth (SSRA 2015). Members' contributions grew from TZS 1.98 trillion to TZS 2.27 trillion by 2015. It is interesting to note that the benefits payments also grew for over 15 per cent from TZS 1.38 trillion in 2013/14 to TZS 1.53 trillion in 2014/2015. The increase in benefits pay outs could mainly be explained by the short-term benefits which includes premature pension withdrawals and which calls for affirmative actions, as premature withdraws of pension may lead to inadequate pension during old age.

It is further shown that the social security sector is expected to continue improving in terms of performance and structure (BOT 2015). The sector has undergone several reforms since independence, and more reforms are underway. Main objectives of the reforms include: encouraging and facilitating introduction of private pension funds, establishing an effective regulatory and supervisory framework for private pension funds, developing proper risks management frameworks in pension funds, and instituting sound and best practices of corporate governance in pension funds. The pension funds in general face both inherited institutional designs and governance challenges. They are characterized with limited membership coverage at less than 6 per cent of the active labour force (BOT 2015). Mismanaging and redirecting of sources from pension, for instance, to pay short-term benefits, poor services and poor information to members and political interference are pointed at here.

3. Methodology

This study confines its discussion to structures and mechanisms of the mainland Tanzania pension fund governance system, with a focus on board of trustees' issues as part of the governing organs. Table 1 below, provides an overview of the concepts to be applied in this study: positions of stakeholders, duties and responsibilities, competency and trainings, monitoring and reporting, compensation and incentives, information and communication, guidelines, charters and codes, and stakeholders' conflicts of interest. Given the lack of studies on the topic (Fitzpatrick, Monahan 2015) and its complex nature (Yin 2014), we employ a basically descriptive case study framework that, on top of observations, documents and other materials, heavily relies upon interviews with various players in the system as shown in Table 2.

Prior to holding the above-mentioned formal interviews, an introduction letter was sent to relevant organizations, including ministries, the pension fund's regulator and all five pension funds with background information about the study as well as a confidentiality assurance. Participants were selected based on the snowball sampling procedure. Upon interviewees' consent, the interviews were audio recorded and subsequently transcribed. All the interviews lasted between one to two hours, using questions adopted in a protocol. However, a semi-structured interview approach was used to allow for flexibility and hence providing a richer data set for later analysis (Ghuri, Grønhaug 2005). The board of trustees' functioning was narrowed to four areas providing insights into the board's structure and mechanisms in terms of independence, accountability, transparency and integrity. In line with key academic and practical literature, these concepts were selected to reflect board experiences in relations to good governance in Tanzanian public pension funds.

The basics for the study were laid by the knowledge and observations of the corresponding author. The actual research started late 2013, with making up a protocol, such as generally advised by the literature (Flyvbjerg 2006; Bereton et al. 2008; Ihantola, Kihn 2010; Yin 2014). It was followed by an in-depth literature review, which led to an array of concepts that boiled down into a lengthy questionnaire. As can be drawn from Table 2, half of the 18 interviews were held in

a two-week timeframe in February 2014. In this period, board members, regulatory officials and experts were interviewed by both authors, and various on-site observations were made, e.g. at a stakeholders' conference of one of the funds.

Table 1. Pension fund governance areas

1. Independence: Positions of stakeholders; Duties and responsibilities
2. Accountability: Competency and trainings; Monitoring and reporting
3. Transparency: Compensation and incentives; Information and communication
4. Integrity: Guidelines, charters, codes; Conflict of interest stakeholders

Source: Authors compilation

Table 2. List of transcribed sessions

Mr. A, Director of Operations, Fund C (26/02/14)
Dr. B, Associate Professor, Former Trustee Fund A (18/02/14)
Focus Group Faculty of Insurance and Social Protection IFM (27/02/14)
Ms. C, Director General, SSRA (24/02/14)
Mr. D, Assistant Commissioner, Ministry X/Y/Z (26/02/14)
Mr. E, Project Management Officer at the BOT (18/04/14)
Dr. F, Director Employers Association, Trustee Fund D (Acting Chair) (19/02/14)
Mr. G, Investment Director Fund D (05/06/14)
Ms. H, Director of Operations Fund E (June 26, 2014)
Mr. I, Director of Research, Actuarial & Policy Development, SSRA (24/02/14)
Mr. J, Secretary General Workers Association and Trustee Fund A (19/02/14)
Mr. K, Internal Auditor Fund E (26/06/14)
Dr. L, Pension Fund Expert at IFM (27/02/14)
Mr. M, Director General Fund B (24/02/14)
Mr. N, Director Employers Association, Member SSRA Board (07/10/15)
Mr. O, Chief Actuarial and Risk Manager Fund A (26/06/14)
Mr. P, Permanent Secretary Ministry X/Y/Z (17/04/15)
Mr. Q, Former Trustee, SSRA Board Member (24/03/15)

Source: Authors compilation

Afterwards, a mid-term review learnt that the topics dealt with were very broad by nature and that basically two groups of topics came out as being focal. Whereas the former dealt with investment oversight and led to a separate article (Westerman, Chande 2016), the latter referred to board of trustees' governance. This led to a

break-up of the original research framework into two about equal parts, whereby some macro (regulatory) and micro (pension fund level) issues were maintained for both studies but with different perspectives. The subsequent interviews (including even one with a secretary of state) were spread out over another one and half year, but were discontinued by the second half of 2015, when it was concluded that no material data could be acquired anymore.

Data matrices allowed for condensing data and findings (cf. Miles et al. 2013). The corresponding author did the first review and analysis of the interview reports and wrote a base draft of the article. Focus was laid on reliable and valid descriptions and discussions regarding the key theoretical concepts of independence, accountability, transparency and integrity. With this strategy, analytical generalisation (a fitting overview) rather than statistical generalisation (with exact numbers) was strived for as shown in Yin (2014). The other researcher checked the results description and discussion, while also suggesting changes and additions to the draft. In this way, the results section was objectified. Yet, the conclusions drawn may reflect personal preferences of the authors of course. Having said this, follow-up peer reviews did help to strengthen the text's academic quality.

Next to the subjectivity issue already addressed above, our methodology may suffer from other drawbacks. As an example, it may be that the interviewees do not speak up frankly. This is believed not to be true, since differences of opinions were addressed freely. It was understood though, that actual identities of the interviewees would be confidential, which may go to the detriment of reporting precision. Additionally, the possibility that the authors might have missed an important issue by not asking on it is most unlikely, the corresponding author being a system insider. Nevertheless, if this has led to protecting the so-called innocent, then so be it. Furthermore, there is a general lack of up-to-date and complete public documentation. Lastly, the study object is a "moving target" with many improvements under way on various aspects, such as rules and regulations. While recognising this flaw, it is also understood that we did our best to standardise on conditions as of late 2015.

4. Results and discussion

This section has the condensed results from the formal and transcribed interview sessions. We show the results on order of the collapsed conceptual framework (see Table 1), which takes on the perspectives of independence, accountability, transparency and integrity. After the description, the results are evaluated and confronted with literature.

4.1 Results overview

The division between micro (pension fund) and macro (regulation) level sessions was 9 to 9 (see Table 2). We held 3 sessions with trustees having employee, employer or government backgrounds, and 6 sessions with management team members, including a general director, operations managers, investment managers, risk managers and auditors. Also, 4 sessions were held with regulator representatives, 2 with ministry officials, other 2 with researchers and 1 session was with a central bank officer. All mainland Tanzanian funds are represented, with an emphasis on Fund A with 5 sessions. Generally, the interviewees had between 3 and 12 years of experience in the field.

The five Mainland Tanzania pension funds are overseen by the Social Security Regulatory Authority (SSRA), which has a structure that basically resembles one of a regular pension fund. The mother ministries and the central bank also historically play a regulatory role. Day-to-day funds operations are run by the Management Team, which comprises of various directorates, departments and units. These include at Fund A the Directorate of Finance (DF), the Directorate of Operations (DO), the Directorate of Human Resources and Administration (DHRA), the Directorate of Internal Audit (DIA) and others, normally counting to a total of around 7. The five Tanzanian pension funds under study all have comparable setups.

Members' interests are represented by board of trustees under a tripartite arrangement, which is employees, employers and government. In general, each organization nominates candidates and the mother ministry appoints trustees from a list. However, the Board's chair is appointed by the president, as is the CEO (Director General, DG). In principle, a board member serves two terms, but the

terms may go up to four. Except for a union board representative and one investment director, all trustees and board members criticise this system, even with much support from the regulatory side. The Boards composition varies from eight representatives to twelve, representing the government, workers, employers, experts and the private sector. Nonetheless, there are few female representatives in the board of trustees.

All roles of board members and DGs are defined in the regulations, even before the regulator came into force. The board members for instance have signed a contract with mother Ministries which describes their duties and responsibilities. Similarly, each fund has other policies and regulations to support and guide in the execution of their duties. Furthermore, DGs serve as the secretary of the Board and are responsible for preparing all minutes and agendas. Yet, the interviewees disagree about whether this arrangement is right. All pension boards meet quarterly, but the chairman can call for an ad-hoc meeting in case of a pressing matter or issue. Committees meet more often and prepare for the board meetings. The SSRA DG is keen to note that after risks are reported to her, directors are personally liable from thereon.

Laws require the board of trustees to have the skills, knowledge and competency necessary to make pension funds related decisions. All pension funds acts, and the board of trustees' code of conducts clearly stipulate who qualifies to be a board member. Some interviewees articulate doubts about the actual quality, especially of union representatives. Some funds have an annual training programme and board training is on a needs basis. Moreover, there is no formal skills gap analysis. The board trainings are done both locally and internationally; they also include study tours to other countries within Africa, Asia, Europe and America. One interviewee complains about at least one trip with a perk character. Staff trainings are done regularly, and several interviewees note that government officials should also be trained. The SSRA assumes a facilitating role on trainings, supported by the central bank and the ILO.

At the time of the interviews, board of trustees' members are remunerated "handsomely", as one of the interviewees' notes. However, another interviewee states more prudently that the efforts made are compensated. One fund has a small

annual fee for board members, but sitting allowances for meetings and trainings prevail. Travelling and living costs are covered when being underway. However, one angry interviewee recalls a luxurious trip outside of the country that merely benefitted the board members personally. Notwithstanding this, it must be noted that the board members may also find themselves to “feel the heat” and they are personally liable when a fund goes under in the end. After most of the interviews had been held, the remuneration system became more lump sum with the funds.

Funds are required by law to keep proper records. Monitoring and reporting basically flows via the board committees and the internal systems. Board evaluations are being established. Formal evaluations are done on a yearly base and quarterly reports are made up as well. All funds adhere to a comprehensive framework act (2012) and use the government agencies reporting system OPRAS. The Regulator makes up a yearly overview of key results, with the Bank of Tanzania reporting on the investments. Internal auditing departments and external auditors regularly check the quality of the data provided. Next to physical inspections, the SSRA has had an actuarial review done twice and funds themselves do this at times. It is also said that controls assure compliance.

The findings from the interviews show that many internal documents are not for public consumption. However, all funds use different channels such as annual conferences, booklets, seminars and media to inform members about the Fund’s progress and status. In terms of communication to the public, the Fund uses media such as Radios, TVs, television programs and the annual general meetings. During the annual members meeting, the Fund gives the financial reports, shows the Fund’s progress and then discusses with members. In other instances, Funds hold seminars with employers. The central bank regularly reports on the funds’ investments. The SSRA informs the public and holds a yearly social security week. The flow of information and communication is getting way better quickly, but it is still said to be “poor”. The need to educate the public is high, but marketing goals are said to prevail.

In Tanzania, laws determine the boundaries for the pension fund system to operate in. Next to this, the regulators, increasingly represented by the SSRA, have set guidelines that the funds must adhere to. The funds themselves have their own

guidelines for behaviour, which are translated in missions, visions, policies, charters, codes and manuals. These are in use with a fund as a whole, boards and their committees, management teams and specific units. Funds may employ more than ten formal regulations, often referred to as charters or codes of conduct. Basically, they explain what is expected from a body and should prevent a fund from going under. Some interviewees call for visions for many years ahead, to adapt to changing needs. Despite the formal rules that may even boil down in fraud and whistle blower manuals, funds still face some issues, e.g. bribe of HR departments and corruption.

Multiple conflicts of interest may occur in the system due to some of the existing structure. The government as a guarantor sometimes interferes with financial decisions of funds, and the funds cannot object to such request. Too much political interference is a quite general complaint. However, in one fund, big projects cannot be vowed by special resolution. Also, whereas employer and employee representatives do not have fundamental conflicts of interest, board members do have occasionally. They are, by law, expected to declare these conflicts and regulations even prescribe that one can be expelled from the board after improvement attempts have failed. A specific issue is that pension funds cannot punish non-complying employers.

4.2 Results discussion

The design of the board of trustees in all five mainland Tanzania pension funds does not vary considerably. In general, board of trustees come from mainly three groups: trustees who serve by virtue of their public office (i.e. a state treasurer who automatically serves on board), trustees appointed by an elected official (could be a president or a minister) and representatives elected by either employers or employees directly or through trade unions (Urwin 2010; Fitzpatrick, Monahan, 2015). All boards range between eight and twelve members (SSRA 2015). This design in Tanzania is historically influenced, as in the past pension funds were sector based; in that case, the number of board members was determined by funds stakeholders. The boards guide the management teams, which in turn steer the daily activities in the fund. The SSRA as a kind of a “super fund”, assisted by the central

bank and reporting to the ministry of Labour, has a comparable structure. Next to the SSRA, the mother Ministries of the funds play a supervisory role.

In the broadest sense, a potential agency problem is likely to arise for political appointed board members due to political pressures. Indeed, most interviewees view body composition and selection to be problematic. This is partly because the selection process is done through representative organizations which do not have a standard selection format or procedure. In this case, trustees may make decisions in favour of the appointee. Our findings support this, since various pension funds have made investments that focus on social utility, for instance building a university or a bridge, without sufficient returns. This finding is consistent with Ambachtsheer et al. (2006), who found that composition and selection were sub-optimal with most boards surveyed. The selection process reported to be haphazard and jeopardize trustee's independence. In ideal pension governance settings, board members who are not appointed but selected possess strong numeric skills and the ability to think logically within a probability-based domain; such skills enable the board to function effectively in its long-horizon mission (Urwin 2010).

Most trustees are serving for more than two terms; the law set a two-term tenure, which is, however, renewable. In terms of good governance, perhaps it would be important in the future to assess the value added of having a board member for twelve years. In terms of gender representation, adjustments could be made since there are fewer number of female trustees than one might expect. Since the government has clearly shown intention in increasing female numbers in various boards, special attention may be taken in the pension sector. Another issue that some interviewees take on board is that the DG acts as a board secretary. Obviously, paternalism lies right around the corner then, but this practice also has informational advantages. Unfortunately, public data on board composition are incomplete.

Having noted the above, improvements in terms of trustees and other staff trainings is generally observed throughout the system. Yet, a training need for government officials and politicians is recognised, and a remark on the perk character of some training is made. Indeed, all interviewees who refer to the issue signal a positive tendency in this respect. This is partly due to the requirement set by the regulator that needs funds to periodically train their trustees and staff in general

to meet the changing pension issues. Competent and skilled boards of trustees enhance the funds decision-making processes and ensure that beneficiaries get the maximum value for their contributions (Clark 2007). In this regard, improvements in board selections such as via self-application may yield more competent trustees than the current system.

Our survey evidence further shows that, all pension funds conduct a self-performance assessment at least on an annual basis. However, none of the funds has used or is using external assessment. This finding is consistent with Mercer (2014), where 42 percent of the funds surveyed conduct self-assessment evaluation. According to the report, the results implies that opting for self-assessment is more for compliance rather than a genuine attempt of boards to discover if they are performing optimally. Through self-assessment, board members rate themselves highly and thus are not judging objectively. However, there are occasional examples of critical internal board evaluations in Tanzania. Also, the annual SSRA review may be viewed to partly fill in the gap noticed in this respect. However, the critical issue is to ensure evaluation findings are properly communicated to relevant stakeholders and are made public for accountability purposes.

Furthermore, in a member-centric governance system, communication should ideally be personalized, targeted and single topic, and adapted to different segments of the population in terms of circumstances, attitudes, and financial knowledge. Despite improvements in many communication aspects, our findings suggest poor communication between funds and members. All funds use advanced technology for informing members about their financial status; however, not all members are technologically savvy to be able to access, for instance, mobile technology. Likewise, there is no system or practice of sending members statements. This could help in informing member's progress and getting a snap overview of the expected pensions, which could in turn assist them to financially plan their retirement income.

Moreover, the current study found that the problem in Tanzania is not lack of rules or regulations, which are multiple and well-known, but rather compliance and reinforcement of such regulations. Outright fraud is rarely reported, but irregularities are all around, it seems. The same counts for conflicts of interest, which must be declared, but seldom are reported. However, the board of trustees under current

institutional arrangements are political representatives by nature, with more than half of the board members being government representatives anyway, which will have greater influence on their decision-making independence. This is consistent with the agency theory, which posits that political appointed trustees are potentially exposed to political pressure. For instance, Hess (2005) reported a positive impact of appointed trustees on investment returns. Yet, the presence of governmental representatives in boards is necessary to the Tanzanian system.

Furthermore, in line with Rozanov (2015), the interviews revealed board selection as a key issue of successful board governance. The current selection procedure for board members seems to be politicised. The system could benefit from adopting or adjusting the current selection or board appointment and enhance its independence. The sector regulator is called to ensure that the issued regulations are translated into actual selection processes by introducing board entry assessment of some form. This may help in selecting competent trustees who could easily be trained to attain required skills in performing their duties. If merging the existing funds will become definite, thus forming one large public and one private pension fund, board of trustee's appointments will become even more prominent. If private pension funds arrangements may also mean the introduction of a defined contribution system, a different approach of governance is moreover required.

It seems obvious how to choose if we are presented with the following scenarios. "Imagine two pension funds, each with a board of governors. The board of Fund #1 has been carefully selected based on a template that sets out optimal board composition in terms of the relevant collective skill/experience set, positive behavioural characteristics, and an un-conflicted passion for the well-being of the pension fund organization and its stakeholders. The board of Fund #2 was randomly selected out of the telephone book. Which of these two boards do you think would get higher oversight rankings for such important tasks as CEO selection and evaluation, clear delegation of authority to management, and self-evaluation of board effectiveness? Which of these two funds will likely generate better organization performance over the long term?" (Ambachtsheer 2006: 12). Our answer would likely be Board #1 and Fund #1, but the author cautions that the

difficulty of proving our answer would be in the metrics representing governance quality and performance.

5. Conclusion

As Urwin (2010) pointed out, pension funds should start to treat governance as a variable and not a constraint, and make some moves in the direction of best practice. Our findings suggest in the same line of reasoning that considerable improvements of Tanzanian pension fund governance are present; however, some aspects of governance need adjustments. In terms of board composition, the current mix provides a multitude of competencies and experiences; still, more qualified expert candidates need to be included in the boards. These could include experts with some basic and substantive knowledge in actuarial studies, social security, and financial management in general. Such skills together with others like human resources and management could improve the boards' collective ability to make prudent decisions. Such skills further assist trustees to be able to delegate decision making to competent technical experts.

Each pension fund has a mission and governance mechanisms by which to achieve its objectives. The most important aspect is to align the funds' governance structure and how the funds are managed daily. As Ambachtsheer (2011: 27) stated, "clear linkages between mission, governance, management and results are the hallmarks of pension funds management". And if such elements are well integrated they can facilitate the conversion of retirement savings into pension payments in an efficient, cost-effective manner. Also, a faster turnover of trustees and having more females in the board might help to keep up the drive in an environment that is supposed to be rapidly changing.

Boards' competence and skills is vital. The SSRA, perhaps working with experts, could develop competency and skills matrix as a strategy to select proper trustees in the boards. The matrix could help identifying the skill gaps and offer proper trainings. Moreover, the rising complexity in pension funds calls for more focus on governance issues; for example, the rising demands on the competency of

the governing body especially in developing countries where pension industry is at infant stages and growing rapidly. These countries may need to adjust and adapt new legislative requirements and increase supervisory competency on oversight of pension funds.

Monitoring and reporting in the Tanzanian pension fund system upholds high standards. In terms of board evaluation, evidence shows that pension funds use self-assessments as a method of evaluation annually. Additionally, regulators play a role as countervailing powers in this respect. However, the pension funds need to move beyond a compliance-based system to objective performance assessment to discover whether trustees are performing optimally. Objective assessment could determine boards' effectiveness thus help to devise strategies to improve funds' performance as well as incorporating benchmarks for measuring the following evaluation.

In Tanzania, much has been done to guide the funds' activities with guidelines, charters and codes that translate well into policies and manuals. Despite these efforts, the system occasionally gives way to corruption and may therefore call for reforms. Moreover, the actual performance has not always kept up to pace, in that governmental bodies are interfering much in the daily business of the funds. The cause of the interference could be attributed to the fact that the governmental is the lender of last resort, thus well understandable. However, since the pension funds have their own role in the society, namely to serve their members' interests, these kinds of interruptions should be evaded as much as possible. In doing so, the boards of trustees of the pension funds can uphold their independence, accountability, transparency and integrity.

In conclusion, 'governance' has become a buzzword in both academia and pension industry. This is not only confined into private pension arrangements but also in public pension. The increasing attention of governance issues under public pension funds is due to the dynamic nature of pension funds' operations and functions. The debates range from what is pension funds' governance to how best to ensure good governance in pension funds. Fundamental questions are first, how should and can governing bodies ensure good governance in pension funds without jeopardizing the interests of beneficiaries, and second, how best should the board of

trustees govern. Hence, understanding their functions, structures, mechanisms and challenges are equally important for both beneficiaries and the economy at large.

However, it is important to note that measuring the effectiveness of public pension governance is difficult, since it is hard to determine the counter-factual (what did not happen or went wrong) or separate the effects of external variables. Yet, various bodies and academic researchers are continuing to devise and develop a range of performance measures. As the Tanzanian experience learns, this should be embedded in transparent mechanisms and structures, overseen by an independent and virtuous board of trustees. Having said this, further works need to be considered to account for heterogeneity in pension systems especially in developing countries. We call for continuing evaluations to feed on going and arising debates and hence propose best reform options. Pension fund's governance is a dynamic phenomenon which requires constant assessment to reflect its changing nature.

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Struktura i mechanizmy publicznych funduszy emerytalnych: studium przypadku tanzańskiego systemu funduszy emerytalnych

Streszczenie

Cel: Struktury dobrego współrzędzenia, w tym też publiczne systemy emerytalne stały się przedmiotem zainteresowania publicznego. Jakość i kondycja powierników funduszy wpływa na przepływy dochodów, do których członkowie są utytułowani i które są im przyrzeczone, a także na jakiegokolwiek niedobory z tego tytułu, które mogą wymagać interwencji. Autorzy mają na celu zbadanie współrzędzenia funduszami emerytalnymi w Tanzanii poprzez skupienie się na strukturach i mechanizmach rad powierniczych, jak również na ich postrzeganych wyzwaniach i przyszłych kierunkach.

Układ / metody badawcze: Dogłębny przegląd literatury przedmiotu pozwolił na sformułowanie koncepcyjnych i praktycznych ram dla badań nad współrzędzeniem funduszami emerytalnymi zarówno na poziomie makro (regulacyjnym), jak i mikro (rada powiernicza jako ciało rządzące). Studium przypadku opisuje system w kontynentalnej Tanzanii, w której funkcjonują różne ciała nadzorujące oraz pięć funduszy emerytalnych.

Wnioski / wyniki: Rada powierników jest ważna dla współrzędzenia funduszami. Struktura i mechanizmy funduszy emerytalnych w Tanzanii spełniają wysokie standardy. Jednakże główną kwestię stanowi to, że wybór rady zdaje się być umotywowany politycznie i że rząd domaga się większości miejsc w radzie, co sprzyja powtarzalności występowania konfliktu interesów.

Oryginalność / wartość artykułu: Tanzańskie doświadczenia wskazują na znaczenie przejrzystości mechanizmów i struktur, nadzorowanych przez niezależną i praworządną radę powierniczą.

Implikacje badań: Należy rozważyć dalsze badania nad heterogenicznością w systemach emerytalnych, zwłaszcza w krajach rozwijających się.

Słowa kluczowe: publiczne systemy emerytalne, struktura i mechanizmy, współrzędzenie, Tanzania, rada powiernicza, studium przypadku

JEL: G23, G34