THE WORLD BANK
IBRD • IDA

2018

Financing Social Protection in Tanzania

MOHAMED IHSAN AJWAD
MIGLENA ABELS
MARINA NOVIKOVA
MUDERIS ABDULAHI MOHAMMED

Abbreviations and Acronyms

ASPIRE	Atlas of Social Protection Indicators of Resilience and Equity
CCT	Conditional Cash Transfer
CHF	Community Health Fund
CTOVC	Cash Transfer for Orphans and Vulnerable Children
DB	Defined Benefit
DFID	Department for International Development
EAC	Eastern African Community
FFA	Food for Assets
GDP	Gross National Product
GEPF	Government Employees Provident Fund
IDA	International Development Agency
IMF	International Monetary Fund
LAPF	Local Authority Pension Fund
LEAP	Livelihood Empowerment against Poverty Program
MAM	Moderate Acute Malnutrition
MCHN	Mother and child health and nutrition
MVC	Most Vulnerable Children
MVCRS	Most Vulnerable Children Response System
NAIVS	National Agricultural Input Voucher Scheme
NGO	Non-Governmental Organizations
NSPP	National Social Protection Policy
NSSF	National Social Security Fund
PAA	Project Area Authorities
PAGO	Pay-as-you-go
PER	Public Expenditure Review
PMO-LYED	Prime Minister's Office, Labor, Youth Employment and Persons with Disability
PMT	Proxy Means Testing
PPF	Parastatal Pension Fund
PPP	Purchasing Power Parity
PROST	Pension Reform Options Simulation Tool-Kit
PSPF	Public Service Pension Fund
PSSN	Productive Social Safety Net
TANESCO	Tanzania Electric Supply Company Limited
TZS	Tanzanian Shilling
UCT	Unconditional cash transfer

Table of Contents

Acknowledgements

This note was written by a core team at the World Bank led by Mohamed Ihsan Ajwad (Senior Economist), and included Miglena Abels (Research Analyst), Marina Novikova (Consultant), and Muderis Abdulahi Mohammed (Senior Social Protection Specialist). The note benefited from invaluable research input from George Gandye (Consultant). The task was carried out under the overall guidance of Dena Ringold (Former Practice Manager) and Robert S. Chase (Practice Manager).

The note received significant input from the Tanzania Social Action Fund (TASAF), the Prime Minister's Office, the Ministries of Agriculture, Food Security and Corporative, Finance, and Livestock and Fisheries Development, and Tanzania Electric Supply Company Limited (TANESCO).

The note received excellent comments from Jamele Rigolini (World Bank), Manuel Salazar (World Bank), Dampu N. Ndenzako (ILO), Paul Quarles Van Ufford (UNICEF), Anthony Hodges (Consultant), and Joern Huenteler (World Bank). This note was made possible with funding from the Rapid Social Response (RSR) Multi-Donor (Russian Federation, Norway, the United Kingdom, Australia and Sweden) Trust Fund.

Any remaining errors or omissions are the responsibility of the authors and should not be attributed to the World Bank or any other institution.

Abstract

This note assesses whether social protection programs are adequately financed in mainland Tanzania. We find that social protection programs are an important component of Government expenditures, and complements other Government social spending, including education and health spending. In recent years, the Government has strengthened social protection by: (i) increasing social protection expenditures; (ii) shifting social assistance from generally inefficient food and in-kind programs to more efficient cash-based programs; (iii) shifting social assistance from relatively untargeted programs to those which are targeted to poor people; and (iv) easing demand side constraints faced by households investing in human capital. Despite these positive developments, challenges to social protection remain: (i) social assistance and employment programs remain underfunded relative to the needs of the population; (ii) development partner financing remains crucial even though they are prone to external risks; (iii) little is known about which social welfare services and employment programs work well; (iv) many pension parameters are not in line with best-practice and therefore, sustainability can be improved; (v) generalized subsidies, which are notoriously bad instruments to target poor people, are absorbing Government resources in a tight fiscal environment.

Summary

This note assesses whether social protection programs are adequately financed in mainland Tanzania. To do this, the note benchmarks social protection expenditures and performance against social protection programs in comparator countries. The following social protection programs are included: social assistance, social insurance, employment programs, and generalized subsidies (non-contributory price subsidy programs). Large programs supported by the Government or international Development Partners (DP) are included in the analysis.

We find that social protection programs account for an important component of Government expenditures, and complements other Government social spending, including education and health spending. In fiscal year 2016, the Government of Tanzania's total expenditures on social protection amounted to 2.35 percent of GDP.[1] This included social assistance, pensions, employment programs, and generalized subsidies, which together amount to about TZS 2,436.7 trillion (US$ 1.11 billion).[2] Old age pensions are the biggest spending component of the social protection system in Tanzania. Spending on social assistance and generalized subsidies are also significant, while spending on employment programs are relatively low.

The Government of Tanzania has made considerable strides to strengthen the social protection system in the country over the last decade. There have been four main positive trends in the social protection system. First, the Government increased social protection expenditures, demonstrating its commitment to social protection. Second, social assistance has shifted from food and in-kind based programs, which are generally inefficient, to more efficient cash-based programs. Third, social assistance has shifted from relatively untargeted programs to those which are targeted more directly to poor people. Fourth, social assistance programs have eased demand side constraints faced by households when investing in human capital. As a result, education and health have become more affordable to poor households, potentially reducing the intergenerational transmission of poverty.

Despite these positive developments, challenges to social protection in Tanzania remain. Social assistance and employment programs remain underfunded relative to the needs of the population, the knowledge base is weak, and little is known about which social welfare services and employment programs work well. Development partner funding remains crucial to social assistance, this dependence often raises concerns about reliability as DP funds are subject to external risks. Many pension parameters are not in line with best-practice, reversing this would have the potential to improve sustainability. Finally, generalized subsidies, which are notoriously bad instruments to target poor people, are absorbing Government resources in a tight fiscal environment.

More specifically, we find that the extent of poverty and vulnerability in Tanzania requires a bigger fiscal outlay on social protection; low spending is especially pronounced in social assistance and employment programs. Tanzania spends less than about 0.46 percent of GDP on social assistance. In comparison, African countries spend an average 1.55 percent of their GDP on social assistance. If funds were perfectly targeted to poor people, which they never are, more than twice the current allocation would be needed

[1] In comparison, in Kenya social protection spending was around 1.51 percent (social assistance - 0.4 percent; pensions - 0.84 percent; post-tax electricity subsidies - 0.27); in Mozambique it was 9.04 percent (social assistance – 1.3 percent; pensions – 1.83 percent; post-tax electricity subsidies - 5.91); and in Ethiopia it was 2.44 percent (social assistance – 1.0 percent; pensions – 0.32 percent; post-tax electricity subsidies – 1.12). The social assistance estimates are derived from the World Bank's ASPIRE database, the pensions estimates are from the World Bank's pensions database, and the post-tax electricity subsidies are from the Coady, et al. (2015).

[2] World Bank (2017b).

to eradicate poverty in Tanzania. The good news is that the country's largest social assistance program, namely the Productive Social Safety Net (PSSN) program, gives the government an opportunity to scale up social assistance relatively quickly. PSSN has a good track record of targeting poor people. It has a nationwide payment delivery mechanism, and the conditional cash transfer is an effective mechanism for encouraging poor families to invest in their children's human capital. The PSSN program has already led to desirable outcomes, including the shift from food and in-kind based social assistance programs to more efficient cash-based programs; and the shift from untargeted (broad-based) to a targeted social assistance system. Scaling up all components of PSSN and improving coordination between PSSN and other social assistance programs could help improve service delivery.

Scaling up all PSSN components would likely increase total PSSN costs to a maximum of US$323 million per year or about 0.4% of GDP and 2.4 percent of the state budget.[3] If the PSSN cash transfer component and the PSSN public works component is rolled out universally, social assistance spending will increase to about 0.60 percent of GDP. Even with these increases, Tanzania's social assistance spending as a percentage of GDP will be low – 40 percent of the Africa average for social assistance spending.

Policymakers could consider scaling up employment programs with a proven track record of achieving results; and could consider piloting other employment programs to assess their effectiveness. Employment programs are also understudied, and therefore, little is known about which programs work well, and are ready for scale up. Employment programs could help to increase labor demand; improve the skills base and the supply of labor; and improve matching between labor supply and demand. Poverty rates in Tanzania are lower in households where the household head is a wage earner or is a non-farm business operator. Upscaling the PSSN livelihood enhancement component in a manner consistent with information gathered from the impact evaluation could help address earnings potential.

Tanzania's pension system has seen some positive developments, especially with the passage of the 2014 Harmonization Rules which brought about overall positive parametric reforms across the five mainland pension funds. All the harmonization guidelines are expected to improve the sustainability of the pension funds. However, given that they are only applied to new entrants of the most financially challenged funds, that means that the fiscal benefits of these parametric changes will take several decades to materialize. Despite harmonizing the parameters across the five funds, the fragmented structure remained and as a result the relatively small size of the social security schemes has an impact on their efficiency as it does not allow for economies of scale. Furthermore, there is room for further adjustments to bring Tanzania in line with international best practice.

Some of the key challenges facing the pension sector in Tanzania include: i) very low pension coverage rates among active and elderly population; ii) ensuring pension payments by clearing contribution arrears and effectively managing "pre 1999" liabilities of PSPF; iii) further revision of the pension parameters to create sustainable and affordable benefit levels across all funds and beneficiaries overt the long term; iv) consolidation of the industry through merging of the funds to reduce administrative costs and allow for economies of scale.

Public debt and development aspirations have made it difficult to find resources to strengthen social protection but there are at least three avenues for Tanzania to pursue. First mobilize revenue domestically. IMF (2015) estimates that Tanzania could increase its tax to GDP ratio by 5 percent – potentially TZS 5.187 trillion (US$ 2.4 billion) in additional revenues. Second, leverage development

[3] See "Tanzania – Productive Social Safety Net (PSSN) - Long term sustainability" for details. This cost estimate assumes that cash transfers will be scaled up to the 30 percent of villages not currently covered by PSSN, and that public works are taken up by 70 percent of households in PSSN.

partner resources. Development partners have shown a strong interest in financing social assistance programs in Tanzania. However, it will be important for Tanzania to gradually shift to government financing after initial investments have been made and when systems are in place because domestic resources are more reliable. Third, reduce the use of inefficient or expensive programs. Programs such as generalized subsidies, school feeding programs, school transportation programs, are expensive to implement. These programs need to be examined further and it may be useful to assess their efficacy.

Introduction

This note assesses whether social protection programs are adequately financed in mainland Tanzania. The note benchmarks social protection expenditures and performance against social protection programs in comparator countries. The following to be social protection programs: social assistance, social insurance, employment, and generalized subsidies (non-contributory price subsidy programs). Large programs supported by the Government or international Development Partners (DP) are included in the analysis.

The note is primarily aimed at policy makers in Tanzania, but findings may be useful for DPs and Non-Governmental Organizations (NGO) in Tanzania. They may also be beneficial to other countries facing similar development challenges. This note focuses on the mainland of Tanzania, and a companion note presents similar analysis for Zanzibar.[4]

This note is a part of the overall Tanzania Public Expenditure Review (PER) process and findings are being used for the draft National Social Protection Policy (NSPP). The PER process supports strategic discussions on fiscal policy challenges, backed by the Ministry of Finance and Planning and the World Bank. The Government taskforce is preparing a NSPP under the leadership of the Prime Minister's Office, Labor, Youth Employment and Persons with Disability (PMO-LYED).

Background and context

Recently, the economy grew robustly, but poverty and vulnerability are widespread

Over the last decade, Tanzania recorded strong and shared economic growth. In 2016, Tanzania recorded GDP per capita of US$ 879 (US$ 2,787 at PPP), and was in the top three of the fastest growing economies in Africa. GDP has grown by an impressive 7 percent per annum over the last ten years. Tanzania's economic growth has been pro-poor; poverty decreased by 18 percent (from 34.4 to 28.2 percent) between 2007/8 and 2011/12 and extreme poverty decreased by 17 percent (from 11.7 to 9.7 percent) in the same period.[5] There was also a sharp decline in the depth of poverty, as measured by the poverty gap,[6] this fell by 35 percent when the poverty line was used and by 38 percent when the extreme poverty line was used.

Poverty continues to affect a large portion of the population. More than 28 percent of the population, as many as 12 million people, live in poverty, while almost 10 percent of the population (4.2 million) live in extreme poverty. Furthermore, if the international poverty line of US$1.25 per capita per day (in 2005 PPP exchange rate) is applied, about 43 percent of Tanzanians would be designated as poor.

A large share of the population is also vulnerable to falling into poverty. In Tanzania, a significant share of the non-poor is clustered close to the poverty line and are vulnerable to falling into poverty. Household income shocks, extreme weather events, global price hikes in essential food items, or health shocks can cause non-poor households to fall into poverty. World Bank (2015) shows that a 10 percent increase to

---

[4] See Ministry of Finance and Planning and UNICEF (forthcoming).

[5] See World Bank (2015) for details. Using national poverty line, poverty in 2011/12 was 28.2 but using the international poverty line, the poverty rate was estimated at 43.5 percent.

[6] The poverty gap is the mean shortfall of the total population from the poverty line (counting the non-poor as having zero shortfall), expressed as a percentage of the poverty line.

the poverty line (TZS 120 or US$ 0.075 per adult per day) would lead to a poverty rate change of more than 20 percent; a 25 percent increase in the poverty line (TZS 300 or US$ 0.19 per adult per day) would increase the poverty headcount by more than 50 percent.

Tanzanians are vulnerable to both systematic and idiosyncratic shocks, but the rural poor are particularly vulnerable. Systematic shocks include environmental shocks (floods, droughts, earthquakes); livestock diseases, which occur regularly[7]; and other shocks, including global financial crises (e.g., 2008); food price crises (e.g., 2007-08), and oil price crises (e.g., 2008). Rural poverty and seasonal fluctuations often cause reduced food consumption (lean season).[8] Poor households, particularly the 70 percent in rural areas are most vulnerable to environmental and seasonal shocks: an average of 80 percent of rural poor households depends on agriculture as a significant source of income. Idiosyncratic shocks affecting Tanzanian households include death of a household member; health shocks to household members; and household business failures. Unsurprisingly, poorer households take longer to recover from losses and tend to resort to coping mechanisms which may have negative long-term impacts (such as reducing food intake, withdrawing children from school, and depleting savings or assets).[9]

Human capital gains have been significant, but nutritional deficiencies remain

Human capital gains and improvements in living conditions have been significant.[10] Tanzania's Human Development Index improved from 0.392 to 0.521 from 2000 to 2014; the main drivers were health, education and incomes. Life expectancy has increased considerably and is now at 65.5 years, an increase of 15 years between 2000 and 2014. Enrollment and completion of primary school has improved, and the transition to secondary school has increased sharply. Ownership of modern amenities, such as televisions and mobile phones rose;[11] access to electricity, water, and sewerage have also grown, albeit from a low base. Ownership of agricultural land also increased, though ownership of productive assets, such as mechanized equipment and large livestock, remains limited.

At the same time, human capital deficits remain. Nutrition deficiencies are high. The Tanzania Demographic Health Survey 2015-16 found that 34 percent of children under 5 are stunted, 14 percent are underweight, and 5 percent are wasting.[12] Quality of education also remains low.[13]

Social protection plays a key role supporting families to build human capital that will later yield returns in the labor market. In addition, social protection allows families to prevent and mitigate the negative and often long-lasting impact that shocks have on human capital formation and individual well-being, supporting the reduction of intergenerational transmission of poverty. Finally, social protection supports countries to promote equality of opportunities and reduce inequality by boosting the outcomes of the poorest and most vulnerable.

---

[7] Damage caused by about 70 percent of current natural disasters in Tanzania, which include prolonged droughts, severe storms and floods, and rising temperatures, cost more than 1 percent of GDP. Furthermore, weather-related losses in agricultural productivity are estimated to be at least US$200 million (World Bank, 2017).
[8] Kaminski, J., L. Christiansen, and G. L. Gilbert. 2014. "The End of Seasonality? New Insights from Sub-Saharan Africa."
[9] Dasgupta and Ajwad (2011).
[10] World Bank (2015).
[11] World Bank (2015).
[12] Ministry of Health, et al. (2016).
[13] The expansion in school enrollments without the accompanying increases in the numbers of teachers, class rooms, and teaching materials has led to a decline in education quality.

In Tanzania, social protection is stronger now than it ever was, but challenges remain

The Government of Tanzania has made considerable strides to strengthen the social protection system in the country. There have been four main positive trends in the social protection system. First, the Government increased social protection expenditures, demonstrating its commitment to social protection. Second, social assistance has shifted from food and in-kind based programs, which are generally inefficient, to more efficient cash-based programs. This is a significant shift, despite coming mainly from the expanded role of PSSN (other programs remained relatively stable). Third, social assistance has shifted from relatively untargeted programs to programs targeted more directly to poverty. This is also a result of PSSN's expansion but is important nonetheless. Fourth, social assistance programs have eased demand side constraints faced by households when investing in human capital. As a result, education and health have become more affordable to poor households, potentially reducing the intergenerational transmission of poverty.

Despite these positive developments, challenges to social protection in Tanzania remain. While the details are spelled out below, the main message is that social assistance and employment programs remain underfunded relative to the needs of the population, the knowledge base is weak, and little is known about which social welfare services and employment programs work well. Development partner funding remains crucial to social assistance, this dependence often raises concerns about reliability as DP funds are subject to external risks. Many pension parameters are not in line with best-practice, reversing this would have the potential to improve sustainability. Finally, generalized subsidies, which are inefficient instruments to help poor people, are absorbing Government resources in a tight fiscal environment.

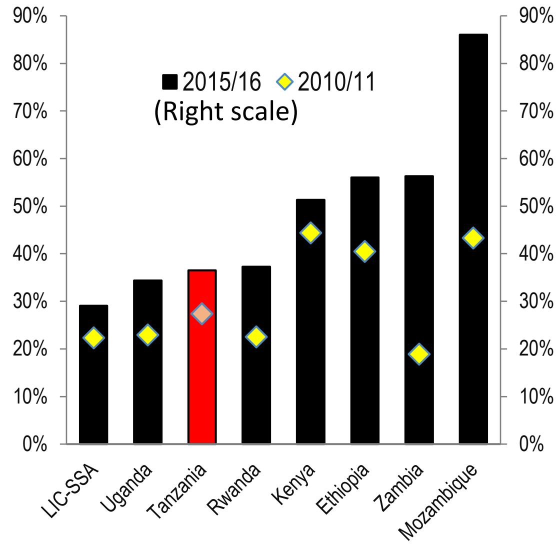
Fiscal pressures have made it more difficult to find additional resources for social protection

Public debt and development aspirations have made it difficult to find additional resources to strengthen social protection. Public debt is increasing; the country's total public debt increased from 20.8 percent in 2007/08 to 37.5 percent in 2015/16.[14] Tanzania's recent increase in public debt is a result of increased commercial borrowing, domestic and foreign, to finance the Government's ambitious public infrastructure program. The Government is planning to increase expenditures on water, transport and energy infrastructure, which leaves little room for other spending. Grants and concessional loans fell significantly between 2014/15 and 2015/16.[15] This has all put fiscal pressure on the Government to find the right mix funding for social protection programs. Debt increases in Tanzania are worrisome but are not as large as those seen in Zambia and Mozambique (Figure 1).

[14] IDA and IMF (2009) and IMF (2017).

[15] World Bank, 2017c

Figure 1: Public debt in selected SSA countries (percent of GDP)



Source: World Bank (2017c)

Despite the increase in public debt, the IMF has found the risk of debt distress to be low given current public debt and debt service ratios.[16] Based on a 2016 debt sustainability analysis, the IMF found that Tanzania can afford a higher fiscal deficit of up to 4.5 percent of GDP for a few years and still have low risk of debt distress. Deficits were below 4 percent in 2013, 2014, and 2015.

Methodology

This note builds on several reports including: The Draft National Social Protection Framework (2016); United republic of Tanzania Systematic Country Diagnostics (World Bank, 2017); Tanzania mainland poverty assessment report (World Bank, 2014); Tanzania's productive social safety net: Findings from the Impact Evaluation Baseline Survey (World Bank, 2016); and Public Expenditure Review: Government Pensions Obligations and Contingent Liabilities (World Bank 2014).

Three additional tasks contributed to this social protection financing diagnostic:

- **A comprehensive inventory of social protection and emergency response programs were carried out.** This uses the World Bank's Atlas of Social Protection Indicators of Resilience and Equity (ASPIRE) for the period 2013-2016. The harmonization methodology[17] allows social protection data in Tanzania to be compared with data from other countries. Inventory data include: (i) program objectives, including sources of vulnerability the program aims to address; (ii) program design, including targeting methodology (means test, proxy means test, community targeting, etc.), implementing agencies, and modalities for distribution (cash or in-kind); (iii) the number of beneficiaries; and (iv) total spending.

[16] IMF (2016).
[17] http://datatopics.worldbank.org/aspire/~/documentation.

- **Two rounds of consultations with Government and other stakeholders were conducted** to choose programs to be reviewed in detail; to ensure that data is validated; and to ensure the main messages inform NSPP development. The consultations were carried out in Dar es Salaam in July 2017, and September 2017.[18] These consultations and a World Bank Report[19] have helped to define the scope of social protection for this financing diagnostic.

- **Analysis of social protection program composition and financing in the context of challenges faced by households was carried out.** Composition and financing are benchmarked with comparator countries. The progressivity of non-contributory social protection financing; and sustainability of the social protection system are assessed in terms of Government spending and the extent of development partner financing.

Social protection programs are designed to help people manage risk and volatility and protect them from poverty. The three main social protection instruments are: (i) those that improve *resilience* by buffering individuals from shocks; (ii) those that promote *equity* by equipping individuals to improve their livelihoods; and (iii) those that create *opportunities* to build a better life for themselves.[20] Resilience is promoted by insuring against shocks to well-being, key sources include social insurance programs, i.e., unemployment and disability insurance, and old-age pensions, which minimize the negative impact of economic shocks.[21] Equity is promoted by protecting against poverty and promoting equality of opportunity. Social assistance programs help alleviate poverty and protect against destitution, these programs include cash transfers, public works, and in-kind transfers, they also protect poor people from irreversible human capital losses in terms of nutrition, health, and education, thereby contributing to equality of opportunity and resilience. Opportunity is promoted by increasing access to health, nutrition, education, and skills development, along with access to productive employment. For example, labor market programs provide unemployment benefits, build skills, and enhance workers' productivity and employability; cash transfers incentivize investments in human capital by promoting demand for education and health and help address gender inequalities; public works programs provide cash payments to the poor, while increasing physical capital investments. In many cases, multiple objectives may be achieved with one social protection instrument.

Four social protection instruments are included in this note:

- **Social assistance (social safety net) programs.** These are non-contributory programs designed to target poor and vulnerable people and help them cope with chronic poverty and destitution. Examples of these programs include: unconditional and conditional cash transfers, non-contributory social pensions, food and in-kind transfers, school food programs, public works, and fee waivers. They may also include orphanages, equipment for disabled people, and care for elderly people.

---

[18] Officials from the following institutions in the mainland participated in the consultations: Prime Minister's office, Ministry of Finance and Planning, TASAF, Ministry of Labor, Ministry of Agriculture, Livestock and Fisheries, and representatives of Local Government.

[19] World Bank (2018).

[20] World Bank (2012).

[21] Programs in other sectors are also extremely important for resilience—such as crop and weather insurance and health insurance. Private and informal arrangements (such as savings, assets, and family- or community-based support) are vital, too.

- **Social insurance programs.** Contributory programs are designed to help people manage income changes because of old age, sickness, disability, or natural disasters. Individuals pay insurance premiums to be eligible for coverage or contribute a percentage of their earnings to a mandatory insurance scheme. Examples of social insurance programs include contributory old-age, survivor, and disability pensions; sick leave and maternity/paternity benefits; and health insurance.

- **Employment programs.** These programs can be contributory or non-contributory and are designed to help protect individuals against loss of income from unemployment (passive labor market policies) or help individuals acquire skills and connect them to labor markets (active labor market policies). Unemployment insurance and early retirement incentives are examples of passive labor market policies, which are usually contributory. Training, employment intermediation services, and wage subsidies are examples of active policies, which are usually non-contributory.

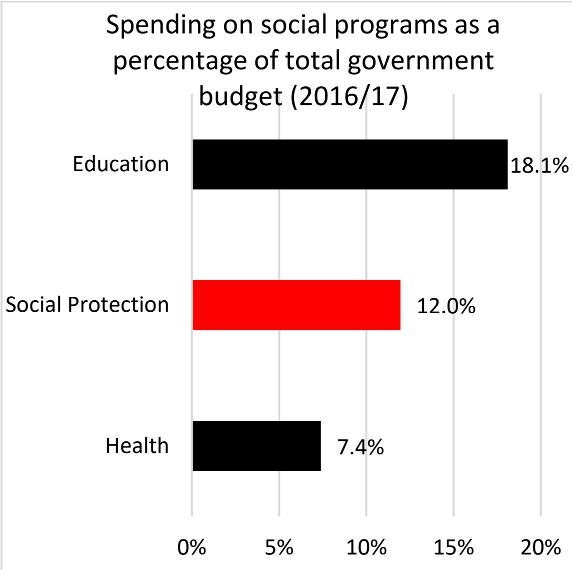
- **Generalized subsidy programs.** These are non-contributory programs such as price and tax subsidization of goods or services to reduce the cost of living for everyone or for a subset of the population. Examples include electricity, agriculture input, water, and transport subsidies.

Social Protection in Tanzania

Social protection constitutes an important component of Government expenditures and complements other Government social spending. In fiscal year 2016, the Government of Tanzania's total expenditures on social protection amounted to 12 percent of total government expenditures (Figure 2). This included social assistance, pensions, employment programs, and generalized subsidies, which together amount to about TZS 2,436.7 trillion (US$ 1.11 billion), equivalent to 2.35 percent of GDP.[22] However, this is not the sum of expenditures on poverty reduction. The Government also spent a significant amount on other social programs crucial to reducing poverty: for example, 18.1 percent of the government's budget was spent on education and 7.4 percent was spent on health in 2016/17.[23]

[22] World Bank (2017b).
[23] World Bank (2017c).

Figure 2: Social protection expenditures complement other social expenses



Source: Social protection expenditures are authors' calculations based on Government of Tanzania data. Education and health expenditures are from World Bank (2017c).

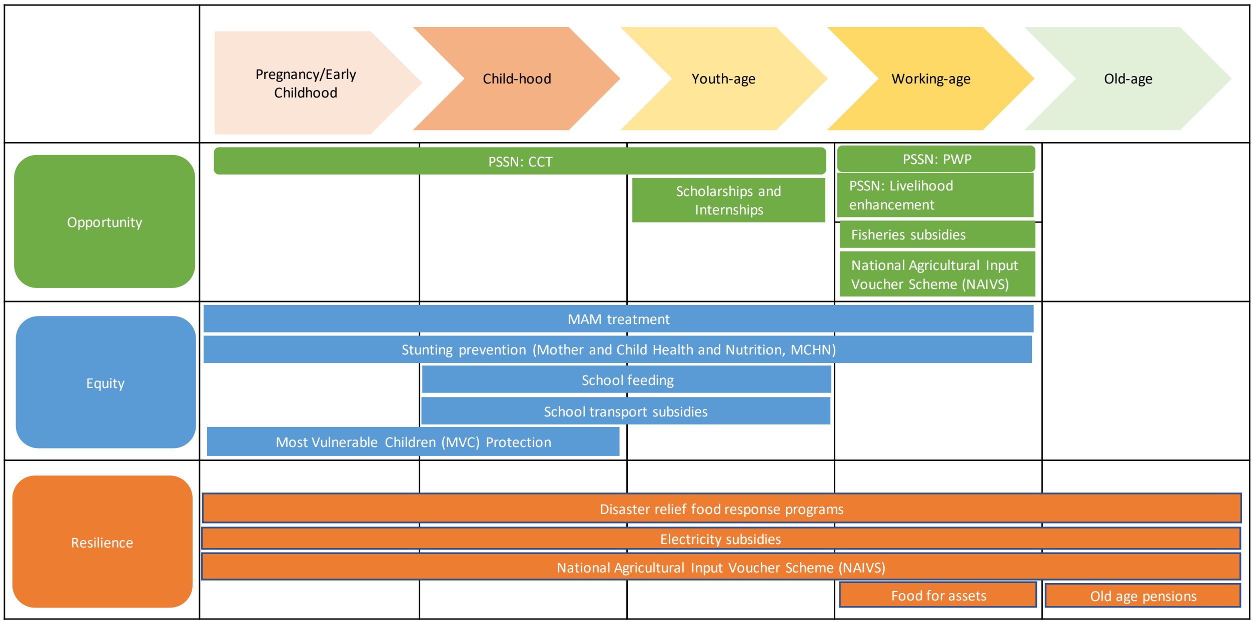
Tanzania's draft National Social Protection Policy adopts a lifecycle approach to protect poor and vulnerable people. Tanzania's social protection system includes programs that target people across the lifecycle (Table 1 and Figure 3). In 2016, Tanzania spent about TZS 400 billion (US$ 182 million) or 0.38 percent of GDP on pregnant mothers, children under 5, school-aged children, and youth. It spent only TZS 78 billion (US$ 36 million) or 0.08 percent of GDP on working age adults. Tanzania spent TZS 432 billion (US$ 199 million) or 0.42 percent of GDP on non-lifecycle risks in the same year, electricity subsidies were the biggest category. Half of all social protection spending is on old age pensions, accounting for around about TZS 1,363 million (US$ 626 million) or 1.5 percent of GDP.

Table 1: Social protection programs in Tanzania

Pregnant women, children in early childhood, and school age children	Program description	Spending in 2016 (TZS)	Percent of total social protection spending
Productive Social Safety Net (PSSN) - conditional cash transfer (CCTs)	Provides cash transfers to poor families if family members attend clinics and schools	257,962,715,920	9.7%
School feeding	Provides food to all primary and secondary school (boarding school)	69,914,900,000	2.6%
Transport benefits	Provides school children with a travel subsidy to and from school	68,203,800,000	2.6%
Most Vulnerable Children Response System (MVCRS)	Provides emergency assistance to children who have experienced abuse or violence	139,120,200	0.0%
School feeding (special needs)	Provides food to all primary and secondary school children with special needs	97,434,000	0.0%
Mother and child health and nutrition (MCHN)	Provides nutritional interventions to pregnant and lactating women, and young children	1,560,542	0.0%
Moderate Acute Malnutrition (MAM)	Provides nutrition intervention for pregnant mothers and young children	58,725	0.0%
Working age adults			
PSSN – public works	Provides poor people with access to labor intensive work during the lean season	57,236,484,667	2.1%
National Agricultural Input Voucher Scheme (NAIVS)	Provides subsidies to small-scale farmers for critical agricultural inputs, such as fertilizers and improved seeds, at a 50% subsidy.	20,000,000,000	0.8%
PSSN – livelihoods	Provides poor people with support for savings groups, entrepreneurial training, and agricultural extension services	407,984,955	0.0%

Fisheries subsidies and entrepreneurship support	Provides support to fishing communities by subsidizing fishing engines for groups of fishermen and fish food for individual fishermen. Under this program, 60 percent of the total funds are contributed by communities and the remaining 40 percent by the government.	400,000,000	0.0%
Food for assets	Provides public works opportunities in vulnerable communities prone to recurring economic shocks and climate variability; prioritizes building community assets identified during community planning exercises	1,362,737	0.0%
Old age			
Contributory pensions	All five schemes in the mainland are Defined Benefit (DB) schemes (except for the DAS component of PPF) and are financed on a pay-as-you-go (PAYG) basis.	1,362,955,215,000	51.1%
Non-lifecycle			
Electricity subsidies	Provides subsidies to households and businesses that consume low levels of electricity	414,624,099,931	15.6%
Disaster relief	Provides food items to affected households	17,544,381,870	0.7%
Disability benefits	Provides non-contributory benefits to people with disabilities		

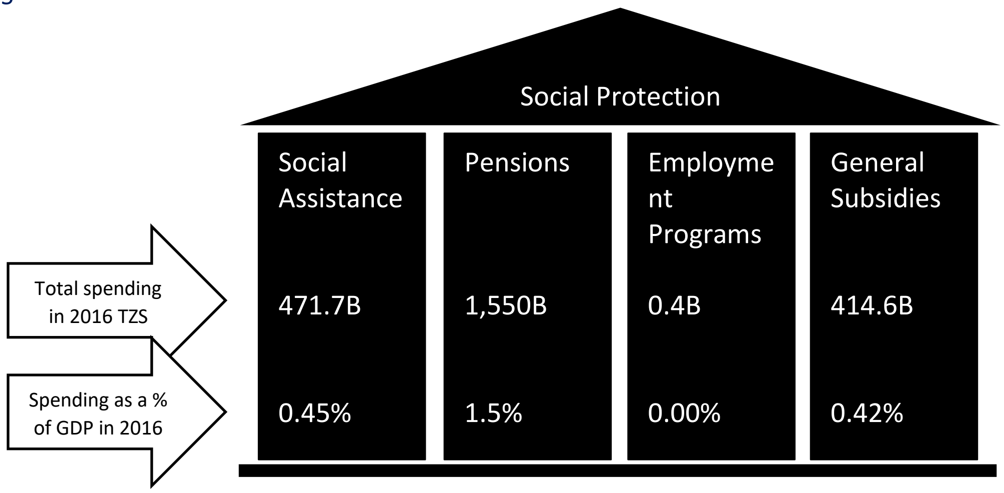
Figure 3: The Tanzanian social protection system through the lifecycle lens



Source: Authors' depiction.
Note: MAM primarily benefits pregnant and lactating mothers, and children under 5. MCHN primarily benefits pregnant and lactating women and children under 2.

By the metric of expenditures, old age pensions are the main pillar of the social protection system in Tanzania; social assistance and generalized subsidies also contribute. In 2016, the Government spent about TZS 1,550 billion (US$ 712 million) on old age pensions, equivalent to about 1.5 percent of GDP. In 2016, the Government also spent about TZS 471.7 billion (US$ 216 million) or 0.45 percent of GDP on social assistance programs (Figure 4). Employment programs, however, receive a small share of social protection expenditures in Tanzania. In 2016, the Government spent less than TZS 408 million (US$ 187,000) on employment programs, making up less than 0.01 percent of total GDP. Generalized subsidies for electricity and agriculture account for about 0.42 percent of GDP in Government expenditures.

Figure 4: Pensions form the backbone of Tanzania's social protection system. Social assistance and general subsidies also contribute



Source: Authors' calculations using data from Government of Tanzania.

Social Assistance

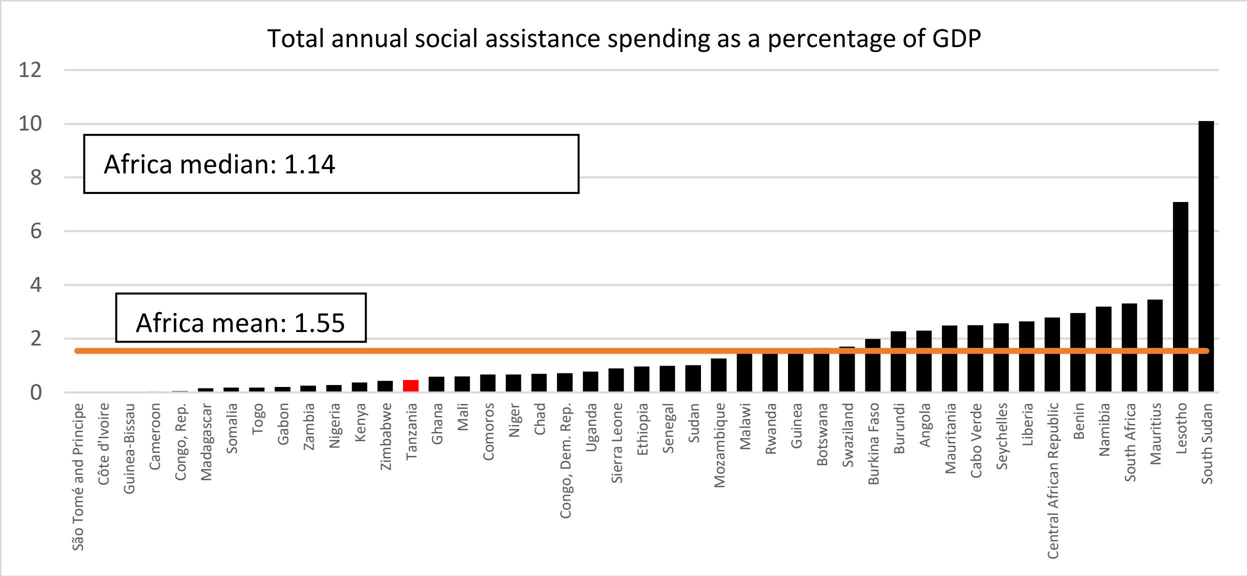
Social assistance spending is low

In Tanzania, spending on social assistance has increased considerably between 2012 and 2016. Total spending on social assistance increased sharply from TZS 130 billion in 2012 to TZS 471 billion in 2016. Most of the increase is explained by the increase in spending on the CCT component of PSSN but spending on school feeding and transportation programs have also increased significantly.

Total social assistance spending is low relative to comparator countries in Tanzania (TZS 471.7 billion (US$ 217 million) or 0.45 percent of GDP in 2016) – (Figure 5). As a percent of GDP, Tanzania spends less than a third of the African average of 1.55 percent on all its social assistance programs.[24] Developing countries and countries in transition allocate about 1.5 percent of GDP to social assistance programs.[25] High-income and upper-middle-income countries in Africa spend an average of 2.5 and 2.2 percent of GDP (6.5 and 6.9 percent of total government expenditure respectively), while low-income countries spend an average 1.4 percent of GDP (4.9 percent of total government expenditure).[26] For example, Lesotho spends about 7 percent of GDP, and South Sudan spends about 10 percent of GDP on social assistance;.[27] It should, however, be noted that program spending is not the best measure of program effectiveness: achieving a set of objectives, administrative quality, and efficiency are all important performance indicators.

[24] Note that South Sudan is an outlier with 10 percent of GDP allocated to social assistance.
[25] World Bank (2018).
[26] Beegle, et al. (2018).
[27] Lesotho spends a significant amount on a universal social pension, and South Sudan spends a significant amount on two large in-kind programs supported by the World Food Program. See World Bank (2018) for details.

Figure 5: Tanzania spends very little on social assistance - less than the regional average

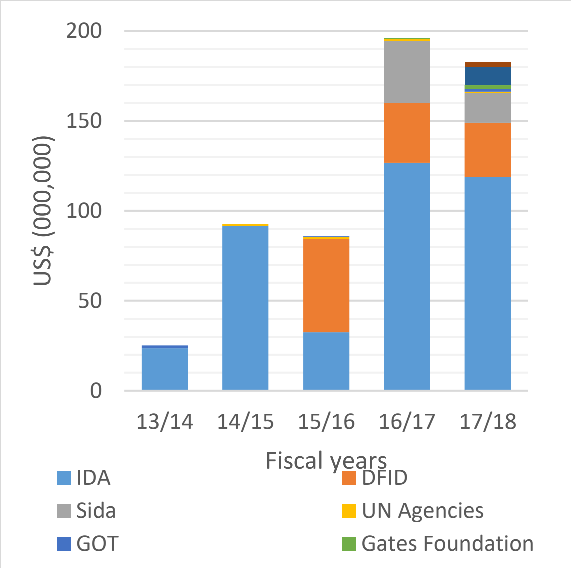


Source: Authors' calculations using ASPIRE data.
Note: Regional social assistance spending excludes health waivers.

Most social assistance expenditures are financed by development partners. In Tanzania, almost seventy (68.7) percent of all social assistance expenditures are development-partner funded. Across African countries, it is common for development partners to finance large shares of social assistance expenditures, especially in the case of humanitarian assistance programs. Beegle, et al. (2018), find that development partners finance 56 percent and government the remaining 44 percent of social assistance spending in Africa. Development partners tend to prioritize food-based programs such as school food, food for work, and vouchers. Humanitarian aid is the main source of funding in emergency situations; development partners are critical in many low-income and fragile contexts. For example, the average amount of humanitarian aid flowing to fragile and conflict-affected countries (3.9 percent of GDP) is larger than social assistance spending in these countries (1.4 percent of GDP). The Central African Republic and South Sudan are the largest recipients of humanitarian aid (21.6 and 11.3 percent of GDP, respectively).

The largest social assistance program, namely the PSSN, is almost entirely donor financed (Figure 6). While funds from International Development Agency (IDA) supported the initial set up and the first stages of the PSSN expansion, since FY 2015/16 there has been increasing support from development partners. Starting in FY2015/16, funds from DFID have played a big role, and in FY2016/17 and FY2017/18 DFID and Sida have contributed significantly to PSSN's implementation. In FY2017/18, expenditures on all components of PSSN are about US$ 182m. IDA contributes the bulk of the expenses, US$ 119m, and DFID and SIDA contribute about US$ 30 m and US$ 16.6 m respectively. The remaining funds are contributed by USAID, Irish Aid, the Gates Foundation, and UN agencies.

Figure 6: The largest social assistance program, namely the PSSN, is almost entirely donor financed



Source: TASAF

There are numerous social assistance programs in Tanzania. Nine were chosen for analysis here because they are big enough in terms of spending or in terms of coverage rates (Table 2). The largest social assistance program is the PSSN cash transfer component, which accounts for more than half all social assistance spending. In 2016, spending on PSSN is around TZS 258.0 billion (US$ 118.5 million) or 0.25 percent of GDP. Coverage rates are also significantly higher than for other programs. In 2016, PSSN's cash transfer component reached about 5.3 million people in 1.1 million households.

Table 2: Tanzania's Social assistance programs: expenditures and coverage

	Expenditures (TZS)	Expenditure (US$)	Expenditures as a % of GDP	Coverage
PSSN - Cash transfers and public works	315,199,200,587	144,780,320	0.30%	5,274,509
School food	69,914,900,000	32,113,982	0.07%	127,118
School transportation	68,203,800,000	31,328,024	0.07%	48,717
Disaster relief food response	17,544,381,870	8,058,654	0.02%	4,371,134
Most Vulnerable Children(MVC) - Child protection	139,120,200	63,902	-	2,347,997
School food (special needs)	97,434,000	44,754	-	48,717
MCHN	1,560,542	717	-	28,806
Food for Assets (FFA)	1,362,737	626	-	53,250
MAM treatment	58,725	27	-	1,914
All social assistance	471,101,818,661	216,391,006	0.45%	12,302,162

Source: Authors' estimates using Government of Tanzania data.

World Bank (2018) shows that social assistance programs in developing countries and transition countries are making substantial contributions to the fight against poverty. Household survey analysis shows that 36 percent of people escape global absolute poverty (PPP$ 1.90 poverty line) because they receive social assistance transfers. In addition, even when social assistance transfers are not lifting beneficiaries above the poverty line, the transfers contribute to shrinking the poverty gap by about 45 percent. Social assistance benefits are also reducing consumption/income inequality by an average of 2 percent. These positive effects on the poverty headcount, poverty gap, and inequality are observed for all country income groups.

Box 1: PSSN cash transfers

PSSN provides three types of cash transfers: (i) a (fixed) basic monthly transfer to improve household consumption; (ii) a variable conditional transfer for households with children to incentivize households to invest in the human capital of their children; and (iii) a seasonal transfer linked to participation in labor-intensive public works to increase and sustain household assets, and help households increase incomes and therefore, consumption during lean seasons.

The Conditional cash transfers (CCT) benefit consists of a fixed and a variable benefit component. All beneficiary households are entitled to a basic unconditional transfer equivalent to US$6 per month. This transfer is intended to guarantee basic consumption support to extremely poor families throughout the year. Households with children are given a fixed child benefit of about US$2.5 per month, in addition to a variable transfer up to a maximum of US$14.5. Variable transfers are intended to help reduce barriers to accessing schooling, health services, and children's nutritional services. The education transfers adjust according to schooling level; therefore, higher transfers are given to older children to account for the higher opportunity costs of attending school.

PSSN's public works component also gives cash benefits to able-bodied adults when they participate in the voluntary work program. The public works program guarantees one person per household fifteen days of paid work per month at a daily rate of TZS 2,500 (US$1.35), for up to four months during the annual lean or off season. This access to seasonal income enables households to maintain consumption during the lean season and provides households with the opportunity to make small investments in livelihood. PSSN interventions can provide households with a maximum annual benefit of approximately US$370.[28]

PSSN component	Transfer type	Transfer name	Co-responsibility	Benefit (TZS)	Monthly cap (TZS)
CCT	Fixed	Basic transfer	Extreme poverty	10,000	10,00
	Fixed	Household child benefit	HH with children under 18	4,000	4,00
	Variable	Infant benefit	Infants 0-5 health compliance	4,000	4,00
	Variable	Individual primary benefit	Child in primary education compliance	2,000	8,00
	Variable	Individual lower-secondary benefit	Child in lower secondary education compliance	4,000	12,00
	Variable	Individual upper-secondary benefit	Child in upper secondary education compliance	6,000	

[28] The maximum CCT benefit is TZS 456,000 (about US$278) and the maximum public works benefit is TZS 150,000 (about US$91).

Preliminary results from the impact evaluation of the PSSN's cash transfer component are very encouraging.[29] PSSN's cash transfer component is having a positive and statistically significant impact on several key indicators: (i) the PSSN cash transfer is improving household welfare by reducing poverty in beneficiary households; (ii) the PSSN cash transfer component is positively impacting human capital accumulation by increasing food consumption and dietary diversity, increasing school enrollment, increasing health visits, and increasing health insurance; (iii) the PSSN cash transfer component is helping beneficiary households to increase savings and accumulate assets, intensify farming activities and utilization of agricultural inputs, and increasing self-employment.

The Government of Tanzania uses other social assistance programs to respond to different risks (Table 2).[30] Government spending on these social assistance programs is considerably lower than spending on PSSN's cash transfer component. The following are some of the main social protection programs in Tanzania:

- **Basic education, provision of food at school, and transport benefits.** Tanzania provides school meals to children in boarding schools, who tend to be poor, and to special needs children. These programs cost about TZS 70 billion in 2016 (0.07 percent of GDP), up from about TZS 51 billion in 2015. Around 176,000 children were covered by the school food programs in 2016 (about 127,000 boarding school children and 49,000 special needs children). Though simplistic, dividing the amount spent each year by the number of children covered provides an estimate of the cost of the program per child per year. In Tanzania, providing school feeding programs cost about TZS 550,000 or US$ 253 per child per year. In comparison, the PSSN cash transfers cost about TZS 50,000 or US$ 22 per person covered per year, showing that school food programs appear to cost the Government more than ten times more per person than the PSSN cash transfers. Tanzania also supports special needs children with transportation related benefits. The Government allocated about TZS 68 billion to this in 2016 (about 0.07 percent of GDP), up from TZS 50 billion in 2015. Almost 49,000 special needs children benefited from the program in 2016, up from 36,000 in 2015. The program spends about TZS 1.4 million (US$ 643) per child per year.

- **PSSN's Public Works program.** Tanzania's PSSN Public Works component, only available to PSSN cash transfer beneficiaries, aims: (i) to mitigate the impact of low income on households during the lean season by providing temporary employment, and (ii) to create sustainable productive assets at the community level. When implemented well, the community assets built by the public works program improve basic service delivery at the local level. PSSN households can engage in public works for up to 60 working days per year, for a maximum period of three consecutive years. Public works beneficiaries receive about TZS 3,000 (US$ 1.36) per person per day of work.[31] This

[29] PSSN Impact Evaluation Midline Preliminary Results Presentation, April 2017. Nina Rosas, Samantha Zaldivar.

[30] This note does not include three big NGO-managed projects funded by PEPFAR, as systematic information could not be found on them. Their aims are to strengthen social care services at community level, with referral mechanisms linking them to the official social welfare and health systems. The Community and Health Systems Strengthening Project, set up the National Integrated Case Management System, established protocols for referrals, and trained about 15,000 community case workers (volunteers at village level) in 2015. A project managed by American Health International Alliance (AHIA), which, with the Institute of Social Work (ISW), has trained para-social workers, also volunteers at village level. Lastly, the Kizazi Kipya Child Protection Program, delivers services to orphans and vulnerable children.

[31] The daily wage rate for casual work is approximately TZS 5,000. Most public works beneficiaries work for around 5 hours a day.

component has been rolled out in 44 Project Area Authorities (PAA). Public works spending reached about TZS 57.2 billion (US$ 26 million) in 2016 or 0.06 percent of GDP, up from about TZS 10.6 million in 2015. Coverage has also increased sharply from about 50,000 PSSN beneficiary households in 2014 to almost 300,000 PSSN beneficiary households in 2016.

- **Disaster relief food response program.** This program provides benefits to households affected by floods, droughts, earthquakes, and storms.[32] Government expenditures vary from year to year depending on the emergency and the needs on the ground. The Government spent about TZS 17 billion (US$ 8 million) or 0.02 percent of GDP on disaster relief programs in 2016. In 2015, the Government spent only TZS 9 billion or US$ 4.5 million, down from TZS 17 billion or US$ 10.3 million in 2014. The program served about 910,000 beneficiaries in 2016, and about 402,000 beneficiaries in 2015.

- **Mother and child health and nutrition (MCHN) and Moderate Acute Malnutrition (MAM).** The MAM and MCHN programs are aimed at reducing the rate of stunting, and the acute malnutrition rate. The stunting affects 34 percent of children under 5 and acute malnutrition affects around 5 percent of children under 5. MCHN provides a monthly take-home ration (Super Cereals, Super Cereals Plus, and fortified vegetable oil) to pregnant and lactating women and children under 2; it also provides a food for work program. MAM provides targeted supplementary feeding programs, which includes nutrition education and other health related services to pregnant mothers and children under 5. The MCHN and MAM programs spent about TZS 1.6 million (just under US$800) in 2016. Almost all funds are provided by development partners. MCHN and MAM together serve around 30,000 beneficiaries.

- **The Most Vulnerable Children (MVC) program.** The MVC program aims to assist children who are abandoned, neglected, abused, orphaned, affected by the AIDS crisis, as well as all children who are at risk of not receiving basic social services including education. The program provides vulnerable children with basic services including health care, food, shelter, psychological and legal services, and education.[33] In 2016, the MVC spent about TZS 139 million (US$ 64,000). Because the MVC identified beneficiaries, and leveraged other programs, coverage was large at 2.3 million children in 2016.

Tanzania implements a mix of social assistance programs. About 55 percent of all social assistance spending is dedicated to the PSSN program's cash transfer component[34], about 15 percent to school food programs, and another 15 percent to school transportation programs. In addition, public works programs

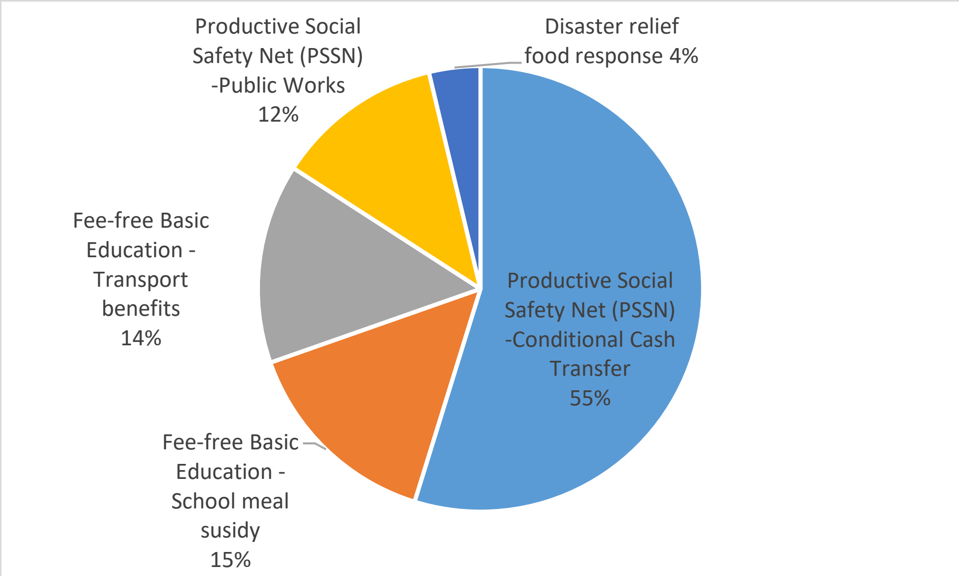
[32] Programs that assist refugees are not included here.

[33] Examples of assistance include school uniforms, school supplies, Community Health Fund (CHF) cards, mattresses, housing, bedding, food rations, and supplementary food. In some extreme cases institutional care is also provided through care homes.

[34] PSSN includes an unconditional cash transfer (UCT) to all targeted households as well as a variable conditional cash transfer (CCT) to eligible households with children or pregnant mothers who comply with the conditions focused on the use/assistance of basic education and health services. The PSSN utilizes Proxy Means Testing (PMT) on top of the community-based targeting to identify the poorest families. The goal of the transfers is to support enrolled families by enabling them "to purchase food, pay medical care, and reducing the need to pull children out of school in the event of a shock."

(PWP) make up about 12 percent of all social assistance expenditures.[35] As in many other African countries, Tanzania is shifting away from in-kind transfers (providing food at school, food for assets, food/nutrition programs, etc.) to cash transfers.[36] This trend is noticeable in Tanzania because the cash transfer component of PSSN grew significantly from TZS 30B in 2014 to TZS 157B in 2015 to TZS 258B in 2016, dwarfing the small increase in school food program expenditures - from TZS 51B in 2015 to TZS 69B in 2016 over the same period.

Figure 7: In 2016, the cash transfer component made up the bulk of expenditures on social assistance



Source: Authors' estimates using 2016 Government expenditures.

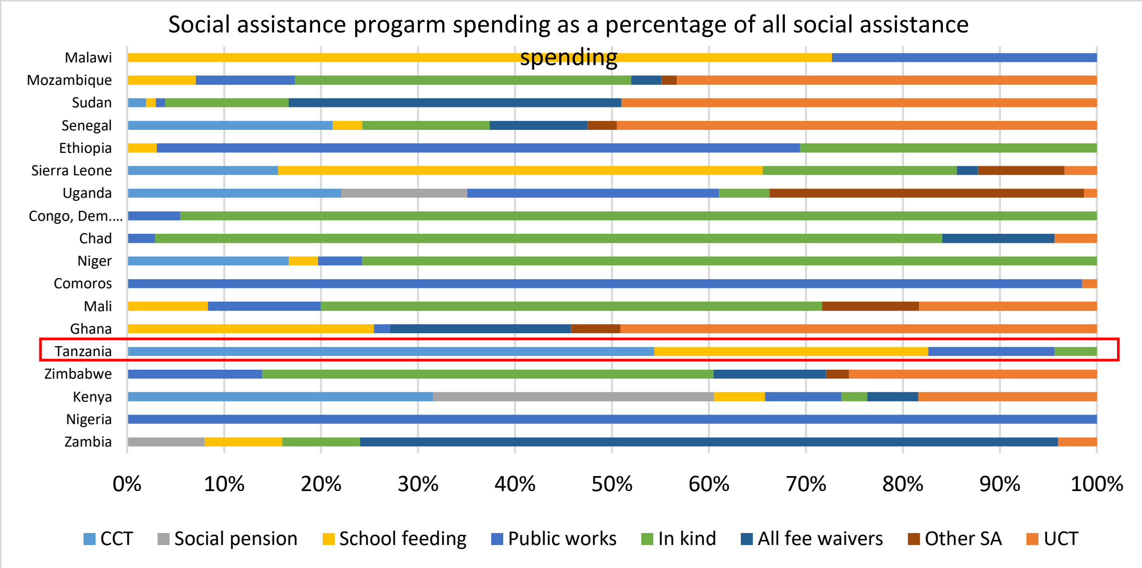
There is considerable heterogeneity in the mix of social assistance programs implemented across African countries. Cash transfers are implemented in many African countries, in some cases without conditions; others are conditional on certain household or individual behavior. Among the countries analyzed, Tanzania, Kenya, Uganda and Niger use conditional cash transfers more than unconditional cash transfers, though only Tanzania strongly enforces the conditionality, the others are more lenient. Ghana, Mozambique, Sudan, and Senegal use unconditional cash transfers more; and Ethiopia, Comoros, and Nigeria use public works as the main social assistance instrument. In lower-middle-income African countries, fee waivers and food-based transfers are often an important part of social assistance.[37]

[35] The PWP started in late 2014 in 8 PAAs and is now active in 44 PAAs. It is a "safety net intervention that provides income support to poor household members enrolled in labor-intensive activities. These labor-intensive activities are expected to contribute to the creation of community assets." The main objectives of the PWP are: consumption smoothing, creation/improvement of community assets, and skills enhancement.

[36] World Bank (2018).

[37] World Bank (2018).

Figure 8: Heterogeneity in the mix of social assistance programs employed by African countries



Source: Authors' estimates using World Bank ASPIRE program level data.

More than half of all poor people are not covered by social assistance programs, although coverage of poor persons has expanded in recent years

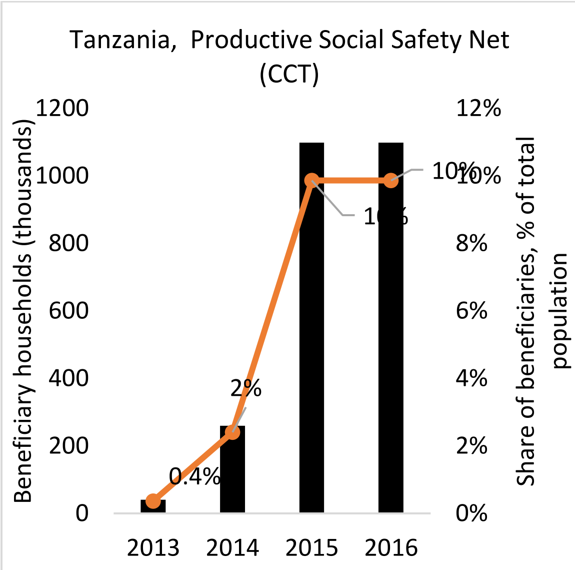
Poverty rates are more than twice social assistance coverage rates, meaning that there are too many poor people who do not receive social assistance benefits. Social assistance coverage is the percentage of the population receiving assistance from a safety net program. In this analysis, coverage includes direct and indirect beneficiaries (all household members where at least one member receives a benefit). In Tanzania, coverage rates have increased in recent years. The PSSN covers around 5.3 million people living in 1.1 million households across Tanzania, however, poverty rates in the country suggest that the country has about 12 million poor people in.[38] As such, the main social assistance program only covers about 44 percent of poor people, leaving 56 percent of poor people unserved. It is, however, more likely that benefit leakage could lead to an even smaller share of poor people being covered.[39]

PSSN coverage has expanded significantly in recent years (Figure 9). PSSN began as a pilot program in 2011, and covered about 6,000 households, this expanded to about 26,000 households in 2014. In 2015 and 2016, PSSN covered around 1.1 million households. Beegle, et al. (2018) finds that the growth in the number of beneficiary households of the Tanzania social assistance program was the highest in the world, even relative to mature cash transfer programs in lower middle-income countries in Asia and Latin America. Despite the rapid expansion, PSSN is not yet available in all parts of the country.

[38] World Bank (2015).

[39] Because of targeting errors, it is likely that fewer than 40 percent of the poor are covered. Even the best social assistance programs exhibit some benefit leakage because there are technical limitations to targeting poor people – namely, limitations to effectively assessing household welfare.

Figure 9: PSSN coverage has expanded significantly in recent years.



Source: Authors' calculations using Government of Tanzania data.

Tanzania is similar to other African countries in that social assistance program coverage low. Across Africa, combined coverage of programs is less than 10 percent of the population.[40] Cash transfer programs targeting poor and vulnerable households are the most rapidly growing type of social assistance program. In many African countries, providing free meals at school and fee waiver programs generally have the highest coverage, reaching 8 and 10 percent of the total population on average. Public works programs are implemented in several African countries, but only about 3 percent of the population is covered by these.

Despite high nutritional deficiencies, Tanzania's nutrition programs only reach a fraction of those in need. As noted above, the Tanzania Demographic Health Survey 2015-16 finds that 34 percent of children under 5 are stunted, 14 percent are underweight, and 5 percent are wasting.[41] However, two of the main nutrition programs analyzed in this note, the MCHN and MAM, only reach about 30,000 children. Large parts of in-need population are not served by nutritional programs.

Social assistance benefit amounts are moderately generous

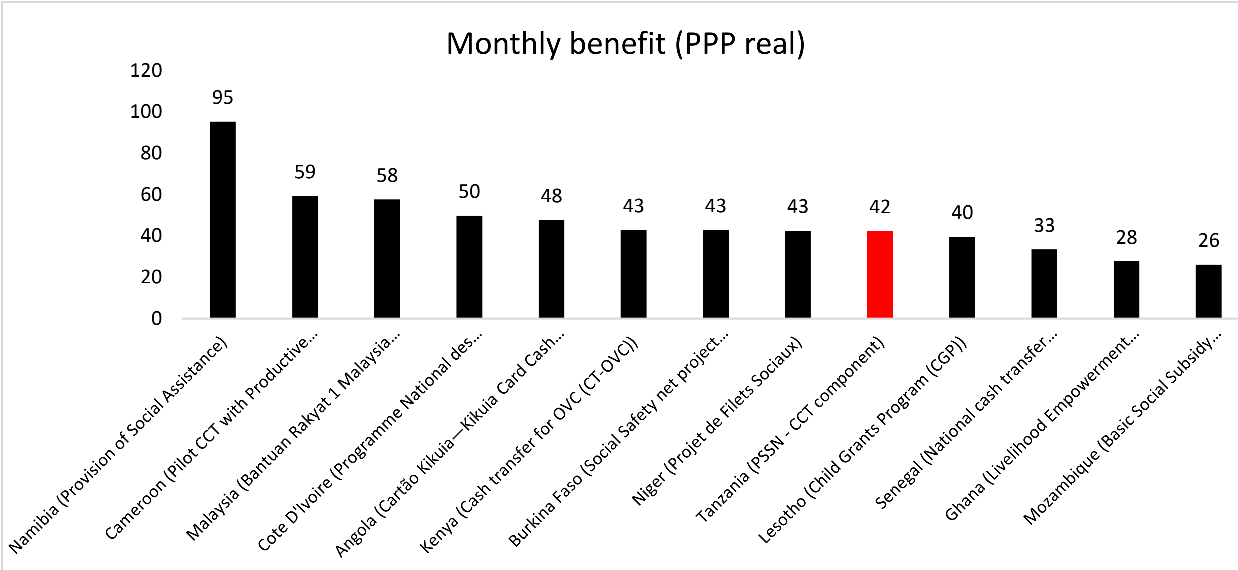
In Tanzania, social assistance benefit amounts are moderately generous. Tanzania's main social assistance program, the PSSN, pays out about US$ 42 (in 2011 PPP) per person per year (Figure 10),[42] although it is still significantly lower than the regional average of US$ 81 (in 2011 PPP).

[40] Beegle, et al. (2018).

[41] Ministry of Health, et al. (2016).

[42] Benefit amounts vary based on family size and age composition of families.

Figure 10: Tanzania's main social assistance program is moderately generous



Source: Authors' estimates using World Bank ASPIRE program level data.

The biggest social assistance program is well targeted

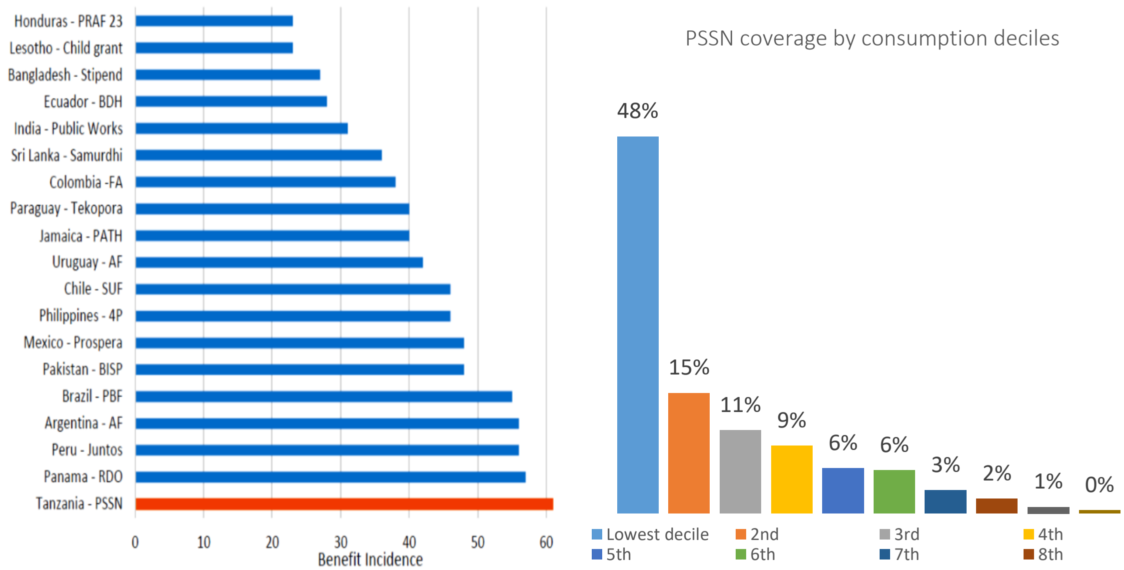
To calculate targeting accuracy, household survey analysis is carried out. However, only PSSN is included in the household survey, while programs with sufficient coverage for targeting analysis, namely the disaster relief program and the MVC programs, are not included in the household surveys.

Most PSSN cash transfer benefits accrue to poor households. World Bank (2016) finds that households that benefit from PSSN cash transfers consume $0.70 for every $1 consumed by non-beneficiary households, meaning that beneficiaries are on average 70 percent poorer than non-beneficiaries. PSSN beneficiary households spend more on food: 89 percent of consumption compared to 82 percent of consumption in non-beneficiary households. Beneficiaries also tend to be elderly and to have disabilities.

The PSSN cash transfer component outperforms the targeting accuracy of many other programs (for which data exists) and leakage to non-poor households is minimal. To measure targeting performance, two activities are carried out. First, individuals are ranked according to their position in the welfare distribution, based on the quintile of per capita pre-transfer income or consumption. Second, the proportion of program beneficiaries belonging to each quintile is then estimated. Well-targeted programs have more program beneficiaries in the lower quintiles. In Tanzania, over 61 percent of PSSN cash transfer beneficiaries are in the poorest consumption quintile, and over 80 percent are from the bottom two quintiles (Figure 11). Conditional cash transfers across the world are more pro-poor than other social assistance programs[43] and the targeting performance of PSSN's cash transfer component is among the best. As with any social assistance program, PSSN has some inclusion errors, but its leakage rates are very low by international standards.

[43] World Bank (2018).

Figure 11: Tanzania's PSSN cash transfer component has one of the best targeting performances. Share of beneficiaries in the bottom 20 percent of the population



Source: World Bank (2016) using Impact Evaluation Baseline survey.

PSSN employs a three-stage targeting system: (i) Geographical - to select Project Area Authorities (PAA), wards, and villages/shehias to assign a quota of potential beneficiaries; (ii) Community-based targeting (CBT) - to identify extremely poor and vulnerable households in selected villages and to minimize exclusion; (iii) Proxy Means Test (PMT) - to verify and minimize inclusion errors. This combination targeting system has broad appeal by the population. About 86 percent of PSSN beneficiary households believe that the program follows a fair and transparent selection process.[44] 68 percent of non-beneficiary households, agree with this.

The PSSN program is the most rapidly growing type of social assistance program in Tanzania and represents a shift in policy toward poverty-targeted programs rather than categorical or universal programs. Between 2012 and 2016, the share of people covered by poverty-targeted social assistance programs increased from 16 to 23 percent.[45] The share of social assistance spending to targeted safety net programs increased from almost zero in 2012 to about 66 percent in 2016. Tanzania's PSSN expansion is a global success story, as is the Livelihood Empowerment against Poverty Program (LEAP) in Ghana, the Cash Transfer for Orphans and Vulnerable Children (CTOVC) in Kenya, and the PNBSF in Senegal.[46] The annual growth rate in the number of beneficiary households in the Tanzania program was the highest in

[44] World Bank (2016).

[45] Poverty targeted programs include those that use means teats, proxy means tests and/or community targeting to identify poor people.

[46] LEAP in Ghana has formal conditionalities for beneficiaries with children under 15 but does not monitor these behaviors. LEAP does not impose conditions on poor elderly or disabled beneficiaries. The program encourages orphans and vulnerable children to attend primary school and visit health centers for immunizations and other interventions. Although CTOVC encourages compliance, it does not apply penalties for non-compliance (except for a small pilot). PNBSF in Senegal requires beneficiaries to adopt a set of behaviors, such as school enrolment and attendance, vaccination and birth registration, but does not monitor compliance.

the world even compared to mature cash transfer programs in comparator lower-middle-income countries in Asia and Latin America.[47]

Social Insurance

Social insurance programs are a key source of resilience for people. Governments across the world use social insurance programs intended to minimize the negative impact of economic shocks on people. In mainland Tanzania, contributory pensions are the main social insurance instrument used by the Government. Conversely, unemployment insurance and disability insurance cover a very small proportion of the population even though these are risks that a significant portion of the population face. One of the key differences between the mainland and Zanzibar is that in Zanzibar non-contributory old age pensions are also implemented.[48]

Pensions are the main social insurance instrument

Old age pensions are the main social insurance instrument in Tanzania. The pension sector consists of five separate funds (or schemes): (I) National Social Security Fund (NSSF); (ii) Public Service Pension Fund (PSPF); (iii) Parastatal Pension Fund (PPF); (iv) Local Authority Pension Fund (LAPF); and (v) Government Employees Provident Fund (GEPF). All the schemes are Defined Benefit (DB)[49] schemes (except for the DAS component of PPF) and are financed on a pay-as-you-go (PAYG)[50] basis. The NSSF provides pension coverage to private sector workers, both formal and self-employed as well as government employees and others not covered by any other pension fund. The NSSF was converted from a defined contribution scheme or provident fund in 1998. The PSPF covers central government employees in pensionable positions; this was a non-contributory scheme until 1999. The PPF extends coverage to parastatals, companies with Government Shares and private sector workers; it has two components – the PPS, a DB component - and the DAS, which is a funded contribution scheme. The GEPF (2013 Act) provides coverage to Government employees and is also open to other groups. It was converted from a funded DC scheme in July 2014.

Pensions spending is comparable with spending in neighboring countries, but one fund has depleted assets

In 2015, Tanzania allocated approximately 1.5 percent of GDP to pensions.[51] This is close to the regional average of 1.6 percent of GDP (see Figure 12), and covered 4.1 percent of the population over age 60, suggesting high levels of spending per beneficiary. This relatively high level of spending directed to a very narrow segment of the population can be attributed to several factors including generosity of benefits and long duration of benefit receipt, partly attributable to early retirement. Several parameters can influence generosity, including: (i) the accrual rate, i.e., the rate at which benefit entitlements accumulate

[47] World Bank (2018).

[48] See Ministry of Finance and Planning and UNICEF (forthcoming).

[49] Defined benefit scheme is a type of pension scheme in which an employer promises a specified periodic benefit on retirement, predetermined by a formula based on: the employee's earnings history, tenure of service and age. It is 'defined' in the sense that the formula for the employer's contribution is known in advance; in this scheme, the employer bears both the investment risk and the longevity risk.

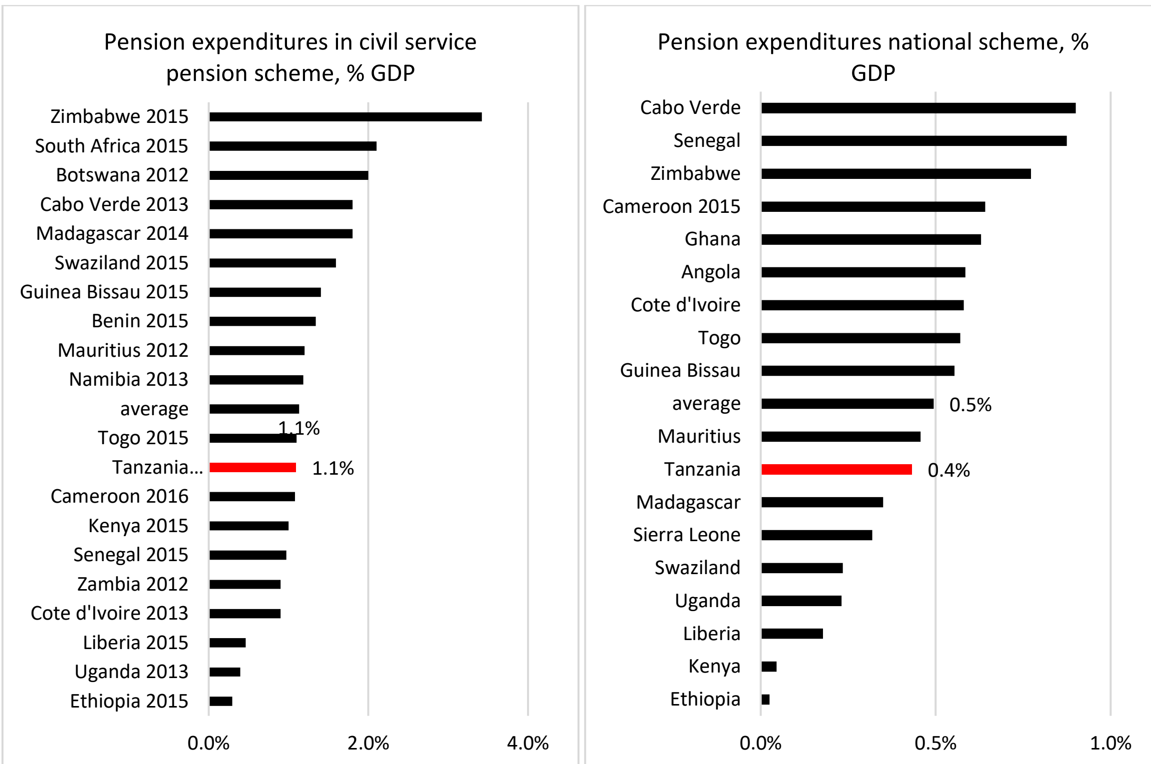
[50] Pay-as-you-go - based financing (PAYG): contributions from current workers and their employers used to finance benefits for current pensioners.

[51] Total old age pension spending is 1.5 percent This is the sum of civil service spending (1.1 percent) and national schemes (0.4 percent).

for each year of service; (ii) the averaging period for wages included in the pensionable wage; (iii) indexation of the pension post-retirement; and (iv) commutation options.

Figure 12: Tanzania allocates close to the regional average for pensions

Pension Expenditures as a Share of GDP, latest year available. For Tanzania, top chart includes PSPF, LAPF, GEPF, PPF and bottom chart includes NSSF.

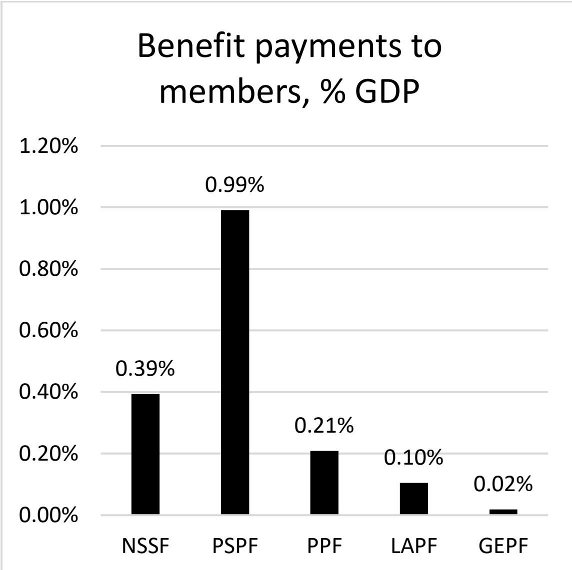


Source: Authors' calculations using Africa Pensions Database

All pension funds are running surpluses except PSPF. The World Banks' PROST[52] model can estimate when a fund will deplete its assets and need government support. Results from 2014 simulations of the pension funds show that NSSF and LAPF are estimated to deplete assets by 2070; PPF and GEPF could deplete their assets by 2080. Therefore, these four funds are largely financially sound over several decades. PSPF, which accounts for the largest share of expenditures at 0.73 percent of GDP, has depleted assets.[53] The decision not to apply the reformed parameters to existing members of PSPF, GEPF and LAPF, according to the 2014 harmonization rules, further diminishes the fiscal sustainability of PSPF. The fiscal challenges associated with financing accrued rights before 1999[54] in the PSPF have been documented extensively in other World Bank publications.

[52] PROST stands for Pension Reform Options Simulation Tool-Kit
[53] Assuming that pre-99 accrued rights are considered.
[54] Prior to July 1999, the pension scheme for civil servants was non-contributory and pension benefits were all paid from the budget. The system was transformed to a contributory Public Service Pension Fund (PSPF) in July 1999. During a five-year transition period, the budget paid all pension benefits. Although the government was expected to cover benefits associated with the pre-July 1999 scheme beyond the transition period, the PSPF has been paying retirees on behalf of the government.

Figure 13: Pension Expenditures by Fund as a Share of GDP, latest year available



Source: Annual Report of each of the funds.

Pension benefit payments have been put at risk by arrears (3.8 percent of GDP). These arrears have built up in relation to mandatory social security schemes, and can be divided into three categories:

- **PSPF pension rights accrued when the PSPF system was non-contributory.** These benefits were accrued by civil servants, who did not pay contributions before PSPF was established in 1999. The Government failed to fully reimburse Public Sector Pension Fund (PSPF) for paying "pre-1999" benefits on its behalf. This has resulted in accumulated arrears of TZS 2.6 trillion (US$1.2 billion) or 3.2 percent of GDP to the PSPF as of June 2015. This liability was only recently recognized by the Government, and it is still to be reflected in public debt accounting. The missing payments means that the fund has been running increasingly higher cash flow deficits; in 2015 it was unable to pay full benefits to members, and has been selling assets to cover the gap. Given that much of its portfolio is non-liquid/non-performing, it will need immediate and sustained fiscal transfers to reinstate regular pension payments. Future payments of "pre-1999" benefits will also need to be managed.

- **New arrears because of unremitted employer contributions by the Government during pre-elections in 2015, when the fiscal position was tight.** This tight fiscal situation was a result of: (i) the shortfall in domestic revenues; (ii) reduced disbursement of aid and non-concessional loans and (iii) pressures on expenditures (including $100 million from Presidential elections in October 2015. This gave rise to unremitted employer contributions to all schemes; and reached TZS 350 billion (US$160 million) or 0.4 percent of GDP in December 2015. These contribution arrears also impacted the PSPF's deteriorating cash flow position, which led to the non-payment of benefits.

- **The TZS 1.9 trillion (US$900 million, 2.3 percent of GDP) in direct loans to finance public projects, a share of which are now in arrears.** About one quarter of the pension funds' portfolios are invested in direct loans to public sector projects and institutions. This is well above the 10 percent limit prescribed by the Investment Guidelines: in several cases this is the result of the "evergreening" of previous loans. The exposure stems from a governance failure as social security schemes have not been managed independently from government and in the interest of members. The financial position of

weaker pension funds (such as PSPF) is further damaged as it is estimated that 10 percent of these loans are behind schedule. The contracts are non-transparent: although the loans were funding government programs, they were not included in the fiscal framework and were funded off-budget.

The Government is the ultimate guarantor of benefits offered by the social security schemes and consequently faces a long-term contingent fiscal liability to the sector, amounting to 24 percent of GDP.[55] Additional (contingent) liabilities from the pension sector come from the Government's obligation to pay promised benefits once the funds run out of cash and assets. The net present value of these contingent liabilities was 24 percent of GDP in July 2014, before the first set of harmonization reforms was introduced.

Despite recent reforms, pensions parameters may lead to Government liabilities

In July 2014, the Government of Tanzania passed a set of Harmonization Guidelines aimed at improving the fiscal sustainability of pension funds and restoring equity between the system participants. The Harmonization Guidelines introduced identical accrual rates; commutation rules and factors; early retirement reduction factors; and reference salaries across funds. They contributed to modernizing the parameters of the pension system, but only partially reformed challenges to the pension sector. Firstly, many of the reformed parameters are still too generous compared to international best practice. Secondly, despite harmonization across the five funds, the fragmented structure remains and there are efficiency implications as the social security system is small. World Bank (2014) finds that administrative costs of the schemes were an average of 15 percent of contributions (vs. international good practice benchmark of 3 percent or less). Finally, the harmonization rules do not apply to existing members of PSPF, GEPF and LAPF, and even though the parametric reforms are positive, they retain many elements that add to generous benefits and increased costs.

Tanzania's new accrual rate of 2.07 percent is close to the regional average of about 1.9 percent of pensionable salary per year. This is much higher than the average of 1.2 percent per year observed in high income countries where accrual rates are considered fiscally sustainable and international best practice. The new accrual rate in Tanzania is an improvement, especially for PSPF and LAPF, but remains high compared to international best practice. In addition, some countries included in producing the regional averages are phasing in reforms to reduce their accrual rates. For example, Seychelles is gradually reducing the accrual rate from the current 1.75 percent to 1 percent by 2050.

Tanzania follows regional trends with respect to the reference[56] salary used to calculate pensions, but this is not international best practice. The new[57] reference salary uses the best 3-year average from the last 10 years to calculate the pension. Many of the pension schemes in Sub-Saharan Africa base pensions on either last wage (Cabo Verde, Uganda, Madagascar), the average of the best five years (Sierra Leone) or the average of the best three years (Ghana, Senegal, Ethiopia). In those countries with separate[58] schemes for public sector workers, the reference salary in the civil service pension schemes tends to be shorter than in the private sector pension scheme, which creates inequities between private and public-

---

[55] World Bank (2014).

[56] Another component of the benefit formula which influences generosity is the number of years in the averaging period.

[57] The new reference period for the calculation of the pension is longer for PSPF and LAPF where pensions were previously based on final salary. It is shorter for NSSF members, the same for GEPF and almost the same for PPF.

[58] In Sub-Saharan Africa, 24 out of the 44 countries for which there are data, have separate schemes for public sector workers.

sector workers. Tanzania eliminated the inequity with the 2014 harmonization rules which ensured that the reference salary used to calculate the pension was the same for public and private sector workers. International best practices further recommend basing pensions on lifetime average wages. The rationale is that if a worker paid contributions over the lifetime on the wages earned, then aligning benefits with contributions would imply basing the pension benefit on the average lifetime wage. In addition, extending the reference salary to full career will also eliminate inequities because of different age to earnings profiles for public and private sector workers. Typically, civil servants see steady increases in their salaries, as salaries are often based on seniority. Private sector salaries often peak earlier in the career and then either hold steady or decline slightly. Thus, the ratio of benefits received to contributions paid may be markedly higher for civil servants than it is for private sector workers – resulting in overpayment of benefits for civil servants compared to contributions paid.

According the Harmonization Guidelines, pensions post-retirement in Tanzania can be increased on an ad-hoc basis. This follows regional trends but not international best practice. Most countries in Sub-Saharan Africa adjust pensions to wage growth on an ad-hoc basis, this approximates wage growth and is typically higher than inflation. International best practice, suggests indexation post-retirement by inflation only, with the logic that an individual's purchasing power should be maintained from the first day of retirement throughout the retirement period. This absence of a defined and consistently applied indexation measure is unhelpful because it creates uncertainty among pension system participants regarding the value of future benefits; it is also a potential source of inequity as different cohorts may be exposed to over- or under-payment of benefits depending on the macroeconomic environment in any given year.

Commutation[59] of part of the pension is permitted in all pension funds in Tanzania, driving costs to the pension system higher and exposing retirees to a higher risk of old age poverty. While the Harmonization Guidelines reduced the amount that can be commuted, the benefits of allowing any commutation are questionable because it is costly to the pension system and results in an increased risk of old age poverty among pensioners. Retirees can commute up to 25 percent of annual amount of pension at a factor[60] of 12.5.[61] If commuted pensions are spent straightaway, which is often the case, retirees may find themselves facing poverty.

The pension contribution[62] rate is set at 20 percent of wages for all pension funds, higher than the regional average of 14 percent, and especially high for NSSF (Figure 14). The tendency in the region is to have higher contribution rates in public sector pension schemes. Public sector schemes are usually very different from private sector schemes in terms of both demographics and system finances. While a contribution rate of 20% may be justified in a fund such as PSPF, it is very high in the context of NSSF.

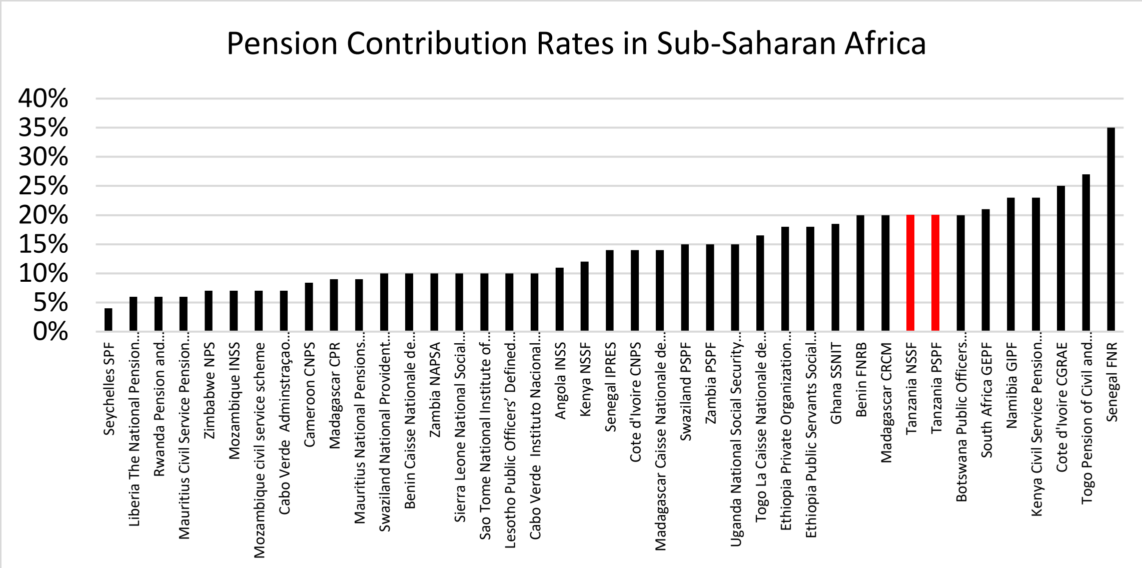
[59] Commutation in the pension context occurs where a retiree surrenders partial rights to a pension in the form of an income stream in exchange for a lump sum payment.

[60] Commutation rate (factor) defines the relationship between the lump sum payment received and the future income stream foregone. A rate of 10:1 means that a person commuting would receive $10 now for every $1 of future annual income foregone. An actuary normally calculates the commutation rate using life expectancy tables to reflect the life expectancy of the person wishing to commute. The Harmonization Rules rate of 12.5 is broadly fair in an actuarial sense, although this could change if longevity increases significantly.

[61] Previously, the commuted portion stood at 50% with a factor of 15.5 in PSPF and LAPF.

[62] Contribution rates are not explicitly defined in the law.

Figure 14: In Tanzania, pension contribution rates are relatively high



The recent reform left the retirement age unchanged at 60 and kept early retirement at 55 albeit with a penalty of 3.6 percent per year. No change in the retirement age under the Harmonization Rules means that the members of the Tanzanian funds will spend an average of over 17 years in retirement, which is at the longer end of regional comparisons. Based on experience in higher-income countries, the last 15 years of life is when individuals are typically no longer able to work. As such, 15 years in retirement appears to be an acceptable yardstick to define the typical length of retirement (Schwarz & Arias, 2014). In addition, it is international good practice to link the retirement age to life expectancy, it is also important to recognize that the life expectancy of the covered population – who typically have better access to healthcare – is almost certainly much higher than that of the overall population, which means that the actual duration of retirement may be longer than statistics indicate.

Employment Programs

Tanzania implements a few employment programs, focusing on entrepreneurship. Employment programs can be contributory or non-contributory and are designed to help protect individuals against loss of income from unemployment (passive labor market policies) or help individuals acquire skills and connect them to labor markets (active labor market policies). Betcherman and Khan (2016) find that labor market interventions fall into three categories: (i) programs designed to increase labor demand; (ii) programs designed to improve the supply of labor (especially skills and training); and (iii) programs designed to improve the intermediation (matching) between labor supply and labor demand. Programs may also provide job seekers with labor market information (employment services) that overcome capital constraints (micro-credit), and stimulate labor demand (public works and wage subsidies).

In Tanzania, Government spending on employment programs is low and few people benefit from them. There are two key employment programs: (i) the PSSN – Livelihood Enhancement component; and (ii) Fisheries subsidies (Table 3). In 2016, the PSSN's Livelihood Enhancement component spent TZS 408m (US$ 187,400) or less than one percent of GDP. The fisheries subsidies program was suspended in 2016, but spent TZS 400m (US$ 200,000) or less than 1 percent of GDP in 2015.

Table 3: Employment program expenditures and coverage

	Expenditures (TZS)	Expenditure (US$)	Expenditures as a % of GDP	Coverage
PSSN - Livelihood Enhancement component	407,984,955	187,400	0.00%	42,054
Fisheries Subsidies (2015)	400,000,000	201,000	0.00%	524
All employment programs	807,984,955	388,400	0.0%	42,578

Source: Authors' estimates using Government of Tanzania data.

The PSSN Livelihoods Enhancement component, currently in the pilot stage, has limited coverage. In 2016, the PSSN Livelihood Enhancement component covered more than 40,000 households, all of whom were PSSN cash transfer beneficiaries, when it was piloted in 8 PAAs.[63] The component aims to build a foundation for PSSN cash transfer beneficiaries to graduate out of poverty by enhancing their ability to support themselves through strengthened, diversified, and sustainable livelihood enhancement initiatives. It mainly supports basic skills, savings promotion, productive grants, and coaching.

The fisheries subsidies program supports fishing communities by subsidizing boat engines and fish feed. In 2014/2015, the fisheries subsidy program spent TZS 400m and TZS 200m for boat engines and fish feed respectively. Sixty percent of program funds were contributed by communities, the remaining forty percent by the Government. The boat engine subsidies were offered to groups of fishermen, while the fish feed was offered to individual fishermen.

Employment programs in Tanzania suffer from the same issues that employment programs in other African countries face: governments spend relatively little; program coverage is low; and little is known about program effectiveness.

Generalized Subsidies

Tanzania subsidizes several goods and service in an effort to ensure affordability. Examples of subsidy programs are electricity, agriculture inputs, water, and transport. These subsidies are intended to ensure that poor people can afford the good in question. However, as in many other countries in the world, poor people are often crowded out of the market for subsidized goods; or other factors prevent them from benefiting from the subsidy. In this section, We focus on electricity subsidies and agriculture input subsidies.

In Tanzania, electricity subsidies have been decreasing over time but are a significant portion of government expenditures. Electricity subsidies are provided to households and businesses that consume small quantities of electricity, while larger electricity consumers receive a cost recovery pricing schedule. Comparing revenues from electricity consumption with the costs of providing electricity, we find that about 0.4 percent of GDP is allocated to electricity subsidies.[64] In addition to those subsidies, the state-

[63] Funding shortages have prevented the PSSN livelihoods enhancement component from being rolled out.

[64] The cost of a kWh of electricity is assumed to be TZS 303. It should also be noted that the electricity revenues and consumption information correspond to July 2016 through June 2017. Coady, et al. (2015) estimate electricity subsidies for several countries in the world and find that find that in Tanzania, electricity subsidies account for more than 2 percent of GDP.

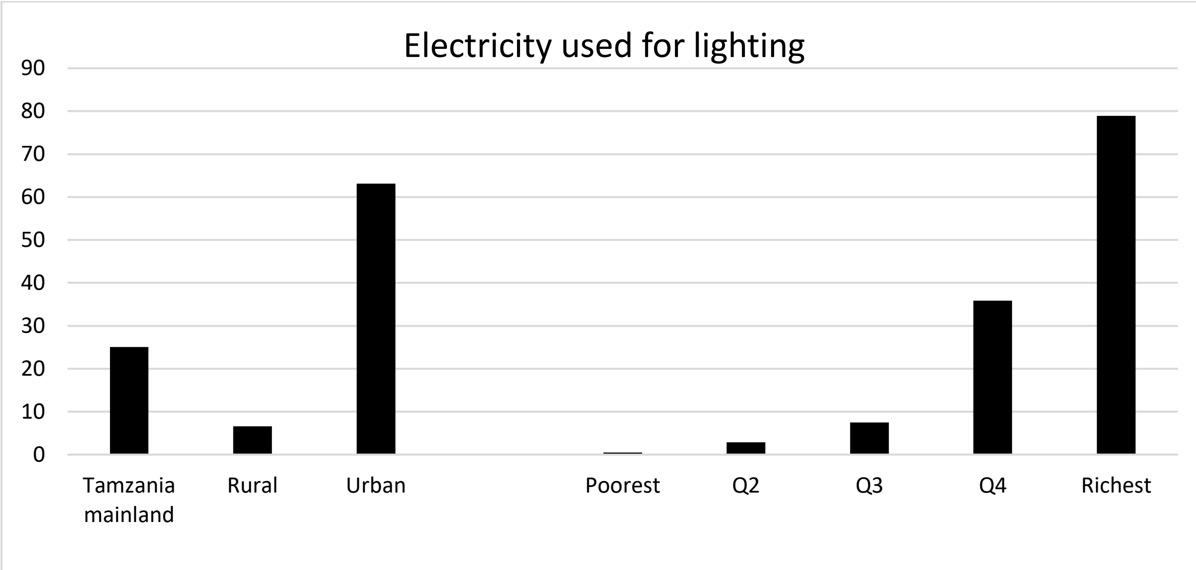
owned power company, TANESCO, exhibits operational inefficiency and financial problems[65], further burdening the government budget.

Tanzania is like many other African countries in that it allocates significant funds to generalized electricity subsidies intended to help poorer households, but it is inefficient for this purpose. Electricity subsidies are often justified using arguments that span social welfare protection, job creation, economic development, and energy security. However, they have the following negative consequences: they compete for limited resources that could otherwise be used for other essential services; they often widen the scope for rent seeking and commercial malpractice; they discourage supply-side and demand-side efficiency improvement; they promote higher consumption of electricity; and they can make new forms of renewable energy uncompetitive. They are also often consumed by both poor and non-poor households, suggesting that redirecting the funds to targeted social assistance programs instead of generalized subsidies will lead to more efficient distribution. Inchauste and Victor (2017) show, for example, that in the Dominican Republic before the 2008 reform, the amount of LPG subsidies benefiting the richest 10 percent of the population was at least five times the amount benefiting the poorest 10 percent.

While direct evidence on the incidence of electricity subsidies is not available in Tanzania, data on access to electricity for lighting shows that electricity subsidies likely accrue disproportionately to non-poor households. Only 25.1 percent of households in mainland Tanzania use electricity for lighting (Figure 15). Across household welfare groups there is a big disparity in the use of electricity for lighting. In the richest 20 percent of households, 78.9 percent use electricity for lighting, while 0.5 percent of households in the poorest quintile use electricity for lighting. Significant differences are also observed across geographic regions: in urban areas 63.1 percent of households use electricity for lighting, but in rural areas that figure is only 6.6 percent. It should be noted that electricity subsidies may also accrue to businesses that only consume a little electricity.

[65] World Bank (2017)

Figure 15: Electricity use for lighting is mostly for rich and urban households



Source: "Energy Access Situation Report, 2016 Mainland Tanzania" using data from the 2016 energy access situation survey.

Tanzania also allocates funds to a fertilizer input subsidy program. The National Agricultural Input Voucher Scheme (NAIVS) spent about TZS 20B (US$ 9m) or 0.02 percent of GDP in 2016. This input subsidy program was originally implemented during the global grain and fertilizer price crisis in 2007 and 2008.[66] The main aim of the program is to increase maize and rice production and to improve Tanzania's national food security by incentivizing farmers to test and adopt new technologies. From 2008 until 2013, NAIVS spent approximately US$300 million, providing more than 2.5 million smallholder farmers with a 50 percent subsidy on a one-acre package of maize or rice seed, and chemical fertilizer. After three years of subsidized assistance, targeted farmers were expected to graduate from the program with enough experience and income to continue on their own.

World Bank (2014b) presents the main achievements and challenges of the NAIVS program. The main achievements were: (i) NAIVS raised domestic grain production levels and increased national grain supplies during the grain and fertilizer global price crisis; and (ii) NAIVS encouraged smallholder farmers to experiment with new seed and chemical fertilizer. However, there were also four significant challenges: (i) the program was originally implemented in 12 potential regions to incentivize farmers to test and adopt new technologies but it is now a national program; (ii) farmers may have viewed the program as an income transfer to reduce production costs; (iii) the program had logistical challenges, including vouchers reaching farmers late; and (iv) poor households were being crowded out, and hence, were not using vouchers, because of the co-payment requirement.

[66] Program information on NAIVS is mostly drawn from World Bank (2014b).

Conclusion

Tanzania has made considerable advances in strengthening its social protection system, but further reforms are needed. The extent of poverty and vulnerability in Tanzania required a bigger fiscal outlay on social protection; the fiscal gap is especially pronounced in social assistance and employment programs. The good news is that the existing PSSN program gives the government an opportunity to scale up social assistance relatively quickly. However, little is known, however, about the performance of social welfare services and employment programs, and there is a need to expand the knowledge base and scale up effective programs. The Tanzanian government also spends a significant portion of resources on a narrow portion of the population though pensions but there are several reforms that could align the pension sector with international best practice, and could improve pension system sustainability.

Spending more on social protection in a fiscally constrained context will be challenging, but there are some solutions within Tanzania's reach, and they include: strengthening domestic fiscal mobilization; leveraging development partner assistance; and reducing the use of expensive and ineffective programs. Successful implementation of these measures could provide the resources needed to scale up effective programs and better address poverty and vulnerability.

Spend more on social protection

Tanzania could consider increasing resource allocations to social assistance programs and employment programs. Tanzania spends less than about 0.46 percent of GDP on social assistance, African countries spend an average of about 1.55 percent. Boosting social assistance expenditures could help reduce poverty and improve equity; it could also protect poor people and families from irreversible human capital losses (nutrition, health, and education), helping to contribute to equity, opportunity, and resilience. Funding for social welfare services, such as services for disabled people, elderly people, orphans and vulnerable children, are all low in mainland Tanzania. In addition, funding for nutrition programs is particularly low especially given the acute needs of the population. Finally, Tanzania spends very little on employment programs and increasing this type of spending could help build skills, enhance workers' productivity and employability, and improve labor market matching, and ultimately lead to sustainable improvements in welfare.

Scale up all PSSN components

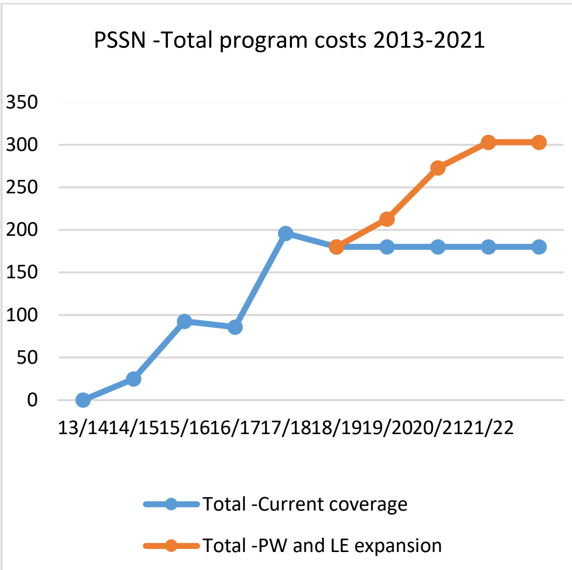
When boosting social assistance spending, the Government could consider scaling up all components of PSSN because PSSN is the largest social assistance program in Tanzania and has many desirable characteristics. PSSN has a good track record of targeting poor people. It has a nationwide payment delivery mechanism, and the conditional cash transfer is an effective mechanism for encouraging poor families to invest in their children's human capital. Roll out of PSSN has led to desirable outcomes, including the shift from food and in-kind based social assistance programs to more efficient cash-based programs; and the shift from untargeted to a targeted social assistance. Scaling up all components of PSSN and improving coordination between PSSN and other social assistance programs could help improve service delivery.

Funding shortages have prevented some PSSN components from being scaled up. The public works component for example has only been rolled out in 44 PAAs, while the cash transfer component has been rolled out in all 161 PAAs.[67] Scaling up all PSSN components would likely increase total PSSN costs to a

[67] The public works and cash transfer components were not rolled out fully because of the limited budget.

maximum of US$323 million per year or about 0.4% of GDP and 2.4 percent of the state budget (Figure 16).[68] If the PSSN cash transfer component and if the PSSN public works component is rolled out universally, social assistance spending will increase to about 0.60 percent of GDP. Even with these increases, Tanzania's social assistance spending as a percentage of GDP will be low – 40 percent of the Africa average for social assistance spending.

Figure 16: Scaling up all PSSN components can be accomplished by 2021/22



Source: Authors' estimates using TASAF data.

Strengthen social welfare services and employment programs

The Government could consider strengthening social welfare services. There are limited services available for orphans and vulnerable children, disabled people, elderly people, victims of violence, etc. in mainland Tanzania. Furthermore, little is known about these vulnerabilities, including: the numbers of people affected; specific needs; available services, and the costs involved.

Tanzania could consider scaling up employment programs with a proven track record of achieving results; and could consider piloting other employment programs to assess their effectiveness. Employment programs are also understudied, and therefore, little is known about which programs work and which programs do not work. Employment programs could help to increase labor demand; improve the skills base and the supply of labor; and improve matching between labor supply and demand. Poverty rates in Tanzania are lower in households where the household head is a wage earner or is a non-farm business operator. Upscaling the PSSN livelihood enhancement component in a manner consistent with information gathered from the impact evaluation could help address earnings potential.

[68] See "Tanzania – Productive Social Safety Net (PSSN) - Long term sustainability" for details.

Build upon the recent wave of pension reforms by introducing additional adjustments to bring Tanzania in line with international best practice.

The passing of the 2014 Harmonization Rules brought about overall positive parametric reforms across the five mainland pension funds, though there is room for further adjustments to bring Tanzania in line with international best practice. For example, the establishment of a linear accrual rate of 2.07 percent is a positive change, though it is still high compared to international best practice. The reduction in the commutation factor from 15.5 to 12.5 and the reduced commutation to 25 percent compared to the previous 50 percent is also a commendable reform, however, the merits and benefits of commutation altogether as a component of the pension system are questionable at best. The adjustment of the reference salary to best 3-year average during the last 10 is an improvement in the PSPF and LAPF funds – previously pensions in those funds were based on final salary. Although all the harmonization guidelines are expected to improve the sustainability of the funds, given that they are only applied to new entrants of the most financially challenged funds means that the fiscal benefits of these parametric changes will take several decades to materialize. Despite harmonizing the parameters across the five funds, the fragmented structure remained and as a result the relatively small size of the social security schemes has an impact on their efficiency as it does not allow for economies of scale. The recent wave of reforms kept the contribution rate at unchanged at 20 percent which is very high for the NSSF scheme given its demographic composition and level of immaturity.

Some of the key challenges facing the pension sector in Tanzania include: i) very low pension coverage rates among active and elderly population; ii) ensuring pension payments by clearing contribution arrears and effectively managing “pre 1999” liabilities of PSPF; iii) further revision of the pension parameters to create sustainable and affordable benefit levels across all funds and beneficiaries overt the long term; iv) consolidation of the industry through merging of the funds to reduce administrative costs and allow for economies of scale.

Raise the resources to adequately finance social protection

Public debt and development aspirations have made it difficult to find resources to strengthen social protection but there are at least four avenues for Tanzania to pursue: (i) mobilize revenue domestically; (ii) leverage development partner resources; and (iii) reduce the use of inefficient or expensive programs.

Domestic revenue mobilization is the most reliable way to create fiscal space because of uncertainties in the global macroeconomic and political context; the rising costs of borrowing; and the unpredictability of external financing.[69] Strengthening fiscal policy could lead to a stronger citizen-state compact and promote government accountability to taxpaying citizens. The IMF (2015), estimates a global “tax frontier” using cross-country observations. This represents the upper level of tax revenue ratios that can be raised for a given level of economic and institutional development. The distance to that tax frontier for any country partially reflects tax policy preferences, i.e., countries closer to the tax frontier would likely have a higher preference for public services, and therefore accept a higher tax burden to finance them. Using this methodology, IMF (2015) estimates that Tanzania’s tax to GDP ratio, currently one of the lowest in the Eastern African Community (EAC) at 12 percent, has the potential for further tax revenue mobilization for a tax to GDP ratio of about 17-18 percent of GDP. A 5 percent increase in the tax to GDP ratio means that the Government will have an additional TZS 5.187 trillion (US$ 2.4 billion) to allocate. All social assistance spending was TZS 471 billion in 2016.

[69] IMF (2015)

Development partners can be a crucial financing source. Throughout Africa, development partners finance 56 percent of social assistance spending and government the remaining 44 percent. Tanzania is no exception. Development partners have shown a strong interest in financing social assistance programs in Tanzania. Financing can gradually shift to government after initial investments have been made and when systems are in place. This shift is important because domestic resources are more reliable, i.e., they are not susceptible to external shocks, and better reflect voters' commitments.

Tanzania also has scope to reduce the use of inefficient and expensive programs. Programs such as generalized subsidies, providing food at schools and transportation to and from school are expensive. These programs need to be examined further and it may be useful to assess their efficacy.

References

Beegle, Kathleen, Aline Coudouel and Emma Monsalve (2018) "Realizing the Full Potential of Social Safety Nets in Africa" World Bank, Washington, DC. © World Bank.

Betcherman, Gordon and Themrise Khan (2016) "Youth employment in sub-Saharan Africa Taking stock of the evidence and knowledge gaps" International Development Research Centre and the MasterCard Foundation.

Coady, D, I. Parry, L. Sears, and B. Shang (2015) "How Large Are Global Energy Subsidies?" International Monetary Fund, WP/15/105, Washington, DC.

Dasgupta, Basab and Ajwad, Mohamed Ihsan (2011) "Income Shocks Reduce Human Capital Investments: Evidence from Five East European Countries" World Bank Policy Research Working Paper No. 5926. Available at SSRN: https://ssrn.com/abstract=1977752

IMF (2017) "United Republic of Tanzania: Sixth Review Under the Policy Support Instrument and Request for a Six-Month Extension of the Policy Support Instrument" Washington, DC.

IMF (2015) "Sub-Saharan Africa: Dealing with the Gathering Clouds" Regional Economic Outlook, October. World Economic and Financial Surveys. Washington, DC: IMF.

Inchauste, Gabriela, and David G. Victor, eds. (2017) "The Political Economy of Energy Subsidy Reform" Directions in Development: Public Sector Governance Series. Washington, DC: World Bank.

International Development Association (IDA) and International Monetary Fund (IMF) (2009) "Joint World Bank/IMF Debt Sustainability Analysis" Washington, DC.

Ministry of Health, Community Development, Gender, Elderly and Children (MoHCDGEC) [Tanzania Mainland], Ministry of Health (MoH) [Zanzibar], National Bureau of Statistics (NBS), Office of the Chief Government Statistician (OCGS), and ICF (2016) "Tanzania Demographic and Health Survey and Malaria Indicator Survey (TDHS-MIS) 2015-16" Dar es Salaam, Tanzania, and Rockville, Maryland, USA: MoHCDGEC, MoH, NBS, OCGS, and ICF.

Ministry of Finance and Economic Affairs (2010) "United Republic of Tanzania: National Strategy for Growth and Reduction of Poverty II" Dar es Salaam, Tanzania.

Ministry of Finance and Planning of Zanzibar and UNICEF (forthcoming) "Zanzibar Social Protection Budget Review", Dar es Salaam, Tanzania.

United Republic of Tanzania (2017) "Energy Access Situation Report, 2016 Tanzania Mainland" Dar Es Salaam, Tanzania.

World Bank (2018) "The State of Social Safety Nets 2018 Report" World Bank, Washington, DC. © World Bank.

World Bank (2017) *United Republic of Tanzania Systematic Country Diagnostic: To the Next Level of Development*. World Bank, Washington, DC. © World Bank.

World Bank (2017b) "Tanzania Economic Update: Managing Water Wisely" World Bank, Dar es Salaam, Tanzania.

World Bank (2017c) "Public Expenditure Review, Tanzania. 2017" World Bank, Dar es Salaam, Tanzania.

World Bank (2016) Evaluating Tanzania's productive social safety net: targeting performance, beneficiary profile, and other baseline findings (English). Washington, D.C.: World Bank Group.

World Bank Group (2015) *Tanzania Mainland Poverty Assessment*. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/22021 License: CC BY 3.0 IGO.

World Bank (2014) "Public Expenditure Review: Government Pension Obligations and Contingent Liabilities" Washington, D.C.: World Bank Group.

World Bank (2014b) "Public Expenditure Review: National Agriculture Input Voucher Scheme (NAIVS)" Washington, D.C.: World Bank Group.

World Bank (2012) "World Bank Social Protection and Labor Strategy 2012-2022" Washington, DC.

Younger, Steven (2016) "The Impact of Reforming Energy Subsidies, Cash Transfers, and Taxes on Inequality and Poverty in Ghana and Tanzania" Commitment to Equity (CEQ) Working Paper 55.

Annex I

Reformed System Parameters spelled out in the Harmonization Guidelines of 2014

Vesting period	15 years
Voluntary retirement age	55 years
Statutory retirement age	60 years
Commuted pension	(1/580 X number of months contributed X Annual pensionable emoluments) X 12.5 X 25%
Monthly pension	(1/580 X number of months contributed X annual pensionable emoluments) X 75% X 1/12
Lump sum payment at retirement	An amount equal to the sum of monthly contributions paid to the mandatory DB schemes plus an interest determined by the Board of trustees of the respective scheme
New benefit formula (2014 harmonization rules) apply to	• Any new members of the five funds • All existing members of NSSF and PPF, (the new rules do not apply to existing PSPF, GEPF and LAPF members)
Accrual rate	2.07% per year
Commutation factor	12.5
Commutation rate	25%
Income base for calculating the pension	Average annual salary of the best three years out of last 10 years
Minimum pension	No less than 40% of the Sectoral Minimum Wage
Pension indexation	Ad-hoc
Penalty for early retirement	3.6% per year