



Is the investment towards industries and the blue economy present an opportunity or pose a threat to the ZSSF?

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1. Background

Experiences from developing countries have demonstrated that economic growth is valuable only if it can result in a substantial poverty reduction through a creation of extensive and inclusive jobs. Rather often, the relatively rapid economic growth achieved by many developing economies in Sub Saharan Africa does not contain a meaningful economic and social impact to the majority of people. This implies that such economies are struggling to translate the economic growth into higher employment and greater human development. Zanzibar has particularly experienced rapid economic growth and an impressive economic growth for the most parts of the past two decades³. To a large extent this economic growth has been accompanied by the expansion of public revenues and expenditures. Yet, it seems that the prevailing high economic growth has not been very inclusive enough in terms of extending social protection coverage (including social security), eliminating extreme poverty, as well as reducing the income inequality gap between the *haves and have-nots*.

Despite the valid argument that the effects of prevailing economic growth have not been greatly enjoyed by the largest portion of the general public through increased income and higher employment, there is a great amount of evidence showing that the prevailing high economic growth does support the extension

of social protection in Zanzibar. Building on the free access to health care for all (which is expected to be converted into mandatory universal health insurance - UHI), Zanzibar has accomplished a remarkable achievement by introducing universal old age pension for all elderly that is fully financed by the government and the provision of conditional cash transfer (CCT) social assistance programme⁴. Further, all formal workers from private and private sector are receiving a relatively comprehensive social protection under the Zanzibar Social Security Fund (ZSSF), which is a mandatory and a contributory based social security scheme⁵.

Given the limited fiscal space facing Zanzibar, same as with most developing economies, ZSSF who is one the major domestic sources of capital ought to play a pivotal and notable role in increasing social security to workers. Ideally, this essential social security coverage which currently makes the formal workers from both public and private sector feel secured against unforeseeable contingencies and old age will have to be extended to informal workers in the coming years. It is therefore unsurprising that the role of ZSSF in financing public investment and its own investment practices (strategies) appear to gain an increasing attention and a growing scrutiny. Thus, the identification of the impact of investment made by the social security scheme (via direct investment and indirect investment by lending to the government for financing public projects) to finance development

³ In the last two decades, Zanzibar has produced impressive macroeconomic performance with sustained high economic growth ranging from 4% to 7%.

⁴ This is a social assistance programme implemented by the Tanzania Social Action Fund (TASAF) covering both Zanzibar and Mainland Tanzania.

⁵ ZSSF is currently providing these types of social security benefits: old age pension, invalidity, survival and maternity. Since Zanzibar is offering tax financed universal health care, members of ZSSF are still lacking the coverage of three types benefits (work related injury compensation, sickness and unemployment) for them to have comprehensive social protection as recommended by the ILO Social Security (Minimum Standards) Convention, 1952 (No. 102).

projects either within traditional industries or the emerging economies such as the blue economy remains an interesting topic to explore for identifying new valuable insights.

As illustrated by John Maynard Keynes, who is one the most prominent economists of the 20th century, in his famous essays named “*General Theory of Employment, Interest, and Money*”, the large scale investment spending by government is a paramount component behind most economic developments mainly due to its multiplier effect. Capital expenditure towards industries accelerates human development because it increases employment which in turn prompts a higher consumption power that stimulates further industrial investments, and in the end this process establishes a virtuous circle. Based on this eloquent rationality, it is relatively simple to note the importance of large capital expenditure on human and economic development for a developing economy such as Zanzibar.

2. Existing Investment Policy of Zanzibar Pension Fund

A quick glance at the typical investments’ practices by the ZSSF suggest a pattern signifying concentrated investments on fixed deposits, government backed securities and real estate. It doesn’t need to search for a genius economist or a financial “guru” to realise that the rationality for investing in fixed deposits is largely influenced by the view that some of these instruments are very liquid. This particular investment strategy presents a room for ZSSF to have stronger muscles to meet its short term liabilities at a time of a mismatch between members’ current contributions and imminent benefit payments. Further, the reason for investing in government backed

securities is to allow the diversification of investment portfolio because naturally these investments are perceived to entail a low level of risk.

The steady generation of income and continuing appreciation of asset prices are the most likely arguments for ZSSF to invest rather aggressively in the real estate sector (i.e. Mapinduzi Tower, Michenzani Tower and Nyumba Rafiki in Mbweni area). On the contrary, this can be a misconception, mainly because downward risk is also embedded in the real estate sector. There is a great possibility that concentrated investment in real estate could turn out to be volatile and less profitable than the common thinking of the crowd that the market price of properties always goes up. Global history, for instance, the 2007-2008 global economic crisis that originated from the collapse of housing market in the United States of America (USA) has taught us one very important lesson that, time and time again, investors in the real estate sector succumb easily to the “herding effect” bias commonly associated with the fear of missing out on what appear to be extremely attractive investment opportunities. In fact, the real value of real estate assets does not necessarily always appreciate; it can also fall down in a rather emphatic speed (strangely enough conforming to the law of gravity) and a devastating manner. Indeed, cash flows generated by real estate assets can be as risky as other investments in the markets, especially in developing economies such as Zanzibar.

It is imperative to acknowledge that assets in the real estate sector could be profitable investments to ZSSF at least in the short term, but the jury is still out regarding their ability to provide a return on invested cost of capital in

the medium term and the long run. This article does not intend to exemplify the drawbacks of investments in the real estate sector made by ZSSF. It is sensible to assume that managers of the scheme have sensible reasons to justify their investment decision making towards the sector. However, there is a reasonable likelihood and rationality that far too many funds have been placed in the real estate sector which may over-expose the scheme to the risk attached to fluctuations of real estate' prices.

3. Investment focus of Zanzibar Pension Fund - going forward

As a leading domestic institutional investor, a new policy encouraging ZSSF to focus on investment strategies (i.e. value addition manufacturing industries and the activities related to the blue economy) rather than real estate is likely to provide the pension fund with an effective instrument to diversify their investment portfolios. In addition to diminishing diversifiable risk, the investment diversification towards industrialisation drive may create more employment and present higher investments returns than that provided by the real estate sector.

Decision making regarding investments in the industries and the blue economy is undoubtedly a complex task that often requires a comprehensive analysis – in terms of financial, economic, market and political aspect - to identify profitable industries and appropriate financing options. At the end of the day, the decisions about investment strategy plays an equal weight as the macro-economic and market factors on the potential to maximise investment returns. Social security funds have been playing a significant role in bringing socio-economic development in

almost every developed country, and now they are playing a similar role in fostering the industrialisation process in some countries with emerging economies across the world such as China, India, Malaysia, and so on.

Although capital expenditures towards the industries incorporate a considerable level of risk like many other types of investments, there are no obvious reason and justification why in Zanzibar, ZSSF should not be a catalyst for industrialisation process of establishing industries that can add value to the existing sub-sectors of the blue economy (while simultaneously producing an adequate return on investments to the members) as their counterparts in emerging countries. Assuming that investments in various attractive industries are conducted prudently, ZSSF has a robust reason to view its role in financing the blue economy and industrialisation as an attractive and a unique opportunity, instead of a challenge or threat. Economic history provides us with many illuminating empirical examples concerning the impact of industrialisation on both economic and human developments. In this regard, maybe it is about time that ZSSF shifts its investment portfolio from concentrating on the real estate sector towards industries and the blue economy.

4. Conclusion

Considering that it does not exist in a vacuum as it operates in Zanzibar economy and the members are part of the people forming the community, ZSSF has to make a strategic decision as far as its investment strategy is concerned. It needs to decide either to continue with its current “quiet life investment strategy” dominated by real estate assets that may not yet produce impressive outcomes or

to step out of its shells by adopting a fairly “progressive investment strategy” by directing more focus on the blue economy and industries for bringing value addition in various key sectors.

To conclude, it should be emphasised that the above mentioned investment strategies (real estate vs the blue economy sector and industrialisation) are far from being mutually exclusive, but all financial decisions are inherently involving an opportunity cost due to scarcity of resource. This inevitably requires ZSSF to place more weight on one (which is more attractive and profitable) investment strategy over the other. While deciding on the “trade-offs” of each investment strategy, perhaps ZSSF should remember that *“the difficulty lies not so much in developing new ideas as in escaping from old ones”* - as famously stated by the genius economist named John Maynard Keynes. Needless to say, however, for the management team of institutions like ZSSF it is a “no brainer” to be tempted to opt to hedge the financial resources in risk free assets. This brief note, therefore, gets the “ball rolling” for research based institution such as ZRCP to come up with an evidence based paper that will analyse the costs, risks and benefits of varied segments in the market that are feasible and viable investment options within the blue economy and value addition industries in order to allay the existing (and understandable) fear of ZSSF to lose money by investing in these emerging opportunities.