Developing a social protection agenda
for equitable growth in Tanzania

14 December 2014

Michael Samson
Economic Policy Research Institute
Abstract

Policy-makers in Tanzania today face an important crossroads on the highway towards future prosperity. Strong economic growth (estimated and projected at approximately 6-7% on average per year) and an expanding resource sector promise higher incomes and greater fiscal space to fund public initiatives. While Tanzania is on track to achieve Millennium Development Goal 4 (reducing child mortality), other key social indicators including poverty, malnutrition and youth unemployment remain unacceptably high and threaten the sustainability of economic growth. Evidence from across Africa and around the developing world demonstrates how social protection can address this dilemma, strengthening the pro-poor and developmental character of Tanzania’s economic growth while building the foundation for future prosperity.

Tanzania has built effective social protection mechanisms, centred on a social action fund that provides public works employment opportunities, cash transfers to vulnerable groups, and community infrastructure that improves well-being while strengthening economic productivity. The African (and more global) evidence base documents a path on which Tanzania can progress towards a more expansive and developmental social protection system. The returns in terms of greater human capital, better managed labour market risks, social cohesion and national resilience will not only improve vital social outcomes but also strengthen Tanzania’s economic foundations and support pro-poor and inclusive economic growth.

This paper reviews the relevant social and economic context in Tanzania that demonstrates the important role that social protection can serve in a national growth and development strategy. Evidence from successful countries in Africa consistently demonstrates how appropriately designed and effectively implemented social protection programmes build the human capital that today is the bedrock of the wealth of nations. An emerging body of evidence similarly shows how these instruments also enable households to manage social risks and as a result participate more effectively in the labour market. Particularly in the agricultural sector on which most of Tanzania’s poor households depend, social protection facilitates labour market engagement and strengthens rural livelihoods. African countries as well as others around the world provide examples of how social protection promotes social cohesion that generates multiple benefits: investors appreciate the greater social stability that results and are more likely to invest in economic growth, and the resulting sharing of the benefits of prosperity improves the pro-poor content of economic reform strategies and reduces the risk of social and political backlash. In particular, the evidence since 2008 demonstrates how social protection strengthens macroeconomic responses to global shocks, providing the effective fiscal stimulus that reinforces national economic resilience.

The global and African evidence also highlights important lessons for Tanzania in managing the prospective resource boom. Export-driven economic expansions that rely on minerals and energy pose special challenges for African nations—particularly in the context of the recent volatility in energy prices and the risks of exchange rate distortions that can undermine international competitiveness (“Dutch disease”). Social protection provides a particularly important response under these circumstances for multiple reasons: (1) the mechanism enables vulnerable households affected by the resulting volatility to better cope with shocks, (2) social protection better enables households to adapt to changing economic conditions and prevent adverse shocks from affecting them, and (3) these interventions represent a public investment in the productivity of the non-traded sectors of the economy and as a result tend to reduce the adverse effects of “Dutch disease”.

1. Introduction

Policy-makers in Tanzania today face an important crossroads on the highway towards future prosperity. Strong economic growth (estimated and projected at approximately 6-7% on average per year) and an expanding resource sector promise higher incomes and greater fiscal space to fund public initiatives. While Tanzania is on track to achieve Millennium Development Goal 4 (reducing child mortality), other key social indicators including poverty, malnutrition and youth unemployment remain unacceptably high and threaten the sustainability of economic growth. Evidence from across Africa and around the developing world demonstrates how social protection can address this dilemma, strengthening the pro-poor and developmental character of Tanzania’s economic growth while building the foundation for future prosperity.

Tanzania has built effective social protection mechanisms, centred on a social action fund that provides public works employment opportunities, cash transfers to vulnerable groups and community infrastructure that improves well-being while strengthening economic productivity. The African (and more global) evidence base documents a path on which Tanzania can progress towards a more expansive and developmental social protection system. The returns in terms of greater human capital, better managed labour market risks, social cohesion and national resilience will not only improve vital social outcomes but also strengthen Tanzania’s economic foundations and support pro-poor and inclusive economic growth.
2. Social protection’s role tackling poverty and promoting growth in Tanzania

The Government of Tanzania’s National Five Year Development Plan (2011/2012-2015/16) recognises the importance of social investment in strengthening pro-poor and inclusive economic growth and development, identifying human capital as “the most important asset to propel sustainable development in today’s world.”¹ The plan emphasises the imperative of investing in Tanzania’s people throughout the life cycle.² Tanzania’s Vision 2025 aims to reinforce a “developmental mind-set” that incorporates creativity, professionalism and entrepreneurship and promotes a culture of savings and investment. Social protection offers the Government of Tanzania (and other African governments) an effective instrument to achieve these goals. Tanzania’s existing social protection initiatives, including public works, cash transfers to vulnerable groups, and community infrastructure projects, all protect and build human capital. This section reviews the relevant social and economic context in Tanzania and describes the state of human capital development. The evidence highlights the important role that social protection can serve in promoting inclusive economic development and contributing to future sustainable growth.

Tanzania’s sustained economic growth cycle supports a projected growth rate of approximately 7% in 2014-15, propelled mainly by growth in capital-intensive services (finance, trade, telecommunications) and supported by significant public investments in infrastructure development.³ A relatively lower growth rate in the labour-intense agricultural sector, where most of Tanzania’s labour force works and which provides the largest contribution to national income (as measured by Gross Domestic Product), underscores the challenge of sustaining pro-poor growth.⁴ By age 14 about half of the children in Tanzania have dropped out of school (or never attended), and less than one percent enrolls in university or other higher education institutions.⁵ In the absence of the shared human capital development that social protection can

¹ Tanzania Five Year Development Plan: 32
² Ibid: 32.
⁵ UNDAP (2010), page 13.
support, this pattern of growth tends to worsen inequality and dampen decent employment prospects for the most vulnerable households, particularly intensifying the problem of youth unemployment. In recent years the unemployment rate has risen across all the age cohorts in Tanzania and particularly for women.

Recent estimates indicate that approximately 28% the Tanzanian population live below the poverty line. Poverty pervades the countryside: the vast majority of the poor—approximately 90%—live in rural areas. Poverty does not respond well to the market-driven economic growth Tanzania has achieved in recent years—with a very low estimated growth elasticity of poverty reduction (approximately 2%), the fruits of growth largely accrue to households in the upper income quintiles while those in the lower quintiles have actually suffered a decline in real income in a number of recent years.

Tanzania’s sustained growth in national income (as measured by real per capita Gross Domestic Product) over the last 20 years has skewed the benefits to the wealthiest income groups. Figure 1 compares Tanzania’s income distribution in 1992 to that in 2012. Over this 20-year period the wealthiest quintile’s share of income has increased but at the expense of the next lower three quintiles. In order for Tanzania to sustain its economic growth, inclusive development strategies need to become a central component of economic growth.

This increasing Income inequality not only threatens social equity but also risks undermining Tanzania’s social fabric and intensifying political and socio-economic instability. Inequality retards economic growth and reduces the pro-poor character of the residual growth that persists. A recent OECD study documents the negative impact of income inequality on economic growth,

---

6 World Bank (2014)
7 World Bank (2014)
10 World Bank World Development Indicators Database
11 World Bank Poverty and Inequality Database
identifying barriers to human capital development attributed to inequality as the main transmission mechanism.\textsuperscript{12} Disparities in income depress the skills development of those in poorer households through, among other pathways, the quality and quantity of their education. However, educational outcomes for those from wealthier backgrounds are not affected by income inequality.\textsuperscript{13} Significant disparities in human capital development can undermine an economy’s productivity and the dynamics than enable innovation and diversification. In the context of a highly competitive global economy, severe income inequality can stall economic growth and undermine progress towards broad social and economic objectives.

Figure 1: Tanzania’s income distribution by quintile, 1992 and 2012

![Figure 1: Tanzania’s income distribution by quintile, 1992 and 2012](image)

Source: World Bank Poverty and Inequality Database

Since 2005 the Government of Tanzania has recognised the importance of “adequate social protection and rights of the vulnerable” with a particular attention on most vulnerable children, people with disabilities and older people. Social protection within the \textit{National Strategy for Growth and Reduction of Poverty} (MKUKUTA) aims to tackle poverty, vulnerability and social exclusion but also build human capital and enable households to manage livelihood risks. The


\textsuperscript{13} Cingano, F. (2014) ibid.
review of progress for the second national strategy identified considerable improvements in the delivery of social protection and other social services, significantly improving Tanzania’s global ranking on the Human Development Index (the HDI ranking rose from 163 in 2000 to 151 in 2009) and elevating the nation to the mid human development group globally, particularly through human capital strengthening.\textsuperscript{14}

MKUKUTA II expanded the initial strategy to enable social protection to more explicitly address life cycle risks, poverty traps and livelihood shocks.\textsuperscript{15} Perhaps most importantly, MKUKUTA II identified a “virtuous circle” linking human capital development [strengthened by social protection’s developmental impacts] to the economic growth that generates financial resources for the Government of Tanzania to progressively realise its commitments to “health care, [a] good education system, social protection and infrastructure.”\textsuperscript{16} This recognition of the interdependence of clusters of policy objectives has informed globally the systems approach to social protection, which embeds these interventions within a larger development planning processes. Tanzania was one of the first countries to integrate social protection into a national development plan, and the example is cited in last year’s annual Development Co-operation Report produced by the OECD as global best practice country model which has reduced “poverty in all its dimensions significantly over the past decade” and “made above average progress towards achieving the Millennium Development Goals” by “using social protection to contribute to economic growth.”

The Tanzania Social Action Fund (TASAF) is the cornerstone of the nation’s social protection system. TASAF is currently scaling up a Productive Social Safety Net that provides predictable and timely social cash transfers with two overlapping arms: (1) a conditional cash transfer linked to human capital requirements in terms of education, health and nutrition activities, targeted to poor and vulnerable households, and (2) access to public works employment during vulnerable seasons and in times of economic, environmental or other livelihoods shocks. (Households can access both arms simultaneously.) The PSSN aims to permanently raise (and stabilize) the

\textsuperscript{15} Ibid. page 18.
\textsuperscript{16} Ibid. page 30
consumption of extremely poor households, build human capital, link access to better social services, and strengthen the households’ economic opportunities with access to income-generating activities. Empirical evidence from the planning stages (based on micro-simulation modelling) documents the potential to reduce extreme poverty by more than fifty percent, reaching 920,000 households at scale with a cost of 0.6% of national income, making this one of Africa’s most affordable social protection interventions.

The results of the initial pilot of TASAF III’s Productive Safety Net Programme are impressive. The pilot, aiming “to increase income and consumption and improve the ability to cope with shocks among targeted vulnerable population groups, while enhancing and protecting the human capital of their children,” builds on the success of TASAF I in developing a community-driven public works programme and TASAF II’s innovations in terms of linking in livelihoods enhancements. The pilot’s comprehensive approach integrated basic and variable cash benefits, human capital services (including education, health and nutrition), public works employment, improved infrastructure, financial inclusion and training. Statistically significant evidence from a randomised control trial documents improved access to health insurance and better health outcomes, improved educational outcomes (particularly primary school completion rates, and with significantly stronger impacts for girls compared to boys), and improved savings (among the poorest households) as well as greater livestock asset ownership.

Tanzania’s globally recognised success interact with the persistent challenges the country faces in making greater progress towards tackling poverty, vulnerability and social exclusion as well as rising inequality. An evidence base from across Africa and around the developing world offers promising potential for an expansive social protection system embedded within a comprehensive developmental framework. The next section links in evidence from Uganda, and the following sections bring in evidence from the rest of Africa and the developing world.

---


3. African lessons of experience: the case of Uganda’s social protection system

Social protection as a policy sector offers diverse opportunities for Africa-wide policy learning. Few sectors of social or economic policy depend so constructively on evidence-informed approaches for the design and implementation of strategies and instruments. Given important parallels in the institutional, social and policy contexts of Tanzania and Uganda, an understanding of their common challenges and opportunities can mutually inform the two policy processes as well as illuminate prospects across the Continent. The follow section draws on Uganda’s experience and prospects to strengthen the economic case for social protection and its role in contributing to equitable growth.

Uganda faces challenges similar to those of Tanzania (and many countries around the world) in terms of poverty, vulnerability and social exclusion as well as increasing inequality. While effective pro-poor policies and relatively rapid economic growth have halved the rate of Ugandans in poverty since the 1990s, still one in ten households (11.6%) are trapped in poverty and half of these fall in persistent long-term poverty.19

Uganda’s 2004 Poverty Eradication Action Plan, running from 2005 to 2009, aimed to harmonise national growth, development and poverty reduction objectives. The National Development Plan (2010-2014) that followed in turn strengthened the nation’s commitment to integrated systems approaches to tackling poverty and vulnerability, embedding social protection within a more comprehensive developmental framework. Importantly the plan recognised: “Social protection is a public investment in human capital that facilitates risk taking endeavours and also enables the poor to prevent, cope with and mitigate risks”20 Similar to Tanzania’s Mkukutu plan, Uganda’s NDP focused on “growth, employment and prosperity for socio-economic transformation” incorporating pro-poor themes including promoting equity, increasing access to quality social service and enhancing human capital development. The NDP identified the number one constraint to economic growth as weak public sector management compounded by “limited social protection and support systems.”21 Similar to the logic of Tanzania’s Mkukutu II, Uganda’s NDP aimed to “expand social protection measures to reduce vulnerability and enhance the productivity of the human resource.”22
Uganda launched the Expanding Social Protection Programme in 2011 as part of a national developmental framework that embeds its instruments into the encompassing National Development Plan aiming to improve cross-cutting social and economic impacts. A social protection system serving Uganda’s poor population strengthens the larger national policy, planning and budgeting processes. The framework balances both social and economic policy priorities to jointly maximise pro-poor and inclusive economic growth and development while both strengthening coherence within the social protection sector and strengthening linkages between social protection and other developmental sectors. Last year’s Development Co-operation Report produced by the OECD cites this model as a global best practice, and, similar to Tanzania recognises Uganda’s social protection system as contributed to equitable growth, reducing “poverty in all its dimensions significantly over the past decade” while making “above
average progress towards achieving the Millennium Development Goals”. The model is influencing today development partners’ approach to systematising social protection approaches to achieve more comprehensive social and economic outcomes—in short, to strengthen equitable growth.

Uganda’s development planning framework embeds the social protection strategy within a larger social and economic policy planning context. Figure 3 below illustrates the model, based on a stylisation of the framework Uganda employed for its 2010 national development plan which integrated social protection within its development planning process.

Figure 3. Uganda’s development planning approach to social protection

<table>
<thead>
<tr>
<th>Policy instruments (INPUTS)</th>
<th>Social Protection</th>
<th>Other sectors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash transfers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Health Insurance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Education</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Livelihoods support</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Development planning matrix

<table>
<thead>
<tr>
<th>Poverty reduction</th>
<th>Social risk management</th>
<th>Social inclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social protection</td>
<td>Other</td>
<td>Other sectors</td>
</tr>
<tr>
<td>Other sectors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Human capital development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Livelihoods development</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic growth</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>


The model defines ‘inputs’ as the set of government policies, programs and instruments that governments utilise to achieve national policy objectives (the ‘outputs’ in the planning matrix).

---

25 The figure is only illustrative—Uganda’s actual matrix, for example, had hundreds of columns and dozens of rows.
Both “inputs” (strategies, programs, instruments) and ‘outputs’ (policy impacts) can be organised by social and economic sector within the matrix, strengthening the coherence of the integrated plan. The approach aims to build both ‘intra-sectoral’ and ‘inter-sectoral’ linkages in order to maximise the achievement of policy objectives at minimum cost. Intra-sectoral linkages reflect the internal coherence of social protection systematisation, which generates both efficiencies and more comprehensive impacts. For example, Uganda implemented a system of social cash transfers to vulnerable groups—the Social Assistance Grants for Empowerment (SAGE)—as part of a long-term comprehensive strategy. Prospectively, integrating social cash transfers with social health insurance yields important comprehensive impacts. Catastrophic health disasters in Uganda represent one of the main types of shock that can trap poor households into extreme poverty, even when households have access to the SAGE social cash transfers. SAGE benefits, even when available, are simply too small to cover the costs of catastrophic health shocks. Global social health insurance models typically exclude the poorest households because they lack the cash to pay the premiums required for participation.

Integrating cash transfers with social health insurance would work much more effectively than the individual instruments on their own. Social cash transfers better enable poor households to afford the premiums social insurance products require, while the social health insurance scheme protects poor households against severe medical shocks for which cash transfer programs provide limited relief. The intra-sectoral linkages provide more effective social protection, helping to protect the productive assets of the poor from distress sales in the face of catastrophic health shocks, and as a result preventing a decline into deeper poverty and sustaining more resilient livelihoods as well as more equitable economic growth.

Uganda’s planning framework also strengthened inter-sectoral linkages, as Figure 3 similarly illustrates. Social protection instruments often reinforce a range of developmental impacts not necessarily characterised as social protection outcomes: improved educational outcomes, better health and nutrition, stronger livelihoods development and more broadly promoting pro-poor and inclusive economic growth. Social protection instruments often work by improving poor people’s access to markets. SAGE transfers expand the effective demand for market goods and services, enabling people to meet their basic needs while promoting economic activity. At the
same time, a range of policy sectors can contribute to social protection objectives. Human capital investments reduce the risk of long-term poverty, and livelihoods interventions expand and diversity household economic opportunities and reduce poverty and vulnerability.

The Government of Uganda plans to scale SAGE up to reach approximately 600,000 people in about 95,000 households, covering approximately 15% of households in 14 pilot districts. Direct income support through SAGE transfers provides a foundational pillar for the Expanding Social Protection programme, with future interventions planned to strengthen social care services and social insurance. This policy reform tackles Uganda’s long-standing challenge of largely fragmented and uncoordinated social protection interventions directed mainly outside government.

Box 1. Joyce Mary Adeke explains the productive potential of social cash transfers

Joyce Mary Adeke, a 71-year-old widow of Moru village in Uganda’s Katakwi district, was one of the first beneficiaries of the Social Assistance Grants for Empowerment (SAGE) Programme. She saved part of the benefit, joined women’s groups and invested in both a cow and a goat which have since reproduced, transforming her and her family’s livelihoods.

“If I didn’t get that 25,000 [Uganda shillings, about US$9/month], I would never have dreamt of owning these livestock. I would never have joined these groups. How would that have happened?” she said. Research across Africa and around the developing world reflects Joyce’s experience: small cash transfers provide resources and security and can provide the catalyst to more sustaining livelihoods.


Initial appraisals document the programme’s role in not only meeting basic needs of households but also improving the resilience of some households to cope with economic shocks, partly due to better access to social support and credit. Box 1 echoes the voice of one of SAGE’s participants reflecting on the developmental impact of the programme. Some participants employ part of the SAGE transfer to invest in their livelihoods and local savings groups, likely improving long-term
well-being. SAGE transfers improve access to health and education services and significantly improve child nutrition and development, building human capital that further strengthen long-term economic returns. Participants report using the transfers to weather shocks to their micro-enterprises, sometimes financing the working capital required to start a small business. Spending of SAGE transfers tends to stimulate local economic activity, creating a multiplier effect that broadens the beneficiary base.

Given the success of the SAGE, a more proactive extension to Uganda’s most vulnerable group—children—is likely to strengthen the programme’s developmental impacts. Households with children are more likely to be poor than other households, and children make up 56% of Uganda’s population. One out of every three Ugandan children are stunted, relegating a third of the country’s population to lifelong disadvantage, including lost opportunities for cognitive development, a weakened immune system that increases the likelihood of childhood illness as well as adult chronic disease, worsened educational outcomes and lost future earnings that also undermine the government’s potential tax revenue.26

Social cash transfers to households with children represent one of the highest return investments available to African governments. The evidence reviewed in the next section documents the impact of these programmes across the Continent and around the developing world. In Uganda, however, this intervention offers particularly important potential. As the National Development Plan recognises, Uganda’s dependency ratio is one of the highest in the world.27 Over time, two trends are apparent—a long-term decline in the child dependency ratio and a simultaneous increase in the older person dependency ratio. Over the next couple of decades, Uganda receives a “demographic dividend” as these trends increase the number of working age people available to increase the nation’s prosperity. Focused government investment in youth and particularly long children will enable Uganda to maximise this demographic return.

Investing in children’s nutrition, health, and education now represents not only a fulfilment of their basic rights, but also an important intervention in breaking the intergenerational cycle of

26 See UNICEF (2014) for a further exposition of this challenge and potential solutions.
27 NDP (2009), page 28.
poverty. Failure to invest in Uganda’s human resource base through child-focused social protection will likely exacerbate unemployment as more and more youth enter the labour force without the human capital required to compete successfully. In addition, failure to invest in child-focused social protection will squander the opportunity to raise future labour productivity to deal with rising dependency ratios in the much longer term.

Because the core instruments of Tanzania’s and Uganda’s social protection systems are relatively new, the evidence documenting the equitable growth impacts of these initiatives is still emerging. A robust global evidence base, however, corroborates the initial research findings discussed above and demonstrates the remarkable potential of social protection systems in Africa and around the world to accelerate equitable, pro-poor and inclusive economic growth. The next section explores this evidence base in greater detail.
4. Global lessons of social protection’s experience promoting equitable growth

Evidence from successful countries in Africa consistently demonstrates how appropriately designed and effectively implemented social protection programmes build the human capital that today is the bedrock of the wealth of nations. The evidence on social protection consistently documents the instrument’s effectiveness in building human capital in terms of education, health and nutrition. With more than half of the population in Africa projected to live in cities by 2035, it is essential that Africa prepares its workforce for this shift towards more skilled labour. By 2035, Africa will surpass China in having the world’s largest workforce. With the highest child dependency ratio in the world, at 73 children per 100 persons of working age in 2015 (double the global average), Africa is uniquely positioned to invest in this growing demographic. Children represent Africa’s untapped economic potential. By reducing child mortality, a large proportion of the cohorts who are children now can survive to adulthood and contribute productively to the wider economy.

A recent study suggests that the Bolsa Familia programme began to “pay for itself” through improved productivity of its beneficiaries. As cited in Soares, de Souza, Osorio et al. (2010), Bolsa Familia accounted for 16% of the 10% decline in the Gini coefficient measure of inequality from 1999 to 2009, yet the programme’s costs amounts to a fraction of one percent of Brazil’s GDP. Glewwe and Kassouf (2012) simulate the longer term effects of the programme on the productivity capacity of participant children (through improvements in grade progression, reduction in dropout rates and raised enrolments), finding that an 11% rise in labour earnings associated with a predicted additional 1.5 years of schooling is greater than the costs of the programme. This suggests that Bolsa Familia not only had a measurable impact on reduction of poverty and inequality but interacted with the strengthened productivity capacities of children,

---

28 UN-DESA, World Urbanisation Prospects: 1.
29 African Union Commission et al., The Cost of Hunger in Africa: 164
30 http://hbr.org/2013/10/seven-reasons-why-africas-time-is-now/ar/1
32 Antipoverty Transfers and Inclusive Growth in Brazil: 20.
33 Ibid.
34 Glewwe and Kassouf
creating a “virtuous cycle” that enhanced the programme’s affordability. This is an important lesson that can be relevant for Mozambique.

Social protection programmes reduce the economic and social barriers that prevent early access to services. This approach acknowledges that children have different needs than adults and are harder hit when these needs are not met.\(^{35}\) Temin (2008) defines this as “the range of economic and noneconomic social protection interventions that need to be strengthened if the most vulnerable children and [their] families are to benefit. These include (but are not limited to) cash transfers, social work, early childhood development centres and alternative care.”\(^{36}\)

As James Heckman and Flavio Cunha (2007) identify, children face heightened “sensitive” periods early in their development. This period exposes children to a unique set of vulnerabilities. Sabates-Wheeler et al (2009) confirms that intervention at particular points is central in the reduction of long term deprivations.\(^{37}\) Heckman and Cunha (2007) simulate three different types of policies designed to reduce inequality. They find that interventions aimed at preschool aged children reduce the risk that the child will be poor later in life. Interventions aimed at adolescents achieved similar results, but cost 35% more than pre-school interventions.\(^{38}\) As Figure 4 below depicts, the marginal productivity of investment is highest in the first few years of a child’s life.

This is evidenced and supported by current programmes. The impact of a child in South Africa receiving the Child Support Grant (CSG) during the “critical development window”\(^{39}\) translates into gains in monthly wages of 5-7 percent.\(^{40}\) Similarly, an evaluation of Mexico’s Oportunidades programme estimate a potential increase in earnings of 8 percent from additional years of schooling as a result of the programme.\(^{41}\)

\(^{35}\) Roelen and Sabates-Wheeler, A child-sensitive approach to social protection: 292.
\(^{36}\) Temin, Expanding social protection for vulnerable children and families: 3.
\(^{37}\) Sabates-Wheeler and Devereux, Taking the Long View: 112.
\(^{38}\) Cunha and Heckman, The Technology of Skill Formation: 35.
\(^{39}\) Defined as “at least two thirds of their first three years” Aguero et. al, 2007 as cited in Winder and Yablonski, UNICEF Social Protection Strategic Framework: 21.
\(^{40}\) Aguero et al, The Impact of Unconditional Cash Transfers on Nutrition.
\(^{41}\) Skoufias, Progresa and its impacts on the human capital and welfare of households in rural Mexico: 51.
Child-sensitive social protection is not child-exclusive social protection. Interventions do not have to focus only on children in order to be child-sensitive. It is simply an approach that recognises the manner in which risks facing children differ from adults. Roelen and Sabates-Wheeler (2011) outline three child-specific areas of vulnerability 1) physical and biological vulnerabilities 2) dependence-related vulnerabilities and 3) institutionalised disadvantage. Children facing malnutrition are especially vulnerable to long term repercussions. The fact that children must depend on adults for their wellbeing reinforces their vulnerability. Finally, children are often voiceless and increasingly invisible in the policy context. Many countries lack an institutionalised response to child-poverty, and where they do exist, these institutions are often the least influential and under-resourced.

While child-targeted programmes are certainly important, addressing the well-being of caregivers can significantly reduce the risks that children face. An intergenerational approach, one that recognises the importance of roles, relationships and unique needs of caregivers is an important component to child-sensitive social protection programming. For instance, gender roles are likely to mediate the economic impacts of conditional cash transfer schemes. Kabeer (2012) finds a gender-specific effect in that mothers’ preferences are more closely aligned than

---

42 Heckman and Carneiro, 2003 and Handa, 2007
43 Jones and Sumner, Child poverty, evidence and policy: 67.
the father’s with children’s welfare.\textsuperscript{45} Social protection programmes that are not directly targeted to children can still have positive impacts on children’s welfare. Old age pensions have an important potential to reach the poorest children. As Kakwani et al (2006) finds, the proportions of children living in poverty are much higher among those children living in households headed by older people.\textsuperscript{46}

Investing in adult human capital is also important. Skills training can be integrated within a larger social protection programme in order to address the prevailing skills gap in the economy. In the short-term, a programme combining public works and innovative skills development for example creates short-term employment opportunities that can not only boost agricultural productivity but also expand existing skillsets and expand the future employability of the beneficiaries in the long term.

This is especially pertinent for Tanzania, as the country’s Five Year Plan recognises that human capital development has not been geared towards effectively increasing entrepreneurship and self-employment activities in the economy. A detailed skill gap analysis in the report reveals that the estimated gap in highly-skilled workers required for Tanzania to realise MIC status is “enormous.”\textsuperscript{47} As a result, the Government of Tanzania calls for additional investments in higher education infrastructure and more than doubling the current number of Vocational Educational Training Institutes (VETA) in the country.

More broadly, the plan calls for a reorientation of human capital development towards key productive sectors, such as agriculture. While more than 10 years has elapsed since the passing of Vision 2025, the National Five Year Plan notes the disappointing lack of returns to Tanzania’s agricultural development. While considered the “backbone” of the Tanzanian economy in both Vision 2025 and the National Five Year Plan, the sector has not lived up to the expectations of agricultural-dependent households as a result of (1) ancestral techniques (2) increasingly unpredictable weather conditions (3) limited access to credit and extension services.\textsuperscript{48}

\textsuperscript{45} Kakwani et al, Poverty, Old Age and Social Pensions in Kenya: 18.
\textsuperscript{46} Tanzania National Development Plan: 32.
\textsuperscript{47} Ibid: 4.
Social protection programmes can enhance skills development and promote access to adequate training in order to specifically address these challenges. Lack of skills and education limits rural workers to unskilled and low productivity farm and non-farm jobs that pay low wages. Many countries have designed skills development into their existing programmes. In Argentina, the Jefes y Jefas programme integrated a Public Works Programme (PWP) with on-the-job skills training; as did South Africa’s Expanded Public Works Programmes (EPWP). These programmes allow beneficiaries to invest both time and money into acquiring the skills to become more competitive in the local labour market and improve their ability to access higher-income generating occupations. While social grants can encourage beneficiaries to accumulate agricultural assets, increasing the knowledge base will enable beneficiaries to leverage these assets to increase and diversify their yields.

The PSSN provides an opportunity to enhance skills development amongst beneficiaries. While CCTs and PWPs are intended to alleviate the impact of short-term poverty, the incorporation of skills development will enable beneficiaries to better manage risks beyond the short term cash benefit impact. Sustained impacts of the PSSN on poverty and human capital will require medium-long term processes to address (1) skills capacity (2) full-cycles of education (3) accumulation of savings to manage future risks and shocks. Directing beneficiaries towards lasting income generating opportunities is an important way to ensure sustainable, long term impact. As Vice President Dr Mohamed Ghalib Bilal has stated, in the context of Tanzania’s largely informal economy, skills development in the form of an apprenticeship system is a vital approach to promote skills acquisition among poor and marginalised communities. The launch of the Recognition of Prior Learning Assessment (RPLA) programme in collaboration with the ILO/UN Development Assistance Plan (UNDAP) this past September is in recognition of this. The programme is targeted towards youth who are working in informal settings, providing a standard certification and more importantly a pathway towards better jobs and improved access to the formal economy.

---

49 Policy Note: 14.
50
Additionally, rural women are more susceptible to these forms of employment because they face unequal access to training opportunities. As the Plan identifies, “about 90 percent of women living in rural areas engage in agriculture and livestock keeping for their livelihood and economic prosperity, and are hence vulnerable to poverty.”\(^{51}\) Given that sustainable socio-economic development cannot be achieved without gender equality, women are given special emphasis in the Plan.

Social protection programmes can fill this gap by specifically targeting women. Bangladesh’s *Challenging the Frontiers of Poverty Reduction: Targeting the Ultra-Poor* (CFPR/TUP) programme run by BRAC provides assets transfers linked to selected income-generating enterprises and skills training to rural women. Emran et al. (2014) found that TUP has had a number of positive effects on per capita income, cash savings, food security, land ownership, livestock holdings and other productive assets for the selected ultra-poor households. Additionally, beneficiaries in the programme exhibited multi-year improvements across a range of development outcomes including food security, livelihoods diversity, productive assets, human capital and others.

A similar programme is the Chars Livelihood Programme (CLP) in Bangladesh, which offers cash grants for investment in income-generating assets, usually livestock. Beneficiaries are also offered training in capacity building and a cash stipend for eighteen months for consumption and to cover asset-related costs. Evidence from the first cohort establishes that two years after participating in the CLP programme the average monthly income of beneficiaries’ increased by 66 percent. By promoting asset accumulation, social protection programmes can reduce reliance on casual and often dangerous forms of informal waged employment. Increases in labour supply and employment enable households to increase consumption and to invest in nutrition, health and education services for their children. Higher disposable income and increased labour productivity creates a “virtuous circle” contributing to economic growth and poverty reduction in the long run.

An emerging body of evidence similarly shows how these instruments also enable households to manage social risks and as a result participate more effectively in the labour market. In the short

\(^{51}\) National Plan: 42.
run, the “protective” function of social protection benefits provides households with resources—some of which are sometimes used to finance job search and other livelihoods development activities. Social protection’s “preventive” function can avoid the further decline into poverty—even into “poverty traps”—that sometimes results when households sell their productive assets to deal with shocks. Job search and livelihoods investment are often risky—with very high returns when livelihoods prosper and job search results in decent employment, but with often unacceptably high costs when microenterprises fail or an unsuccessful job search utterly depletes a household’s meagre resources. By providing income security in these worst-case scenarios, social protection makes these risky investments more acceptable and increases the likelihood that poor households can lift themselves onto a path out of poverty. A forthcoming paper documenting a government programme in Uganda points to direct evidence for this: groups receiving unsupervised grants of USD 382 per member found that relative to the control group, the programme increased business assets by 57%, work hours by 17% and earnings by 38%.

A study on impacts of social pension on labour force participation in South Africa showed that the probability of an out-of-labour-force adult finding employment over time is greater if the person is living in the household receiving social pension. The impact of cash transfers on

The “dependency” issue
Evidence from around the world refutes the “dependency hypothesis”—the fear that social protection programmes will make recipient households more dependent on public benefits and less reliant on work effort. According to the “reservation wage” hypothesis, if we assume that social protection increases a family’s income, it would simultaneously increase the reservation wage as well (the lowest wage rate at which a worker would be willing to accept a type of job). In theory, beneficiaries would be less inclined to engage in the labour market. However, evidence has demonstrated just the opposite—social protection increases the labour market engagement of the poorest members of society. Social protection provides hedging against risk by providing a more predictable income stream which allows households to take risks and invest in higher return activities. These activities lead to higher income trajectories for the future.


---

52 Blattman, Fiala and Martinez (2013)
women’s labour market activity is about twice as great as that for men\textsuperscript{54}. Another study in Zambia found a significant shift from agricultural wage labour to family agricultural and non-agricultural businesses by receipt of child grant transfer programme.\textsuperscript{55} This suggests that social cash transfer programmes can positively impact household labour supply decisions. Relatedly, evidence suggests that social transfers not only have a positive effect on labour supply but also function to reduce child work.\textsuperscript{56} Arnold et al. (2011) report that child work declined by 11\% in Cambodia and 26\% in Brazil, while Schady and Araujo (2006) estimate a reduction of child work by 17\% in Ecuador.

Particularly in the agricultural sector on which most of Tanzania’s poor households depend, social protection facilitates labour market engagement and strengthens rural livelihoods. As Tanzania’s National Five Year Development Plan identifies, for any growth to be pro-poor, efforts most involve “substantial growth of agricultural productivity and allow most of the rural population to benefit from such growth.”\textsuperscript{57} Additionally, the self-employed in agriculture account for 93.5\% of the informal sector, which suffers from limited social security coverage. This leaves nearly the entire informal sector (of which a large proportion are agricultural workers) vulnerable to falling into poverty.\textsuperscript{58} Accordingly, the Plan has identified agriculture as a core priority area in the current planning period, aiming to increase its average annual growth rate from 4.4 percent to 6 percent.\textsuperscript{59} The expansion of agricultural production will be a key driver of economic growth in Tanzania in the coming years. Coupled with social protection, growth in the agricultural sector represents an opportunity for poverty reduction.

Social protection instruments are especially pertinent in the agricultural sector, as many programmes aim to support livelihoods through the accumulation of productive assets. Poor households in the rural sector (1) own few productive assets (2) have difficulty accessing asset-

\textsuperscript{55} González-Flores, M et al, Zambia’s Child Grant Programme: 24-month impact report on productive activities and labour allocation: 13.
\textsuperscript{56} Mideros A., Gassman F., Mohnen P., Estimation of Rates of Return on Social Protection: Making the Case for Non-Contributory Social Transfers in Cambodia: 7.
\textsuperscript{57} National Development Plan: 17.
\textsuperscript{58} Tanzania Mainland: 30.
\textsuperscript{59} National Development Plan: 7.
building opportunities due to credit constraints (3) lack quality and stable employment opportunities (4) are exposed to high income insecurity due to dependence on agricultural production and (5) have limited access to formal social security, as stated previously. Social protection instruments such as cash or in-kind transfers, Public Work Programmes (PWPs) and targeted input programmes can help rural households address these challenges via the risk management mechanism.

The risk management function of social protection yields important impacts on the short and medium term employment decisions of households. As families invest in higher return activities, the effects of these investments can effectively break intergenerational poverty traps. Evidence has shown that Mexico’s Progresa programme affected labour decisions by inducing beneficiaries to invest more in productive assets and engage in entrepreneurial activities. The study estimated that 12% of Progresa beneficiaries invested some of their cash into the productive activities such as microenterprises and agriculture, and they reported 30 to 50% returns on these assets. 60 Moreover, beneficiaries in Malawi’s cash transfer programme increased their investment in their own farms during planting season. 61 The reliable transfer flows can also help beneficiaries fund the costs of job search, enabling them to accumulate productive assets. 62 This is evident in an evaluation of the BRAC programme in Bangladesh, where an initial asset transfer of US $100 per household in 2002 led to asset value of US $300 in 2005. 63 Similarly, a study on Ethiopia’s PSNP found that beneficiaries increased their livestock by about 9%. 64 These transfers not only increase small incremental investments of higher returns but also reduce the likelihood of the distress sales among the beneficiaries. 65 By enabling households to make productive investments, social protection has the ability to reduce both current and future poverty.

The combination of social protection instruments and agricultural interventions can result in lasting impact. Ethiopia’s PSNP-OFSP/HABP initiative (a cash transfer and public works

60 Gertler and Rubio Codina, Investing Cash Transfers to Raise Long Term Living Standards.
62 Arnold et al., DFID Cash Transfers Evidence Paper: 35.
63 Holmes, R (2007), Social Protection and Low Capacity Households in Zambia, ODI
64 Gilligan et al., The Impact of Ethiopia’s Productive Safety Net Programme and its Linkages.
65 Arnold et al., DFID Cash Transfers Evidence Paper: 35.
programme complemented with the OFSP/HABP) is one example of this comprehensive approach, emphasising not only an injection of new resources but also increased contact with extension services. This included providing access to food, credit, inputs, and agricultural skills development programmes. The combination of these two programmes further assisted rural farming households in breaking out of a low-productivity equilibrium trap and pursue more stable job opportunities. Findings from evaluations found that beneficiaries with access to both PSNP and OFSP/HASB had the largest improvements in food security, ability to diversify their income sources and increase ownership of productive assets, and participation in non-farm business enterprises, compared to beneficiaries of either PSNP alone or PSNP with higher benefit levels. Additionally it was found that the combination of PSNP public works with seeds, credit, and irrigation was more effective at increasing yields. This case demonstrates the value of complementing social protection with well-designed livelihood building and livelihood enhancing interventions that assist rural people to access various decent employment opportunities.

These findings above have serious implications for increasing agricultural production in Tanzania. Only 24 percent of Tanzania’s 44 million hectares of arable land is currently being utilised, presenting an important opportunity to expand the scope of agricultural production. The positive impact of the PSNP demonstrates one way in which social protection can help channel Tanzania’s agricultural labour surplus into alternative channels of productive and entrepreneurial work.

It is important to acknowledge that increases in agricultural productivity can have significant non-farm multiplier effects. Schneider and Gugerty (2011) theorise that increasing agricultural production (output) increases incomes for poor farmers who then increase demand for non-agricultural goods and services produced by the rural poor. The growth in the non-farm economy can have important implications for the economy as a whole. Increased investment in

68 As the Plan identifies “it is a problem...that 74 percent of the labor force only represents a 25.3 percent stake in the national economy, which is an explanation for the low productivity due to the existence of surplus labor.” (p.17)
education can further drive this process, supporting economic diversification as education can induce rural households to shift from farm to non-farm activities. It can also promote migration to the cities as the returns on educational investments are higher in urban areas. Further effects result when remittances from relatives in urban areas are invested in education, skills development and more productive farming instruments.

As Vision 2025 states, improving livelihoods should result from increasing productivity in all sectors, transforming a predominantly agricultural economy to a diversified and semi-industrialised economy with a modern rural sector and high productivity in agricultural production. Diversification of the economy, beginning with increased productivity in the agricultural sector, will be key to achieving Tanzania’s vision of a competitive economy. Nevertheless, the need for social protection extends beyond the agriculture sector. In Tanzania, the proportion of urban dwellers in the population has nearly doubled in the period between 1978 and 2002. More problematic is the high rate of unemployment among urban dwellers, pointing to the necessity of a formal social protection framework to meet their needs.

**Contribution to local and macro-economic impacts**

African countries as well as others around the world provide examples of how social protection promotes social cohesion that generates multiple benefits: investors appreciate the greater social stability that results and are more likely to invest in economic growth, and the resulting sharing of the benefits of prosperity improves the pro-poor content of economic reform strategies and reduces the risk of social and political backlash. In particular, the evidence since 2008 demonstrates how social protection strengthens macroeconomic responses to global shocks, providing the effective fiscal stimulus that reinforces national economic resilience.

**Local economy spill-overs**

Immediate economic benefits of social protection often span beyond the targeted beneficiaries of the programmes by contributing to short-term growth outcomes. When poor households

---

70 The Tanzania Development Vision 2025: 22.
71 Ibid: 22.
72 Tanzania Mainland: 19.
73 Ibid: 19.
increase and stabilise their spending power, their purchases stimulate local economic activity, creating jobs, raising wages and improving the profits of local enterprises. Increased consumption in health, education, livelihoods and productive activities in turn raise labour productivity, increasing disposable income and creating a “virtuous circle.”

This “multiplier”, documented for South Africa in the government’s impact assessment of social grants in 2004, expands the potential of social protection’s contribution to local economies as well as to the broader macro-economy.

Income multipliers resulting from social protection programmes are well-documented. In the Oportunidades programme, Barrientos and Sabates-Wheeler (2010) find that mean household consumption by families who were ineligible for the transfer was greater in treatment areas than in control areas, suggesting that there was likely spill-over from the program into local economies. Non-eligible households in treatment areas were significantly more likely to own land and production animals than non-eligible households in non-treatment areas.

The Dowa Emergency Cash Transfer (DECT) in Malawi revealed a regional multiplier effect in the local economy ranging between 2.02 and 2.79. This is to say that (on estimate) for every dollar spent, more than two were generated through increased production and added value. Interviews with local traders revealed a reported increase in demand for their products, especially on the days that beneficiaries received their grants. Traders also reported that they would not have been working on the days the transfer was given in the absence of the programme. Local traders also indicate that Ethiopia’s Productive Safety Net Programme (PSNP) benefitted the local economy by stimulating demand for their products. One maize trader indicated that beneficiaries made up 10-15 percent of his client base. Transfers however can have potential negative effects for local economies as well, as the PSNP had an inflationary effect on certain commodities. This upward pressure on prices can follow from binding supply-side constraints.

---

75 Barrientos and Sabates-Wheeler, Local Economy Effects of Social Transfers: 7.
76 Davies, Making the Most of it: a Regional Multiplier Approach.
79 Guenther, Cash-for-Work, Vulnerability and Social Resilience: A case study of the Productive Safety Net
constraints. Taylor et al. (2013) finds that the potential total income multiplier of the Ghana’s LEAP programme is GHS 2.50; that is, each cedi transferred to poor households can potentially raise local income by GHS 2.50. However, if local production or supply of goods does not increase sufficiently to meet the increased demand brought on by the cash transfer, the real income multiplier could be as low as GHS 1.50. Increased income multipliers from social protection programmes in the local economy have the potential to affect broader economic growth. In South Africa the redistribution of spending power from upper to lower income groups shifted the composition of national expenditure from imports to local goods, increasing savings (by improving the trade balance) and supporting economic growth.

**Macroeconomic resilience and social cohesion**

Social protection programmes also have demonstrated impacts on macroeconomic resilience, especially in times of crises. Not only does human capital development enable innovation, it also strengthens resilience by helping families to sustain food consumption levels and mitigate the effects of the crisis. In light of the recent discovery of natural gas in Tanzania, the potential importance it will constitute, in absence of broad investments in human capital development, on the country’s economic performance and the relative volatility of its price, this resilience aspect is of critical importance for a stable macroeconomic environment in Tanzania. In South Africa, the percentage increase in poverty headcount in the country as a result of the international financial crisis would have doubled without the presence of the CSG programme. Estimates reveal that the increase would have been as high as 7.2 percent as opposed to the actual 3.6 percent in the presence of the CSG. Evidence furthermore suggests that social protection enables programme participants to maintain demand during economic downturns, therewith weakening the depth and severity of a downturn.

---

Box 2: Social protection as an enabler of Mauritius’s “economic miracle”

Mauritius is one of Africa’s best examples of a social protection “success story.” A half-century ago, the country had a poverty profile similar to the world’s poorest countries. Today, Mauritius boasts one of the lowest poverty rates in the developing world, and some of the highest economic growth rates over the past several decades have prompted the International Monetary Fund (IMF) to study this “economic miracle.” The IMF’s report identifies the important role of Mauritius’s large scale social protection programmes, including a social pension, children and family welfare programmes and access to education from primary to tertiary levels.

These efforts to offer social services to Mauritian citizens have led to positive human development indicator trends across the board. The average life expectancy increased from 61 in 1965 to 69 for men and 76 for women in 2008. Positive health outcomes include the lowest under-five child mortality rate in sub-Saharan Africa and in 2008, 98% of its children were immunized against measles. Additionally, malaria has been eradicated. Mauritius has seen an increase in enrolment in all levels of education, and has maintained a net primary enrolment of around 90% in the past several years, with a rate of 94% in 2009.

These efforts have had a substantial effect on social cohesion through the reduction of inequality. The country’s Gini coefficient measurement of inequality fell from 45.8 in 1980 to 38.9 in 2006, during the same period in which the country exhibited one of the highest growth rates in sub-Saharan Africa. While the rest of the subcontinent grew at a rate of 2.9 percent in GDP between 1977 and 2008, Mauritius grew at 4.6 percent. With a competitive export-focused economy, Mauritius is considered one of the primary success stories of modern Sub-Saharan Africa. Many attribute the success of this export-oriented approach in part to an “unemployed, educated, and easily adaptable labour force.”

85 Subramanian A., and Roy D., Who Can Explain the Mauritian Miracle: Meade, Romer, Sachs or Rodrik?
86 Tandrayen-Ragoobur, Assessing the Formal Social Protection System in Mauritius
87 Vandemoortele and Bird, Progress in economic conditions in Mauritius: 1.
88 Vandemoortele and Bird, Progress in economic conditions in Mauritius: 3.
Dealing with the challenges of resource boom (particularly “Dutch disease”)

Global and specifically African evidence highlights important lessons for Tanzania in managing the prospective resource boom. Export-driven economic expansions that rely on minerals and energy pose special challenges for African nations—particularly in the context of the recent volatility in energy prices and the risks of exchange rate distortions that can undermine international competitiveness (“Dutch disease”). Social protection provides a particularly important response under these circumstances for multiple reasons: (1) the mechanism enables vulnerable households affected by the resulting volatility to better cope with shocks, (2) social protection better enables households to adapt to changing economic conditions and prevent adverse shocks from affecting them, and (3) these interventions represent a public investment in the productivity of the non-traded sectors of the economy and as a result tend to reduce the adverse effects of “Dutch disease”.

Economic growth driven by rapidly increasing extraction and export of minerals and energy resources can generate both economic and social challenges. One set of risks are the negative impacts on the economy that result from an excessively strengthening exchange rate caused by a booming resource export sector. A study including more than 90 developing countries found that natural-resource-abundant economies tended to grow less rapidly than natural-resource-scarce economies over the past several decades.\(^{89}\) Whereas this can be due to many political as well as economic factors, one major channel is the linkage from natural resources via the real exchange rate to long-term growth.

An appreciation of the exchange rate makes imports cheaper, encouraging government to industrialise based on import substitution rather than an export-oriented strategy built on the growth of small domestic investments. While the production base expands, a reliance on cheap imports stymies the potential diversification of the economy. Meagre job creation hurts the poor in non-tradable sectors and other import-competing goods. Reduced competitiveness of manufactured exports—one of the key driving forces behind the labour-demand driven

\(^{89}\) Sachs 1996: 139.
economic growth in the East Asian economies—further limits opportunities for sustainable growth.90

Social protection offers the potential to substantially increase productivity in the non-tradable sector, offsetting some of the macro-economic distortionary effects of the “Dutch Disease.” The composition of government spending can serve to correct the macro-economic impacts of the resource curse. While the effect of public investment in the tradable sector may lead to an appreciation of the real exchange rate, the opposite effect may be observed if social protection benefits are concentrated in the nontradables sector.91 In other words, public investment in social protection can lead to a depreciation of the exchange rate if it improves disproportionately productivity in the nontradable sector, thus potentially correcting for the macroeconomic impacts of the “Dutch Disease.”

According to the Mellor model of poverty reduction, production of non-tradable goods and services, particularly in rural areas, can serve to pull people out of underemployment in rural areas, functioning as the “ladder” for underemployed workers in agriculture to begin the climb to jobs with higher wages.92 Rural, locally consumed non-tradables include processed foods, construction, trade, and small-scale manufactures. In the majority of poor, rural economies, the non-tradable sector is demand-constrained. Expansion in this sector requires an increase in purchasing power among local consumers.

Social protection thus plays an important role in correcting the potential deleterious effects of “Dutch Disease,” as immediate economic benefits of social protection can often span beyond the targeted beneficiaries of the programmes. Social protection programmes enable poor households to increase and stabilise their spending power, stimulating local economic activity, creating jobs, raising wages and improving the profits of local enterprises. Increased consumption in health, education, livelihoods and productive activities in turn raise labour productivity, increasing disposable income and creating a “virtuous circle.”93 This “multiplier”, documented

for South Africa in the government’s impact assessment of social grants in 2004, expands the potential of social protection’s contribution to local economies as well as to the broader macroeconomy.

Botswana avoided the “Dutch Disease” with sound fiscal policy in the form of strong public investment in infrastructure and human capital services, accumulating savings to smooth expenditure over the business cycle.94 Not only did this act as a short-run shock absorber, the combined result of these policies “limited the erosion of domestic productivity and competitiveness that can result from the appreciation of the real exchange rate.”95 As many argue, investment in human capital also represents a long-run shock absorber, as the built up human and physical capital serve to cushion the boom-slump cycles that characterise many resource-abundant economies. Most pertinently, Botswana avoided a policy of import substitution, boosting productivity in the nontradable sector in order to maintain competitiveness and to diversify its economy.96

94 Botswana: 11.
95 Botswana: 12.
96 Botswana: 15.
5. Conclusions

The evidence in this paper proposes a direction towards more developmental social protection for policy-makers aiming for a more prosperous Tanzania. While Tanzania has achieved important progress in tackling poverty, inequality is rising and key social indicators threaten the sustainability of the growth process. Investing in social protection—particularly with benefits that reach households with small children—strengthens human capital development and offers one of the most productive investment opportunities available to governments across Africa and around the developing world. Other African countries are in a similar position and will likely benefit from comparable investments. The impacts will also enable households to better manage labour market risks, improve social cohesion and national resilience with resulting impacts strengthening Tanzania’s economic foundations and supporting equitable growth.

Social protection interventions often work best when embedded within a national growth and development strategy. Appropriately designed and effectively implemented interventions better enable households to manage social risks and participate more successfully in the labour market. Social protection can better enable labour market engagement and strengthens rural livelihood development in Tanzania’s agricultural sector where nation’s poor households live and work.

Social protection offers a range of macroeconomic benefits, including improvements in social cohesion that make a country a more attractive destination for international investment. Social protection provided effective fiscal stimulus that strengthens macroeconomic resilience in the face of economic shocks. Social protection shares the benefits of economic growth, reducing inequality and improving the pro-poor character of economic reform. As a result, the risk of social and political backlash falls and the likelihood of successful reform increases. Evidence form the 2008 global crisis demonstrates how social protection serves as an effective macroeconomic response to global shocks, generating a fiscal stimulus that strengthens national economic resilience.

Evidence from other African countries and around the world also provides important lessons for countries like Tanzania (and Uganda) as they manage resource booms. Reliance on economic expansions fuelled by exports of minerals and energy creates special challenges, particularly
given recent volatility in energy prices, but more generally due to the risks of exchange rate distortions that often undermine international competitiveness (a syndrome referred to as “Dutch disease”). Social protection offers an important policy response for three reasons:

1. social protection provides direct support to vulnerable households enabling them to deal more effectively with the resulting shocks and volatility;

2. these instruments enable households to better adapt to changes in the global, national and local economic environment, actually reducing the risk that adverse shocks will affect them;

3. social protection provides a powerful investment in the sectors of the economic most adversely affected by “Dutch disease” and actually helps to neutralise the negative effects.

Social protection represents Tanzania’s (and many other countries’) most efficient investment for tackling poverty, vulnerability and social exclusion. In addition, the global evidence base demonstrates the substantial economic returns both long-term from human capital investment and more immediately from enabling households to better engage in more productive livelihoods. In addition, social protection generates macroeconomic benefits that strengthen equitable, pro-poor and inclusive economic growth and social development.