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1. INTRODUCTION

The background to this paper is the realization that the sustainable development goals (SDGs) are grossly underfunded in most developing countries. The optimism present at the time when the SDGs were adopted by the United Nations in 2015 has not been followed by the expected increase in international development finance (Andersen and Therkildsen, 2019). That domestic finance should also play a key role in financing the SDGs was emphasised in the Addis Ababa Action Agenda (United Nations, 2015), but focus was on improved tax collection and reduced illicit financial flows (see paragraphs 22-25). Research has, however, indicated that revenues from tax collection (see e.g. Moore and Prichard, 2017) and illicit financial flows (see Forstater, 2015) will not be sufficient to close the financing gap. Other forms of domestic finance were only mentioned in very general terms in the Addis Ababa Action Agenda, and their potential role in financing the SDGs has not attracted much attention in the debate. This also applies to the potential role of domestic pension funds despite the fact that pension systems and funds exist in most African countries.

The overall purpose of this paper is to outline the main characteristics of sub-Saharan African pension funds[1] and assess the extent to which they can be further mobilised for investments in the SDGs and long-term economic development of the countries.

Therefore, it is the regulation, scale, and management of investments in the pension fund systems that are the focus of this paper. Whereas pension funds' contribution to improving social protection coverage is emphasised in much of the literature and policy debates (Charlton and McKinnon, 2001, ILO, 2018), this is not our main concern here. Similarly, the study will not assess the macroeconomic effects (including effects on public and private savings and consumption) of the domestic pension funds (for assessments and discussions, see e.g. Stewart and Yermo, 2009; Amaglobeli et al., 2019; OECD, 2019[2]).

1 In the literature, funds for old-age pensions are labelled in various ways, such as social security schemes, pension plans, national contributory schemes, civil service pension schemes and pension funds, reflecting the diversity of funds as well as authors' preferences (see Box 1 below). In this paper, we generally use the term pension funds and seek to clarify the differences among funds in other ways.

2 Pension costs in African countries (0-5% of GDP) are, however, much lower than in OECD countries, which on average spend close to 10% of GDP (Abels and Guven, 2016, 11).

This paper provides two interrelated overall sets of arguments.

First, pension funds in African countries are relatively small, but African pension systems are still highly diverse, and significant differences can be found among countries. In some countries, funds are growing rapidly and so do their economic importance and potential for financing SDG investments. An emerging trend can be observed towards the expansion of more contributory and prefunded schemes (ISSA, 2011a; ISSA, 2011b; ISSA, 2014; Maurer, 2017), and there are attempts in several countries to increase coverage by also including the informal sector. The growth of funds due to demographic change and economic growth on the continent also increases their potential (Maurer, 2017).

Second, however, there are limits in Africa to how the pension funds can be invested. Today, pension fund investments are often short term and in fixed-income assets, while most SDG investment needs are long term. Here, too, divergence can be observed. A comparison of African countries shows significant country variations[3], but with an overall tendency to introduce more flexibility into the regulation of pension fund investments combined with an emphasis on improving management and oversight. This points to the importance of reforms, legal and institutional frameworks and practices and, in the end, the political dynamics of a country. It also touches on issues of insufficient management capacity and under-developed financial sectors in most countries.

This paper is based on a review of literature on domestic pension funds in Africa and exploratory fieldwork in Tanzania and Ghana. Searches were carried out in EBSCOhost, which is a leading international database for scholarly social science literature. The searches combined phrases like 'pension funds', 'Africa', 'management', 'administration', 'reform' and 'economic development' in different ways. Some additional searches were conducted on Google Scholar as well as on the websites of ILO, the International Social Security Association (ISSA) and the World Bank, which are the main international organisations involved in pension fund reforms on the continent. A significant body of literature could be found on pension funds in South Africa and some literature on a few other selected countries, but generally the literature is rather fragmented, often with an emphasis on the privatisation debate in the 1990s and early 2000s (see Box 2 below). Much less has been written on the implementation of reforms, current fund management practices and how they relate to the political systems in different countries. This is not least the case for pre-funded schemes, which are a relatively recent occurrence (Hinz et al., 2010; Stewart and Yermo 2012).

3 There seems also to be regional differences; for instance, between several countries in Southern Africa and other regions in sub-Saharan Africa.

Exploratory fieldwork was conducted in Ghana and mainland Tanzania focusing on how funds are managed and invested and the capacity in the sector[4]. Ghana and Tanzania are interesting because they represent different pension system designs with implications for investments and regulation. While Tanzania's funds are still primarily social security funds controlled by the state, Ghana has developed a hybrid and more diversified system with more elements managed by private pension fund managers. A total of 30 interviews with fund managers, board members, private financial actors and donors were conducted. Information about the pension systems in Tanzania and Ghana will be provided in separate text boxes.

After this introduction, Chapter 2 of the paper provides an overview of various pension systems and recent tendencies, including ongoing reform efforts. Chapter 3 focuses on the size and investment practices of African pension funds. Chapter 4 addresses regulatory frameworks and management of the pension funds, including the broader political economy of the pension funds. Chapter 5 concludes the paper and provides a number of conclusions. The chapter also indicates some policy implications and identifies areas where more information and further research is needed.

4 This does not include Zanzibar, which has its own social security fund.

2. PENSION FUND SYSTEMS AND THEIR REFORM IN AFRICA

This chapter provides an overview of pension fund systems and their reform in sub-Saharan Africa. Overall, pension systems serve to provide social security for the elderly. The UN's International Labour Organization (ILO), which promotes rights at work through improved international labour standards, advocates universal pensions as the basic element in pension systems (ILO, 2018). This can be combined with various contributory pension fund pillars, typically linked to labour market participation. The latter social security elements may serve the additional purpose of generating funds for investment purposes. Such mixed pension systems can be found in some of the Southern African countries (Botwana, Lesotho, Mauritius, Namibia, South Africa and Swaziland), which are, furthermore, among the wealthiest countries in sub-Saharan Africa. There, universal or means-tested non-contributory old age benefits cover up to 80% of the elderly (ISSA, 2011a, 18, ISSA, 2014), and work-related schemes for civil servants (mandatory) and private sector workers (not mandatory), often combined with additional voluntary private funds, are of a considerable size (Abels and Guven, 2016).

BOX 1: PENSION FUND VOCABULARY

Pension fund systems differ in the degree to which risks are carried by the individual or shared. One of the oldest types is the **provident fund**, which in its original form was a compulsory saving scheme set up and paid by employers (Dixon, 1989). Typically, they paid out lump sums upon retirement or other social occurrences and had little risk pooling. By contrast, in **pay-as-you-go (PAYG)** systems, today's employees pay for today's retirees and expect tomorrow's employees to do the same. In other words, there is some degree of risk-pooling among members (Charlton and McKinnon, 2000). They are therefore also often called **social security schemes** and at times **defined benefit plans** even though the latter refer to ways of calculating benefits, not to type of contribution (Barr and Diamond, 2009, 32). Defined benefits refer to the fact that they typically determine the employee's benefit as a function of both years of service and wage history. Often, the level of payments is linked to salary levels upon retirement (Bodie et al., 1988).

In **defined contribution schemes** there is a greater element of risk for the employee because payments, whether as lump sum or annuity, depend on the value of funds upon retirement. If funds have been invested unwisely or retirement occurs in an economic downturn, payments will be worth less. In their most individualised form, pension funds can take the form of **individual accounts** in which they often allow employees to exercise greater influence on the management of funds and provide more transparency on savings (ISSA and Brown, 2008). This also means that they are by definition **fully (pre)funded**. However, the emphasis on contribution and (pre)funding for certain types of schemes does not mean that PAYG pension funds are without contributions and are not funded. In fact, most are **partially funded** (ILO, 2018, 27). Such schemes thus often require contributions from employees, and if they are to be sustainably managed, they often also need to generate savings that should be invested to cater for an increasing number of retirees in the future (ISSA, 2013, Dorfman, 2015).

2.1 Convergence of African pension fund systems in the 1990s and early 2000s

Public social security pension funds are the dominant form of pension funds in most African countries. Often, there are separate funds for private and public sector workers, but the differences between the two in terms of financing and management seem limited. Most of these social security pension funds are mandatory and financed as pay-as-you-go schemes with defined benefits (Dorfman, 2015, Abels and Guven, 2016). A total of 38 African countries are known to have schemes covering the private sector and an additional six Southern African countries have schemes paid for by the employers, which may not always be mandatory. There are 33 countries with separate schemes for civil servants. Four of the latter schemes are, furthermore, funded or co-financed directly from state budgets, which may limit their saving potential (Dorfman, 2015, 4). Finally, 10 countries have integrated schemes covering both the public and the private sectors.

The pension fund systems in French- and English-speaking African countries have followed different trajectories, but some convergence towards the public social security pension funds can be observed over the last couple of decades. Belgian and French colonial authorities set up defined benefit social insurance schemes for civil servants in several countries and encouraged voluntary schemes for other categories of workers. In newly independent French-speaking West African countries, some governments began transforming schemes that had been voluntary into mandatory PAYG social security funds providing benefits based on length of service and average earnings (Mouton, 1975). With some variation, these elements continue to be the main feature of pension funds in French-speaking countries (Bailey and Turner, 2002, 109, Kpessa, 2010, 48-49, Kpessa and Béland, 2012, 285). Contribution rates as a percentage of salaries are higher on average in French-speaking countries (Dorfman, 2015, 14). They are managed by tripartite boards with the participation of unions, the government and employers.

The British colonial authorities sought to establish non-contributory defined benefit schemes for civil servants (Kpessa, 2010, Maclean, 2010). After independence, these schemes for civil servants were maintained (Kpessa and Béland, 2012), but the major innovation in several countries was the rather large defined contribution provident funds covering private company employees, and which usually provided lump-sum payments at retirement based on individual savings (Gerdes, 1971, Kpessa, 2013). The sums paid out ideally equaled the contributions of members plus accrued interests (but minus cost of administration) (Gerdes, 1971, Afolabi and Sy, 2015). This made them easy to manage, but also provided for less pooling of risk and resources than those of French-speaking countries (Bailey and Turner, 2002). Apart from improved social security, a main aim of provident funds was to generate savings for investments for national development purposes, which in countries of socialist leanings often implied loans to governments as well as investments into government projects and enterprises (Gerdes, 1971, Bailey and Turner, 2002, Kpessa, 2011a).

Several English-speaking countries, however, reformed their pension systems in the 1990s and 2000s. By then, the provident funds had turned out to be characterised by poor economic management, and they were further undermined by the devaluation of national currencies that reduced the purchasing power of existing funds as well as by politically popular, but unfinanced, hikes in nominal benefits (Kpessa, 2011a). As a consequence, retirees did not get the benefits they expected. Overlapping with an ideologically charged debate regarding the reform design (see Box 2 below), most countries moved their systems more in the direction of the PAYG social security system of French-speaking countries with defined benefits. This entailed greater elements of risk pooling, solidarity, and intergenerational transfer than had been proposed by the World Bank (Kpessa, 2010, Kpessa and Béland, 2012).

BOX 2: THE PENSION REFORM DEBATE IN THE 1990S AND 2000S

As the provident funds in English-speaking countries were increasingly challenged by mismanagement and currency devaluations that undermined the purchasing power of funds, an ideologically charged reform debate took off that involved several international organisations such as the World Bank, ILO and the International Social Security Association (ISSA). The World Bank had become interested in the elderly related to the Bank's focus on ameliorating the effects of structural adjustment from the 1980s onwards, which contributed to the promotion of cash transfer programmes in a large number of countries (Davis et al., 2016). With regards to pension funds, the World Bank's reform agenda comprised the use of pension funds for leveraging economic growth through the promotion of savings and capital markets. A pillared system with (i) a mandatory, limited, possibly means-tested, subsistence system, which should be pay-as-you-go 'to avoid the problems frequently associated with public management of national provident funds'; (ii) mandatory, fully funded and privately managed funds, also to facilitate 'capital accumulation and financial market development'; and (iii) voluntary privately managed funds (World Bank, 1994). This was seen as an attempt at privatisation by some scholars (Charlton and McKinnon, 2001, Ramesh, 2006).

In practice, however, and with support from the ILO and the International Social Security Association (ISSA), during the 1990s most African countries reformed existing schemes by converting their provident funds into PAYG schemes with an emphasis on social insurance based on risk pooling, solidarity, and elements of intergenerational transfer (Kpessa, 2010). Their gradual approach included the objective of paying regular monthly benefits to retirees as opposed to the one-time lump sum that had been paid under the provident funds. In Africa, where the old age crisis was less urgent than elsewhere in the world, the ILO's emphasis on continued PAYG schemes was thus more influential (Charlton and McKinnon, 2000, Kpessa, 2011a, Kpessa and Béland, 2012). ILO, too, operated with a three-pillar approach with (i) a flat rate, possibly means-tested, basic state pension; (ii) a compulsory state-delivered PAYG social security scheme; and, finally, (iii) a voluntary, privately provided scheme (Charlton and McKinnon, 2000). Combined, this implied more emphasis on state control and less emphasis on pension funds as tools for financial market development than the World Bank's approach.

In the mid-2000s, international debates on pension system design became less ideological. In 2005, the World Bank softened its stance with its new pension document ('Old-Age Income Support in the 21st Century'), which focused more on social security and allowed for a bigger role for the state (Holzmann et al., 2005, see also Ramesh, 2006, Kpessa and Béland, 2012). ILO and ISSA continued to advocate principles of universality and human rights as reflected in the ILO Recommendation 202 on Social Protection Floors from 2012 (ILO, 2018). ISSA, however, also seems to increasingly acknowledge that pension funds can be used for capital accumulation for development projects. This culminated in a document in 2014 on trends in social security in which it highlights that the fiscal situation in many countries had improved to such an extent that it allowed reform 'promoting contributory systems of social security, wherein the financing base is wider and less vulnerable to shocks' (ISSA, 2014, p. v, see also ISSA, 2008a, ISSA, 2008b).

Whereas the 1990s and early 2000s were characterised by some convergence of pension fund systems, three reform trends that affect the design and coverage of pension funds can be observed over the last couple of decades. These trends lead to a bigger role for private and more market-based fully funded pension funds but also to larger variation among countries. First, there is a general move towards more contributory and funded schemes. Second, efforts to expand coverage to also including workers in the informal sectors are increasing and as already mentioned this will lead to larger pension fund assets. Third, regulatory frameworks guiding investments have been made more flexible and supervision and monitoring has increased. Each of these trends is analysed in more detail in the following sections.

2.2 The move towards more contributory pension funds

The move towards more contributory and funded pension funds is in some ways a continuation of the reforms of the 1990s, which introduced strengthened or reformed PAYG social security funds. Ethiopia thus extended coverage to private sector workers, seemingly through an integrated social security scheme with the civil servants already covered (ISSA, 2011a, Abels and Guven, 2016). Malawi is also reported to have improved coverage of private sector workers through a mandatory scheme with individual accounts in the early 2010s. The stage of implementation of this scheme is, however, unclear (ISSA, 2011a, Dorfman, 2015). In other ways, new approaches were applied and with renewed emphasis on privately managed funds in some countries.

The trend towards more contributory approaches may be seen as a reemergence of the occupation and personal pension saving funds sponsored by enterprises, unions or other organisations, which were important in Britain during colonial times and remain so today in some of the former British colonies. The most notably example is South Africa where more than 50% of the labour force is covered by such funds. There the funds for private sector workers and other private funds make up the bigger part of pension savings followed by a consolidated government pension fund made up through a merger of several previously individual public funds (Moleko and Ikhide, 2017). The South African funds have the largest pension savings on the continent, both in absolute terms and as a percentage of GDP per capita.

Other Southern African countries have similar funds albeit covering a smaller proportion of the labour force (Dorfman, 2015, 17). However, the mixes of public and private elements differ. Mauritius already has a similar setup with a voluntary privately managed third pillar (ISSA, 2011a, 14). Kenya has significant pension schemes for private sector workers provided by employers, holding assets worth more than double those of its National Social Security Fund, and according to new legislation in 2012-2013 its non-contributory public sector pension fund was to be transformed into a contributory scheme (Turner, 2014; Künzler, 2016). A reform of NSSF was delayed due to trade union resistance. Botswana replaced a PAYG fund with defined contributions for civil servants in 2001 (Beck et al., 2011, 156, Dorfman, 2015, 15 and 48). Dorfman (2015, 48) mentions that there are reform considerations in Rwanda, Uganda, Kenya, Tanzania, Lesotho and Mozambique though he is unclear about the potential reach of such reforms. Tanzania has recently aimed to reduce the sums to be paid as lump sums upon retirement, which would increase the saving element in its pension system (see Box 3 on Tanzania).

BOX 3: TANZANIA'S PENSION FUND SYSTEM

With the Public Service Social Security Act of 2018, mainland Tanzania now has two public PAYG pension funds, the National Social Security Fund (NSSF) for the private sector and the Public Service Social Security Fund (PSSSF) for the public sector. With high mandatory contribution rates totalling 20% of salaries for members from the formal sectors, they are by far the dominant feature in the Tanzanian pension fund landscape. The funds are the outcome of a number of reforms over the last couple of decades, which turned various provident funds and pension schemes into contributory PAYG pension funds and increased supervision through the establishment of a Social Security Regulatory Authority (SSRA) through an Act in 2008 and (some) harmonisation of benefits (Isaka, 2016). In 2015, 3.6% of the working age population (4.3% of the labour force) contributed to pension funds (ILO, 2017, 357).

Prior to reform, the pension sector had been characterised by a high degree of fragmentation with five different funds, namely the National Social Security Fund (NSSF, a transformation of a provident fund for the private sector in 1997), the Public Service Pension Fund (PSPF, which had been turned into a contributory scheme in 1999), the Parastatal Pension Fund (PPF, whose act was amended in 2001), the Local Authorities Provident Fund (LAPF, which became a Pension Fund in 2006), and the Government Employees Provident Fund (GEPF, which became a pension fund in 2012) (Rwegoshora, 2016, Turner, 2014, Isaka, 2016). In the case of NSSF and LAPF contributions had been equally split between employer and employee, and for the other funds employees contributed 5% and employers 15% (Dau, 2003, Rwegoshora, 2016). The reform was also informed by an actuarial valuation, which confirmed problems with the sustainability of funds (Isaka, 2016, Dorfman, 2015 41-42).

Apart from harmonisation, the 2017/18 reform aimed at reducing administrative costs, introducing unemployment benefits and reducing the withdrawal of lump sums upon retirement, which in some funds had amounted to a major part of total expenditures (ILO, 2008, URT, 2017). The reduction of lump-sum payments may also have been driven by the Tanzanian government's industrialisation agenda for which it needed the resources that pension fund savings could provide for (The East African, 2017a, URT, 2017). However, the proposed reduction of lump-sum payments for public sector employees caused an outcry among labour unions and opposition parliamentarians and was changed back to 50% after direct intervention of the President, initially for another five years (Citizen, 2018b, Citizen, 2018a). Similar rules to the ones rejected had been in effect for NSSF since 2014 (Citizen, 2018c, see also Isaka, 2016 on pension benefit harmonisation rules of 2014).

The most far-reaching reforms can be found in Nigeria, which opted for a fully funded private system in 2004, and Ghana, which opted for a hybrid combining public PAYG and privately managed, funded pensions in 2008 (see Box 4 below). In 2004, Nigeria opted for a private pension system due to mismanagement, unsustainable hikes in benefits, and major deficits in the public PAYG schemes. Dysfunctionality meant that retirees often did not receive their pensions. A major motive behind the Pension Reform Act in 2004 was to restore trust in the system (Casey, 2011). Another major incentive for the reform was that Nigerian policy-makers saw the increased savings which it entailed as a means to raising capital for the country's economic development (Kpessa, 2013).

The new system was a funded contributory scheme with individual accounts (Afolabi and Sy, 2015, Kpessa, 2013), which were made mandatory for all public and private sector organisations with more than five employees (Ogunkunle, 2013). Despite major hikes in contributions paid by employees (for employees up from 3.5% for private sector workers and 0% for civil servants to now covering half of the total contributions equivalent to 15% of salaries), it was estimated that the reform would lead to reduced nominal benefits. However, it was also expected that the likelihood that they would actually be paid would improve (Casey and Dostal, 2008). Retirees still had the right to withdraw a lump sum provided that the remaining funds would cover the equivalent of minimum 50% of a retiree's salary upon retirement (Imhanlaiiimi and Idolor, 2011, Kpessa, 2011a). In 2014, the coverage was extended to employees of states and local government, who had had their own schemes and not been included in 2004 (Chukwu, 2016, Casey and Dostal, 2008).

BOX 4: GHANA'S PENSION FUND SYSTEM

Following a reform that came into effect in 2008, Ghana's reform design lies somewhere between the Tanzanian and the Nigerian cases with a hybrid model combining a mandatory social security PAYG scheme (Social Security National Insurance Trust (SSNIT)) with two supplementary private pillars (Pension Act 2008, Act 766). The SSNIT is the result of a merger between two major parallel schemes, a partially funded PAYG social security scheme and a partially unfunded scheme for some groups in the public sector. A few public sector schemes, among them those for university staff and security personnel, remained outside the new system.

Contributions under the reformed setup amount to 18.5% of salaries, of which workers contribute 5.5% and employers the remaining 13%. SSNIT serves as the statutory agency with contributions equivalent to 11% of salaries. 2.5% are handed over to the National Health Insurance Scheme (NHIS). The second, private, pillar is made up of a mandatory occupational defined contribution (i.e. prefunded) fund element whose funds, equivalent to 5% of salaries, are competitively managed by private fund managers. Finally, there is a third, private, pillar for voluntary retirement savings with tax incentives for all Ghanaians (ISSA, 2011a, Kpessa, 2011a, Dorfman, 2015). All tiers are open to informal sector employees on a voluntary basis (Kpessa, 2011b).

A main impetus for Ghana's reform was the mismanagement of funds as well as the low levels of benefits in general and the quite different benefits provided by the parallel structures with the public scheme being more generous. Like in Nigeria, the provident fund for private sector employees which Ghana had inherited from the British colonial authorities had been transformed into a PAYG scheme in the early 1990s (Kpessa, 2011a, Kpessa and Béland, 2012). However, the 1991/92 reform had not curbed the mismanagement of funds, and loans provided to private companies were often not repaid.

2.3 The expansion of pension fund coverage to the informal sector

The second reform trend is a notable trend towards expanding pension coverage in sub-Saharan Africa over the last couple of decades (ISSA, 2014, ISSA, 2017). The expansion of coverage of social protection remains high on the priority list of African decisionmakers, probably linked to its potency in competitive elections in countries that are becoming more democratic (ISSA, 2017, Jacob and Pedersen, 2018, Pedersen and Jacob, 2018). Different countries have followed different trajectories. As outlined above, some countries expanded the coverage of formal sector employees in the late 2000s and 2010s. Furthermore, several countries sought to expand coverage of pension funds to employees in the informal sectors, and this is the main focus of this section.

Available information about the experience of coverage expansion is still rather limited. In Nigeria, the introduction of individual accounts around 2004 was supposed to open up for individual workers, who had not previously been covered, and ensure the portability of pensions in case employees changed jobs. The vision was that by 2010 every worker should be covered by retirement benefit schemes (Kpessa, 2011a). On the one hand it does not seem to have been a major motive behind the reform to expand coverage to the informal sector, on the other hand an early assessment by the pension authorities there suggested that expansion to cover the informal sector had been slow (PenCom according to Casey, 2011, 4). Cape Verde – a small, middle income country – had applied a similar voluntary approach, but in 2009 a declaration of mandatory social contribution payments by independent workers combined with information campaigns by the pension authorities led to the expansion of coverage, reaching 9% (Durán Valverde et al., 2013, 20ff).

More recent experiences can be found in Ghana and Kenya where voluntary contributory schemes allowing for flexible payment rates and times have been introduced. In Kenya, a scheme for the informal sector was launched in 2009, the Mbao Pension Scheme. The Retirement Benefits

Authority of Kenya seems to have been somehow involved in collaboration with various SME business associations, but in 2014 eligibility was extended to all Kenyans. By then, it had around 65,000 members (ISSA, 2011a, 13, Dorfman, 2015, 65, OECD, 2017, 64. See also Künzler, 2016).

In Ghana the Social Security National Insurance Trust (SSNIT) introduced a scheme after a pilot period that finished in 2008, which had reached 90,000 members by 2010. The scheme divided contributions equally into two accounts after the deduction of a premium for life insurance, namely an occupational one that can be drawn on after five months of contributions and a retirement one that can be drawn on at the age of 60 (Dorfman, 2015, 65). However, SSNIT gave up on the scheme, which was deemed too costly. Currently, around 50,000 are covered, and the Nation Pensions Regulatory Authority (NPRA) is pushing for expansion with World Bank support.

There are major challenges and important trade-offs when aiming for expanding coverage to the informal sector. First, it can be a challenge to reach employees, not least women employees. The above evidence – and similar evidence from Asia and Latin America, suggests that special schemes targeting the informal sector may be required (Mesa-Lago, 2009). The evidence from Kenya suggests that non-pension organizations which are in touch with these employees in one way or another may provide potential entry points. Furthermore, the use of mobile phone payment technology facilitates payments. Rwanda's Social Security Board is reported to have followed a similar strategy of forming partnerships with institutions dealing with the informal sectors combined with efforts to design programmes that take into account their work conditions (ISSA, 2014, 13).

Second, and relatedly, many pension funds are operating as defined benefit schemes, where withdrawal rights are earned through regular payments over a certain time period. However, given the precarious conditions of employment, this poses a challenge to employees in the informal sector (OECD, 2017). Therefore, contributory schemes in some respects work better because they are more flexible. Third, however, as funding requirements go up they become less attractive schemes to low-income informal employees and the element of redistribution also decreases (Hujo, 2014, 20, Dorfman, 2015, 34). Furthermore, more contributory and individualised approaches also tend to be more expensive to administer. More authors suggest that government incentives can be necessary, for instance by matching contributions made by employees (Dorfman, 2015, 49, OECD, 2017).

2.4 Reform of institutional and regulatory frameworks guiding investments

The third reform trend is the reform of regulatory frameworks guiding the investment of funds. It is more pronounced in countries that have introduced or expanded contributory, funded, or privately managed elements in their pension funds systems. In the past, most pension funds in Africa were controlled by states akin to state-owned enterprises. This is to some extent still the case with public PAYG pension funds. Their investments have often predominantly been in government bonds or in projects influenced by politicians related to national development priorities or, at times, biased towards private interests by politicians and their allies' business interests. Historically, regulation and governance structures of such pension funds have been weak and not aligned with international best practice in most places (Beck et al., 2011, 194 and 198). However, there is variation among countries.

Again, the southernmost African countries have been at the forefront and developed stronger regulatory and institutional setups. Already in the late 1950s, South Africa got a regulator tasked with managing and overseeing the thousands of pension funds that had mushroomed in the country. With a Public Investment Commissioners Act in 1984, commissioners were appointed to oversee the management of public funds and in the mid-1990s these funds were allowed to diversify from investments in bonds and fixed interest market to equity (Moleko and Ikhide, 2017). Botswana and Namibia have also strengthened the oversight of pension funds (Dorfman, 2015, 48).

Several other sub-Saharan African countries have followed suit with regulatory reform over the last couple of decades. This mirrors a broader international trend in the 2000s towards a bigger role for the state after decades of deregulation (Hujo, 2014). It was linked to efforts to drive down costs of private funds and to some extent marked a revaluation of the relative importance of social protection and the promotion of financial sector development in pension fund reform (Holzmann et al., 2005, ILO, 2014, 31, Sy, 2017, 27). Whereas African countries had not liberalised the pension sectors to the same extent as for instance Latin America, reforms there had a similar focus on cost reduction of existing funds coupled with improved long-term management of risk, investment strategies and liabilities (ISSA, 2014). A dual move can thus be observed where savings go up and pension funds are granted bigger autonomy on the one hand and regulation and regulatory oversight increase on the other. The establishment of specialised regulators is an important trend in this regard. Previously, regulation and oversight were often housed by ministries with limited staff and limited supervisory power. Now, regulatory and supervisory functions are increasingly moved to central banks or specialised regulatory authorities (Beck et al., 2011, 213).

In the upper part of sub-Saharan Africa, Kenya – also with a significant private pension sector – seems to have been an early mover with the establishment of a regulator following the Retirement Benefits Act in 1997, the Retirement Benefits Regulations in 2000, and the introduction of investment guidelines (Odundo, 2004, Beck et al., 2011, 158). The regulator was charged with overseeing and professionalising fund management as well as developing investment guidelines that made investment portfolios more diversified, which helped promote the issuance of private sector corporate bonds. A number of other countries followed suit with the establishment of regulators, among them Nigeria (2004 Act), Ghana (2008 Act) and Tanzania (2008 Act) (Dorfman, 2015, 48). In the last case, however, the Bank of Tanzania was vested with the power to regulate and supervise investments (URT, 2008).

The reform trends denote a different understanding of the relation between contributors, pension funds and the state than previously. As contributions increase and if expansion of coverage to the informal sectors is to succeed, the issue of trust that funds are managed efficiently becomes pertinent (ISSA, 2014, Dorfman, 2015, 66). Negative rates of return, a not infrequent phenomenon in the past, would not be conducive. More harmonised pension fund rules also improve the portability of pensions if an employee shifts from one sector to the other, for instance moving from the public to the private sector or vice versa. In small countries with fragmentation of pension funds, merging these into one or a few major funds is often encouraged for some of the same reasons (Stewart and Yermo, 2009b, Inderst and Stewart, 2014, 19).

3. SIZE AND INVESTMENT PRACTICES OF LOCAL PENSION FUNDS IN SUB-SAHARAN AFRICA

The potential role of local pension fund investments in long-term financing of the SDGs depends obviously both on their size and their distribution between sectors. As mentioned in Chapter 2, recent reform trends lead to increased savings and by implication higher pension fund investments. It is accompanied by a revision of investment guidelines and investments in more asset classes in several countries. However, with undeveloped financial markets this poses a challenge in terms of the management of risk. For instance, apart from South Africa, only Nigeria and Kenya seem to have significant, though still nascent, infrastructure projects underway involving pension fund capital (Stewart and Yermo, 2012; Macomber and Armerding, 2018).

3.1 Size of pension fund investments

The size of the accumulated pension funds will obviously depend on how pensions are funded and organised. If there are no savings, there will be no potential funds for development investments. It seems reasonable to assume that private pension schemes have savings (and investments), whereas it for public pension schemes will depend on whether they are contributory or not. However, even if they are contributory, they may not lead to accumulated assets.

In the table below, pension fund assets in selected sub-Saharan African countries are shown as a percentage of GDP. Although data is not available for all years, the table clearly shows the variation between the countries, but also a general increasing trend in assets' share of GDP in most of the countries. The OECD data is based on various reports from pension authorities in the countries and may not be completely comparable. For instance, as will be shown below, the OECD's data for Ghana seems only to include private pension fund assets.

TABLE 1: PENSION FUND ASSETS AS A SHARE OF GDP

	2010	2011	2012	2013	2014	2015	2016	2017
Botswana				46.9				
Ghana					2.3	3.4	4.1	5.4
Kenya	13.6	12.4	12.9	14.7	14.0	13.0	13.7	13.1
Lesotho		10.7	11.6					
Malawi				8.9	9.6	9.6	9.7	11.8
Namibia	73.4	73.5	76.9	78.0	81.2		80.3	79.7
Nigeria	3.6	3.8	4.3	5.0	5.1	5.6	6.0	6.5
S. Africa	47.7	45.8	48.6	51.3	54.8	56.1	53.8	
Tanzania				6.6	8.4	9.7	8.7	8.6
Uganda							9.3	
Zambia					3.4	3.5		

Source: OECDstatistics – retrieved June 19, 2019.

Thus, the general tendency is that pension fund assets are growing faster than GDP in most countries, and their investments may potentially provide an increasingly important contribution to long-term SDG-related investments in these countries. However, assuming that this growth will continue, and that assets will increase over the next 5-10 years to at least 25-30% of GDP in a number of sub-Saharan countries, an annual rate of return of 10-15% will still only lead to additional potential annual investments of up to 2.5-4.5% of GDP, which is slightly lower than the present ODA to these countries. This estimate is based on the assumption that the pension funds today are not investing in the SDGs, which is obviously not the case. This discussion will be continued below.

As mentioned in the introduction, this study will not deal with the implications of the funding of the pension schemes, but it is worth noting that if pensions are funded (fully or partly) by the public sector, they will potentially crowd out other kinds of public spending – for instance on health and education (Stewart and Yermo, 2009, 2) – and local pension funds may thus lead to reallocations of public funds, which may not be intended.

An example of how various pension funds have developed, using Ghana as a case, is shown in Table 2 below with data demonstrating a particularly strong growth in privately managed pension funds. These funds are now significantly larger than the publicly managed funds. As mentioned above, this is a trend which can be found in other African countries that have reformed their pension systems.

TABLE 2. ASSETS UNDER PENSION FUND MANAGEMENT

GHS (million)	Tier 1	Tier 2 and Tier 3
2012	4281	805
2013	5565	1343
2014	7427	2582
2015	8810	4672
2016	8406	6793
2017	9518	11023
2018	9242	13014
2019	9527 (February)	14714 (Q2)

Source: NPRA.

3.2 Investment regulations and practices

There is currently a move in several countries towards revising investment guidelines that allow for more pension fund investments in private equity (Beck et al., 2011, 171, Maurer, 2017, 20). This may lead to a move away from the predominantly short-term focus on nominal returns towards more long-term benchmarks (Hinz et al., 2010, see also ISSA, 2013). Significant growth in equity investments can be observed in Kenya and Nigeria and to some extent in Ghana, which are also the countries that have undertaken the earliest and most far-reaching reforms when it comes to increasing contributory and prefunded elements of their pension systems.

Even in these countries restrictions remain as to the amounts pension funds can invest in different asset classes. In Kenya, the ceilings are 5% in unlisted equity and 30% in corporate bonds that may include infrastructure bonds, but as of 2012, 0.1% of assets under management were in infrastructure assets. In South Africa, there is a ceiling of 5% in unlisted equity and the pension funds there have generally invested in infrastructure via subscription bonds, but also in some unlisted funds and specialist bond funds (Stewart and Yermo, 2012). In Ghana, the

SSNIT fully owns a light crude power plant worth the equivalent of 5% of assets, which was however not operational at our visit in October 2019.

Nigeria allowed for investments in private equity in 2010 but set a limit of 5% of assets via funds and 15% in infrastructure bonds (Ogunkunle, 2013, brightafrica.riscura.com, 2018, 19). Further asset classes like local government, private sector and infrastructure bonds were added with a reform in 2014, which also seems to have lifted restrictions on investments abroad, but again with ceilings (Chukwu, 2016). Whereas financial market development seems to have been an important objective of Nigerian reforms, the overall objectives of safety and maintenance of returns are also emphasised. Strict requirements to the maximum size of infrastructure investments, track records of the concessionaries and robust credit enhancement have been formulated by the pension regulator (Chukwu, 2016, 122; Macombe and Armerding, 2018). The first infrastructure investments involving pension capital have taken off, but it is too early to assess their outcomes.

Data for Ghana provided by NPRA shows, however, that only 6.6% of the tier 1 investments were in government bonds, and almost 50% were in listed and unlisted equities, while 70% of the growing tier 2 and 3 investments were in government bonds. Tier 1 investments seem in particular to have invested in real estate, hotels and banking, but with low returns. A recent report on Tanzania (IMF, 2018) mentioned that 46% of the pension assets were allocated for government credit and 8% for bank deposits (IMF, 2018, 9 and 27)[5].

More detailed information about investment practices has not been available for this paper, but a recent analysis (brightafrica.riscura.com, 2017) gives some indications. The analysis clearly shows the significant difference between pension fund investments in Africa and elsewhere. Although with variation, the African pension funds, with exceptions in Southern Africa, allocate a much larger share to fixed income[6] than the world average. This also implies that investments in equity is much smaller, which seems partly to reflect the absence of developed financial markets. The limited turnover at stock exchanges in sub-Saharan Africa (apart from Johannesburg in South Africa) hampers investment in private equity. In 2018, the second biggest, the Nigerian Stock Exchange, had a daily turnover of USD15 million, less than 1% of that of Johannesburg. The cost of trading is also generally high, for instance surpassing 2% of its worth for investing in a share in Tanzania's Stock Exchange (brightafrica.riscura.com, 2018). Furthermore, the dominance of the commodity

5 See also United Republic of Tanzania, National Audit Office (2016) and (2018).

6 'which predominantly constitute local bonds' (Riscura Africa pension asset allocation) and often had high returns – 10-15% are not uncommon (Maurer, 2017, 19).

sector in many countries provides for volatile markets. Bankable projects with an acceptable risk profile have been lacking. Combined, this provides for underdeveloped financial markets that tend to be dominated by short-term and rather expensive credit products (Beck et al., 2011, 68). Investments in corporate bonds are limited, both due to restrictions on investments into this asset class and to limited availability.

Compared to other countries, there seems therefore to be a need for longer investment horizons and a further strengthening of local financial markets in a number of sub-Saharan countries, including in the two case countries in this paper[7]. This will, further, require improved investment and analytical capacity in the pension funds.

The analyses does not indicate the sectoral distribution of the investments. It is therefore not possible to assess the relevance of the investments for the SDGs, but it seems that a significant share could potentially be reallocated from fixed income investments to investments relevant for the SDGs.

Information about pension funds' investment strategies, including how they address risks and diversification of risks, have not been available for the drafting of this paper. Investment strategies and risk management will obviously reflect the regulatory framework as well as the management and analytical capacity of the pension funds, but more information is required in order to better understand how these issues are dealt with.

However, as already mentioned, pension fund investment strategies are changing and becoming more diversified in some of the countries, and non-banking sector investments and stock markets are growing (Lukonga, 2010, 147, brightafrica.riscura.com, 2018, 20). It has also on various occasions been emphasised – not only in government documents, but also by researchers – that public pension fund investments have the potential to contribute to wider societal developmental outcomes, for instance through counter-cyclical investments during economic crises (Charlton and McKinnon, 2001, 243) or the development of long-term investment products within for instance infrastructure that could help attract FDI (de Rezende, 2018). Such investments typically imply significant government involvement, which poses a potential threat to the increased autonomy that pension funds have won in recent years (Raji, 2017). At some point, the South African government suggested that pension funds should set aside a mandatory proportion of their investments targeting social investments and 'development'

7 For Tanzania, see IMF (2018, 25 and attached Statement by Mahlinza and Odonye, 3).

purposes, but their profitability was questioned by the sector (Davidson, 2006).

4. MANAGEMENT CAPACITY AND THE POLITICAL ECONOMY OF PENSION FUND INVESTMENTS

Domestic pension funds in sub-Saharan countries have historically been characterised by weak governance structures and rather strict limitations on pension fund investments. As mentioned above, regulatory frameworks have, however, been made more flexible in recent years.

4.1 The role and capacity of pension fund supervision and management

The move towards more contributory schemes poses greater challenges to the management of pension funds as well as to regulation and oversight. The reason for this is not necessarily that reforms often increase the elements controlled by private funds, but simply that there are bigger requirements for funded schemes. Public funds whose liquidity is ultimately backed by the state pose potentially bigger risks to national fiscal sustainability even if they become more contributory (ILO, 2018, 27). Contributory schemes are to be asset-backed and to secure sufficient returns to meet obligations in terms of wage-replacement on the retirement of employees. The handling of such longevity risks means other requirements in terms of regulation, management and capacity than PAYG schemes, which typically operate with a shorter time horizon (Hinz et al., 2010, Dorfman, 2015, 38, Abels and Guven, 2016). Furthermore, contributory schemes increase the importance of macroeconomic stability and rule of law that help safeguard investments (Stewart and Yermo, 2009b).

The increasing complexity in terms of not only regulation, but also financial market development, managemental and supervisory capacity was part of the reason why the World Bank became more cautious in its approach to pension reforms in the mid-2000s, advocating a more gradual approach adapted to a country's administrative capacity and level of development (Holzmann et al., 2005, Ramesh, 2006). This shift largely coincided with the reforms initiated by more countries towards contributory schemes, in the case of Nigeria against the advice of the World Bank (Kpessa, 2013). Apart from the introduction of a regulator and individual savings accounts, the Nigerian reform separated the Pension Fund Administrator (entities responsible for administration and developing investment strategies) from Pension Fund Custodians (responsible for holding and investing assets), both of which are to be licensed, regulated and supervised by the regulator (Kpessa, 2011a, Ogunkunle, 2013). Big employers can apply to become 'Closed Pension Fund Administrators' of the funds deriving from their operations in the country. Similarly, for its private pension funds Ghana distinguishes between Pension Fund Managers (responsible for administration and investment strategies) and Custodians (responsible for investing and holding assets) (Kpessa, 2011a) (see also Box 6 below).

Because defined contribution schemes are a relatively new phenomenon, detailed knowledge about their contemporary performance is limited both internationally and in Africa (Hinz et al., 2010, Dorfman, 2015, 47). Historically, the performance of pension funds on the continent has been weak and supervision has tended to focus more on compliance with regulations, but with limited capacity to identify risks (Beck et al., 2011, 200). Pension funds were often marred by excessive costs and at times characterised by outright kleptocracy (Charlton and McKinnon, 2001, 169). Even in relatively efficient countries costs were 10 times higher as a share of revenues than in European countries of similar size, and there are examples of negative rates of return (Holzmann et al., 2005, 216). This had to do with governance, but also with the fact that coverage is limited to a smaller part of the population, which reduces scale of operations. Controlling costs is no less challenging in contributory schemes with advanced administrative setups (Dorfman, 2015, 45ff).

Contributory pension funds and individual accounts also pose greater challenges to capacity, for instance in terms of administration and understanding of risk management of different asset classes as well as audits and actuarial valuations (Daykin, 2004, ISSA and Brown, 2008, ISSA, 2012). Despite progress in terms of regulation and oversight in several countries over the last couple of decades, human capacity and skills often remain a challenge. Dorfman has observed that there is limited data available on the financial sustainability of pension funds and that long-term actuarial projections are 'limited' (Dorfman, 2015, 40-45).

Even in a country with an advanced pension sector like South Africa with increased arms length between fund management and the government and an emphasis on increased profitability, Rusconi in 2008 identified 'major knowledge gaps in trustee boards, weak board discipline, and conflicts of interest among consultants and asset managers that are going unaddressed, leading to a prevalence of active over passive management and higher fees than would otherwise be the case' (Rusconi 2008 according to Stewart and Yermo, 2009a, 10). Recently, allegations of mismanagement have hit the Public Investment Corporation (PIC), Africa's largest fund manager, which manages assets on behalf of government employees, with suspensions of executives and resignation of the board, related to political interference (Bloomberg, 2019).

In an early assessment of the Nigerian reform, Casey in 2011 found that it had not made any substantial contribution to financial sector development (Casey, 2011). The assessment, however, came after the international financial crisis and a domestic crisis. Knowledge is still wanting about the development in capacity and performance of African pension funds over the last decade.

BOX 6: ADMINISTRATION AND REGULATORY OVERSIGHT IN GHANA'S PENSION FUND SYSTEM

The 2008 pension reform in Ghana introduced at the same time stronger private elements in the pension fund system, granted more autonomy to the sector and increased regulatory oversight. The mandatory public pillar, the Social Security National Insurance Trust (SSNIT) invests in various sectors of the economy ranging from insurance, housing, oil and gas, education, health, and banking among others. The second mandatory private occupational pillar and the voluntary pillar for the informal sector are made up of either Employer Sponsored Schemes under individual firms or Master Trust Scheme, which are open to employees from more firms. These entities appoint private fund managers, who compete for the 'investment-related oversight responsibility of the contributions'. Their role is confined to administrative operations as they do not receive the contributions but are responsible for investment strategies within certain agreed parameters. The assets are managed by 'custodians', for instance banks or insurance companies, which are also appointed by the trustees (Kpessa, 2011a, p. 101). The third tier for the informal sectors is structured quite similarly. The system has been criticised for being too complex, too expensive to manage and for making members bear too much risk (Kpessa, 2011b).

The reform also established the National Pensions Regulatory Authority (NPRA) to regulate, monitor and supervise all three pillars in the pension fund system (Kpessa, 2011a, p. 100 and see also NPRA, 2016). It is vested with the authority to license, regulate and monitor trustees, pension fund managers and custodians. It is made up of tripartite partners as well as pensioners' representatives and government. It is a statutory body but designed as in independent and corporate entity in order to increase regulatory autonomy. The same can be said about the governance of SSNIT, which is placed under a Board of Trustees whose chairmanship is appointed on a rotational basis (employers, workers, and government) (Anku-Tsede et al., 2014). Part of the problem prior to reform was that control over the composition of boards was held by national governments (Kpessa, 2011a, p. 95). It was also based on tripartite principles but excluded some of the majority of unions and thus allowed for government dominance.

Already prior to reform, SSNIT had a quite diversified investment portfolio including both fixed income and non-fixed income ventures. The latter included equity holdings in many of the companies listed on the Ghana Stock Exchange (Kpessa, 2011b). There are examples of the Ghanaian government seeking to influence SSNIT investments to serve its priorities. This, however, was more pronounced in the past and currently happens more through formal legal and regulatory changes than through direct interference in management decisions (GhanaWeb, 2018). No systematic research seems to have been carried out in this regard and little can be found on the investments of the private pension fund providers.

4.2 Pension fund autonomy and the politics of investments

Whereas the purpose of pension funds ideally is to smooth cash flows available for pensioners, the resources they manage are often seen as potentially important strategic investments, and they therefore become subject to political interference. This can be exercised in various ways, either through reform design, regulations, the composition of management and boards or through direct interference in investment decisions (ISSA, 2013). As should be clear from the above, there is a role for governments in providing an institutional and regulatory framework for pension funds, and this inevitably is influenced by national political priorities regarding economic development models. However, there is a balance to strike. At best, there is an arm's length relation between politicians and pension funds, but political interference in management and investment decisions is not infrequent (Inderst and Stewart, 2014).

There is a whole political economy to pension systems that affects their design and which has distributional consequences. Research on this is, however, limited and rather patchy. Historically, pension funds have been biased in favour of the urban population and it has proved politically challenging to touch their privileges (Van Ginneken, 2003, Kpessa, 2010). This provides for a certain path-dependency and inertia in reform patterns, which have implications for the distribution of resources and benefits in a society since pension funds are often directly or indirectly supported by the state (Hujo, 2014, 12). For instance, the decision to transform the PAYG for public sector employees into a fully funded pension scheme in South Africa was made around the time when the country was transitioning from apartheid to democracy, a move that safeguarded the pensions of existing formal sector employees (Hendricks, 2014).

The existence of private financial organisations prior to reform is also found to have promoted designs with larger elements of private insurers, possibly reducing the emphasis on expanding enrolment (James and Brooks, 2001, Mesa-Lago, 2009). In Nigeria, business associations and labour unions were instrumental in pushing for the pension reform with a predominantly private outlook in the 2000s and 2010s (Casey and Dostal, 2008). Relatedly, in her analysis of housing markets in Africa, Anne Pitcher suggests that when private pension funds become institutional investors, they may focus more on high-return projects, which neglect the poor (Pitcher, 2017, see also Sy, 2017). She identifies two main patterns of state involvement in housing markets, namely a statist market economy, in which state entities play a major role as owners of projects, compared to a market economy, in which the state acts more as a regulator. Whether and the extent to which such systemic patterns of relations between states, pension funds and markets can be found in different countries has not been researched.

What we do know is that decision makers exercise their influence in various ways. Part of the problem in Ghana and Nigeria *prior* to reform was that control over the composition of boards was held by national governments, which paved the way for misuse of resources (Kpessa, 2011a, p. 95). Prior to reform in Kenya in the late 1990s, a weak regulatory framework allowed for political interference in decisions on staffing as well as on investments (Odundo, 2004, 285). After reform in Ghana, procedures seem to have become more restrictive. When the Minister of Housing announced that the Ministry was working towards pension funds setting aside 30% of funds for housing to address a housing shortage, this was to take place through legal and regulatory changes, not informal deals (GhanaWeb, 2018).

There are, however, more clear examples of political influence on pension fund investments. There seems to be a temptation to use pension funds as piggy banks, which can be raided in times of fiscal crisis or to support the private sector not only in Africa, but internationally (ILO, 2014, 29, Casey, 2014). In Zambia, recent reports suggest that the state pension funds, the National Pension Scheme Authority (NAPSA), were raided recently to pay public service salaries (Africa Confidential, 2019). Zambia did have a regulator, the Pensions and Insurance Authority (PIA) established already in 1996, but its authority and power have been limited and it only monitors minor parts of the pension sector (IMF, 2017). However, regulatory reform is not always a safeguard against political interference in investment decisions. Even though Tanzania's pension sector has been reformed with the establishment of a regulator and investment oversight vested in the Bank of Tanzania, political interference can be observed (see Box 7).

BOX 7: THE POLITICS OF PENSION FUND INVESTMENTS IN TANZANIA

With the Social Security Regulatory Authority Act of 2008 and the Social Security Regulatory Authority (SSRA) becoming operational in 2010, the investments of pension funds were to be regulated and overseen by the Social Security Regulatory Authority (SSRA) and by the Bank of Tanzania (BOT). The latter issues investment guidelines in consultation with the former and monitors compliance with these guidelines (URT, 2008). In the latest BOT guidelines from 2015, a number of asset classes are allowed, but with limits on each. The main ones are government securities (20-70%), direct loans to the government (10%), real estate (30%), ordinary and preference shares (20%), infrastructure (25%), fixed deposits in banks (35%), investments in licensed collective investment schemes (30%) and loans to corporate and collectives investment schemes (10%) (BOT, 2015).

However, political interference in fund investments is not unheard of. The governance of pension funds is vested in tripartite boards made up of representatives of the government, trade unions and employers, but the relevant minister could also give directions to boards (Dau, 2003, Rwegoshora, 2016 p. 156). Whereas the still operational NSSF Act of 1997 allows the responsible minister to give orders in the national interest (URT, 1997), such provision does not seem to have been included in the more recent Public Service Security Fund Act (URT, 2018). With the SSRA Act some arms length should have been introduced. However, there are also more recent examples of political interference. When in 2016 the country's President, Magufuli, ordered pension funds to invest in industrialisation, including in reviving defunct privatised industries, their regulator, the Social Security Regulatory Authority (SSRA), responded that the funds were bound by rules and regulations that prevented them from investing directly in such risky ventures. However, these restrictions seem to have been done away with quickly, as projects were initiated soon afterwards (The Guardian, 2016a, 2016b, 2017a, 2017b, The East African, 2017b).

How exactly such investment decisions are made is unclear, but the speed with which they were announced following the President's order suggests that due diligence is likely to have been limited. Rumors of projects being initiated without developed business plans abound. More evidence suggests that political interference is on the increase. With about 25% of portfolios now invested in 'direct loans to public sector projects and institutions', the 10% ceiling on direct loans to the government is breached (Ajwad et al., 2018). This debt reduces the long finance available to the private sector, which has experienced a credit squeeze in recent years (Kasumuni, 2017). The director of SSRA was fired by the President at the end of 2018 as a consequence of the protests over a proposed reduction in the payment of lump sums to retirees. The SSRA was abolished in 2019.

5. CONCLUSIONS

The background to the interest in the investments of the local pension funds is a significant SDG financing gap in sub-Saharan Africa. Recent data shows that international development finance will not be able to close this gap and that domestic finance will be critical. Strengthening various forms of domestic resource mobilization is therefore strongly needed. However, so far, the focus has been on taxation, whereas there has been limited discussion about the potential role of domestic pension funds.

This paper shows that in the last couple of decades significant reforms of pension funds have taken place in several countries in sub-Saharan Africa. Three reform trends have been identified: a movement towards contributory and funded schemes, increased coverage of the informal sectors, and finally the introduction of more flexible regulatory frameworks combined with increased regulatory oversight.

These reforms have taken place in parallel with a significant growth in pension fund assets. A growth, which can be assumed to continue in the future. An estimate – based on a set of simple assumptions – shows, however, that pension fund investments may only lead to potential additional annual SDG investments of 2.5-4.5% of GDP in the foreseeable future, but with an increasing trend and variation between individual countries. However, in order to ensure that the pension funds increasingly invest in the SDGs, it will require significant changes in current investment practices and regulatory frameworks.

This paper also shows that systematic information about the pension funds in sub-Saharan Africa, their investment practices and management is not easily accessible. Therefore, a better understanding of the potential role of pension funds in financing the SDG gap will require more information about existing investment practices of the various pension funds, both of public and private pension funds. This would imply more information about investment strategies, but in particular more detailed information about investment portfolios and the role of management and regulatory frameworks. This paper found, however, that more information is available for Ghana than for Tanzania – the two case countries in this paper. Furthermore, anecdotal evidence exists about political influence on these investments, but more systematic information and analysis are required to understand the implications of this influence. These various types of information may probably, due to their complexity, need to be collected on a case-by-case basis in individual countries.

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