

Initial Market Assessment - Country Scoping Note: Tanzania¹

Executive Summary:

Catastrophe exposure in Tanzania is limited and the key perils are drought and flood. These events have minimal impact on GDP but severe impacts on individuals in the agriculture sector, increasing their vulnerability. Thus, while there are merits to developing the agriculture insurance market in Tanzania, less of a case can be made to develop the catastrophe insurance market.

Engagement in Tanzania to develop private sector catastrophe risk and agriculture insurance should be seen as a medium to long term engagement. Banking penetration is low, as is insurance and microinsurance penetration, even when compared to regional countries. In addition, the insurance industry has struggled in recent years with profitability, indicating that insurance technical capacity within the country may be limited. There are low levels of local reinsurance capacity, with the majority of risks being reinsured off-shore. Thus development of catastrophe and agriculture insurance in Tanzania shall involve a multi-year engagement. Initially it is of paramount importance that insurance companies can manage insurance risk correctly (before beginning to think about adding covariate risks to their balance sheets).

Expansion of disaster risk insurance into Tanzania could be seen as a second phase of an engagement looking to develop these markets in Eastern Africa, with Kenya targeted in the first phase. Given the comparative advantages of engaging in Kenya (see Kenya note), a potential course of action would be to use Kenya as a demonstration case in east Africa to spark interest in the Government for development of catastrophe and agriculture insurance markets. Using Kenya as a model example, lessons learnt can be applied in Tanzania to look to stimulate the catastrophe and agriculture insurance market. This strategy would also leverage private sector insurance companies that have headquarters in Kenya and field offices in Tanzania (Jubilee for example).

1. Background

1.1 Country's exposure to natural disasters

Droughts and flood are the primary hazards Tanzania is exposed to. Droughts in drought prone areas have negative impacts on both mortality and GDP. Losses tend to have a varied effect on mortality and limited impact on GDP with the 2006 drought for example affected approximately 10% of the population but less than 0.01% of GDP. Climate change may exacerbate the typical weather risks faced by agriculture; however there is no conclusive evidence whether the overall impact will be positive or

¹This scoping note is part of a series of seven country scoping notes produced by WB/GFDRR and DFID, with inputs and feedback from the expert-level group (including representatives of Allianz, DFID, European Commission, GIZ, ILO, Munich Re, SECO, Swiss Re, USAID, WB, and Willis Re). This scoping note aims to inform the Political Champions Group (PCG) on potential opportunities to promote stronger partnerships between the public sector and the private sector to increase disaster resilience of vulnerable populations using market-mediated insurance solutions. The team has made every attempt to verify the contents presented, but the information should be interpreted with due consideration to its limitations resulting from the fact that indirect sources have been used where primary sources were not available. Contact: Olivier Mahul, omahul@worldbank.org.

negative². Other perils include epidemics, fire and landslides. On average, 1% of the population are affected by a disaster per year³.

Agriculture is a risky business, which has large human and economic costs. Despite a declining share in GDP, agriculture is key to the Tanzanian economy, generating approximately 28% of annual GDP (2010). Critically, it is an important source of employment, with over 75% of the population (33 million) living in rural locations. However, agriculture is typically un-irrigated and risky, and climate change may be further increasing this risk. Production-related shocks along with other events (e.g. price volatility) can directly threaten farmer and herder livelihoods, and firms active in the agricultural sector. Moreover, without adequate mechanisms to mitigate or transfer agricultural risk, rural lending may not be viable for many farmers or herders, leading to underinvestment in the agricultural sector, inadequate credit availability to invest in more productive seeds and fertilizers, and slowing the transformation from subsistence farming to a commercially-oriented, food-secure agriculture sector.

Tanzania's HFAWDI Disaster Risk Reduction progress score is 3.5; it scored 8.64% on the World Risk Index (placed 56th in the world) however is ranked the 6th highest in terms of susceptibility to natural disasters⁴. A comparatively high 53.7% of the population has increased mortality risk due to multiple hazards⁵, 42nd in the world.

1.2 Economic, financial and fiscal impact of natural disasters

Tanzania has exposure to several disaster events, which can have an impact on its fiscal position. Flood has been the primary cause of economic loss in Tanzania in the past, with significant flood events in 1993, 1990, 1974 and 1968 costing US\$3.5, 0.28, 3.0 and 1.0 million respectively⁶.

Agriculture (including agriculture, forestry, hunting and fishing) is an important pillar of Tanzanian economy, and is subject to shocks on an annual basis that impact GDP. Agriculture accounts for 28% of the GDP (2010) and 25% of export earnings (2011) and provides a livelihood to more than 75% of the population⁷. Tanzania has not suffered catastrophic natural or manmade events during the last twenty years and that is reflected in the positive agricultural GDP growth rate during that period. That said, approximately US\$ 203 million, or 3.5% of the agricultural GDP, is estimated as the value of the average production loss annually in the agricultural sector as a result of unmanaged production risks¹. This calculation includes crops which are responsible of over 80% of agricultural GDP. Drought was the main cause of these shocks, sometimes in combination with other events

1.3 Government's general engagement in Disaster Risk Management

Disaster management is governed separately by Tanzania and Zanzibar, both of which have (or are developing) their own policies. Tanzania has a National Disaster Management Policy of 2004 and National Operational Guidelines for Disaster Management (NOG) of 2003 which describes roles and responsibilities of all the key stakeholders. They aim to develop adequate capacity for coordination and cooperation to have comprehensive disaster management among key players at all level. The Prime Minister's Office Disaster Management Department (DMD) has been established as the national body for coordinating disaster risk reduction (DRR). Disaster Management Department of Zanzibar is currently in the process of developing three National guidelines: (i) Zanzibar Disaster Risk Reduction

² TANZANIA - AGRICULTURE SECTOR RISK ASSESSMENT, ARMT, May 2013

³ <http://www.preventionweb.net/english/countries/statistics/?cid=184>

⁴ World Risk Report 2011

⁵ Natural Disaster Hotspots - A Global Risk Analysis; World Bank 2005

⁶ EM-DAT

⁷ National Bureau of Statistics: Tanzania in Figures 2010 and Intracen.

Policy; (ii) Zanzibar Emergency Preparedness and Response Plan, and; (iii) Zanzibar Disaster Communication Strategy.

Despite the fact that the Government has implemented these policies, there are several key challenges remaining to Disaster Risk Management (DRM) in Tanzania. Highest among such challenges are lack of risk management knowledge and insufficient funding. There is no Disaster Management Act, which enables senior policy makers from the sector ministries undermine progress in the DRM space. There are other key institutions lacking in Tanzania, which hamper progress. For example there is no strong Disaster Management Committees at the Regional, District and Community levels, diminishing the potential for organizational roles at these levels.

2. Government's public financial management of natural disasters

2.1 Budget instruments

Disaster risk sectors in recent years have been proportionally receiving an increased budget allocation. DMD receives less than 1% of the National Budget to be used only for relief response and recovery post event. Other institutions or departments will allocate budget for risk reduction independently. In such cases the district council will not allocate a budget for DRR per se, but related activities (for example health will have budget for vaccination against rabies).

However the methods in which funds are allocated has key drawbacks. The government has established DRR related department in various ministries (Emergency Preparedness and Response Section and Epidemiology Department at the Ministry of Health and Social Welfare; and Food Security Department and Plant protection Unit at the Ministry of Agriculture and Food Security) and allocates special budget for its activities annually. With the current system of individual department allocating their own DRR budgets, the District cannot support general DRR activities such as floods and strong wind which are falling out of specific government departments like health, livestock etc.

A disaster contingency fund budget exists at the central Government level (National Relief Fund) to support any disaster respond recovery across all sectors. There is a committee made up of Permanent Secretaries of Sector Ministries which decide whether to utilize relief funds in response to a disaster. The respond and recovery process are conducted by respective sectors or multi-sectorally, depending on the impact of the disaster.

2.2 Market-based solutions

We were unable to find any market-based solutions used by the Government to manage their exposure to natural disasters.

Government assets in Tanzania are insured by the private sector, [except the state houses, for example where the president's office is located, for security reasons]. These insurance are done through an open tender system where companies submit their bids.

The African Risk Capacity (ARC) has begun initial engagement in Tanzania. ARC intends to be a continent-wide risk pool that aims to provide market-based (parametric) drought risk insurance for governments. Discussions are at initial stages in Tanzania. This initiative should be integrated in a comprehensive national disaster risk financing and insurance strategy to provide the government with (i) immediate funding post disaster through a three-tiered risk financing: domestic reserves for low risk layers, contingent credit for medium risk layers and catastrophe risk transfer solutions for top risk layers, and (ii) transparent and effective post-disaster budget execution processes.

3. Ex ante public interventions from government and donors

3.1 Safety net programs against natural disasters, including credit guarantee schemes and subsidy programs

There are numerous programs targeted at preparing for disasters, which tend to be donor led. Funds for prevention, mitigation and preparedness are normally received from development partners, mostly UN Organizations. UNICEF and other agencies are supporting the Government in emergency preparedness program through fund disbursement, relief supply provisions, awareness and education etc. There are other International Organizations that offer support in emergency preparedness like KOICA, USAID, etc.

The country has several thriving microfinance schemes. The Tanzania Social Action Fund (TASAF) organized in a decentralized manner works in collaboration with Local Government Authorities, NGOs and CBOs to provide financing for small scale public investments targeted at meeting the needs of the poor and vulnerable communities, and at contributing to social capital and development at the local level. It also creates a safety net for the poorest section of the community through cash transfer arrangements that require people to participate in public works.

Tanzania also has social security systems which fall into two main groups, namely, non-formal and formal social security, however they can be difficult to access by communities. Informal social security schemes range from tribal associations, associations concerning with burial affairs, community-based organizations and UMASIDA (a mutual health insurance in Dar El Salaam), which are easily accessible by vulnerable Communities. Formal social welfare schemes are in place at the Ministry of Health and Social Welfare which target people with disabilities, the elderly, and child welfare. However, institutional arrangement, lack of funding and poverty hinder communities from accessing these services. Poverty at family level continues to deny children's with basic needs e.g., education, health and safety needs.

3.2 Public investment in market infrastructure for disaster risk insurance (data, models, subsidies, delivery channels, education campaigns)

At a national level disaster management capacities are well developed (with the National Relief Fund) particularly during response, however there are challenges transferring this knowledge onto the ground level to enable sub-district level to respond to a disaster efficiently and effectively (without the National Relief Funds being available).

The government has public awareness campaigns in place, however funding is a challenge. The public awareness is provided through the participation in various public exhibitions (e.g. Disaster Day) which also helps to promote a shared understanding of roles and responsibilities of stakeholders in preparing for, and recovering from natural and manmade disasters. The Department of Geology has also built capacity at community level on issues such as earthquake and volcanic disasters, living sustainably in seismically active regions, etc. However the inadequate funding to include DRR into the already ongoing emergency awareness campaigns limits outreach.

Several assessments have been conducted on hazard information in Tanzania; however there is no forum between key payers of DRR to exchange the data. Assessments have been conducted for the flood in 2010, a Risk, Vulnerability and Capacity Assessment has been conducted for three districts in Tanzania in 2011/2012 by the DMD (with plans to conduct further assessments in a further 7 districts in 2013), as well as a biannual Food Security and Nutrition Assessment for food unsecured districts in the country. Despite this information being gathered, there is a gap between the risk-prone communities

and the researchers and policy makers. The risk assessment results are also not fully utilized for intervention and planning purpose due to inadequate financial resources as well as lack of coordination and understanding of interdependencies across sectors.

Risk and hazard information is conveyed to people in Tanzania through various mediums Risk communication for possible threats mostly floods, drought and epidemics is through press releases, radio, television, newspaper and through local government structures by DMD. The information on volcanic eruptions and seismic activities is available on the internet (www.ivhhn.org). However, there is no consolidated database or website for information on DRM.

There are other key challenges to these systems, including lack of awareness to rural communities, difficulties in following the media information released regarding early warning, resources (fund, technical knowhow and IT equipment). Inadequate knowledge and poverty among communities hampers effective access to information for preparedness and mitigation against emergencies.

4. Post disaster public interventions from government and donors

Ex post bailouts (e.g. credit) (including respective roles of government and donors)

The Government uses several levers to intervene post crisis events to minimize the negative impact. In 2008, when food prices, food insecurity and fear of droughts, combined with shortage of grains prompted concerns, the first response of the Government was to limit exports of food staples⁸. The Government also has strategies in place to protect public investment and infrastructure, to support employment through credit guarantees and to support food security by improving a voucher subsidy scheme. More recently, the government established a task force to propose measures to deal with potential impacts of the crisis.

The Government, in coordination with the World Bank, has also implemented the Accelerated Food Security Program (AFSP) with the goal of responding to the multifaceted crisis. This GFRP financed intervention is a combined package to finance three existing operations: the Accelerated Food Security Project (US\$160 million); the Agricultural Sector Development Project (US\$30 million); and the Tanzania Second Social Action Fund Project (US\$30 million)⁹.

Ad hoc social transfers (including respective roles of government and donors)

N/A

5. Potential donor overlap

Below are listed donor initiatives found through research in Tanzania (this list may not be exhaustive):

- The access to insurance initiative (a2ii) has conducted a diagnostic of Tanzania which looks to identify where the country currently is in terms of access to insurance, and makes recommendations as to key policy, regulatory and structural (distribution channel, for example) changes needed to increase outreach.
- World Vision, working with MicroEnsure and I4, are looking to launch an insurance product that will provide small-scale farmers in Tanzania with access to credit.
- The Financial Sector Deepening Trust (FSD) are active in Tanzania, aiming to improve capacity of its financial sector to meet the needs of Micro Small & Medium Enterprises and poor rural and urban people and to contribute to economic growth.

⁸ World Bank, 2009

⁹ WB CBDRM

- The One UN Joint Programme 6.2: “Strengthening National Disaster Preparedness and Response Capacity” is underway in Tanzania, supporting various programmes in the area is disaster preparedness and response.
- The Agriculture Insurance Development program (AIDP), a component of the Disaster Risk Financing and Insurance (DRFI) program at the World Bank, has conducted an exploratory mission to Tanzania and received strong verbal endorsement from the Government.
- The EC has several projects underway, along with potential pipeline projects, in Tanzania through its funding for the Global Index Insurance Facility (GIIF)¹⁰. Underway is a project to draft new regulations and supervisory manuals to support scalability of weather index insurance projects as well as a completed feasibility study by Swiss Re. In the pipeline there is Syngenta foundation who has applied for premium support for operations in Tanzania as well as a pilot project with MicroEnsure
- The Agriculture Risk Management Team (ARMT) have recently concluded an agriculture risk assessment in Tanzania and held a multi-stakeholder workshop at the end of August in Dar El Salam to present the findings and agree on next steps with the Government for agriculture risk management options.

6. State of domestic non-life insurance market

Tanzania has a highly competitive, however unprofitable insurance market. There are currently 23 non-life companies (including health insurers) registered, two composites (including one that is state-owned) and one state owned reinsurance company. Provisional Tanzanian Insurance Regulatory Authority (TIRA) figures indicate that underwriting performance of the Tanzanian non-life insurance market was, in 2011, very poor. This is primarily due to rising competition from new entrants into the market.

Micro-insurance has yet to make a significant impact on the Tanzanian market. Given the increasing importance of this sector regionally it is very likely that insurers in Tanzania will seek to develop micro-insurance as a way of boosting market share by penetrating previously uninsured markets.

The domestic insurance market is largely broker-driven, with intermediaries controlling an estimated 84% of the market. Intermediaries remain the dominant force in the local market: brokers are estimated to handle in the region of 66% of non-life business and agents handle a further 18%. Direct sales continue to represent a sizeable proportion of distribution channel market share. This is likely to become a significant growth area over the coming years. There are no substantial local multinationals, captives, ART vehicles in Tanzania.

Local insurance companies are recognising the mobile phone distribution network as a potential distribution channel to increase outreach. Mobile phone and money usage has been expanding rapidly in recent years with over 63% of Tanzanian adults or (15.6m individuals) currently own a mobile phone¹¹ and mobile money usage increasing 6-fold from 2010 to 2012 to 6.4m individuals (26% of adults)¹². These mobile phone companies have large scale outreach, are a communication channel to clients and have a pervasive network of airtime dealers that can be used as distribution focal points. Recently at least two

¹⁰The Global Index Insurance Facility (GIIF) is a program aimed at reducing the vulnerability of populations, mainly in the Africa, Caribbean, and Pacific (ACP) region, to external shocks and vulnerabilities caused by weather and catastrophic risks through index insurance. The European Commission is the largest donor (committing 24.5 million EUR). The program is implemented by the International Finance Corporation (IFC) with support from the International Bank for Reconstruction and Development (IBRD).

¹¹InterMedia. Tanzania Mobile Money Tracker Survey: Quarter 2 Report. July 2012

¹²<http://technology.cgap.org/2010/10/04/count-them%E2%80%A64-mobile-money-services-now-live-in-tanzani>

insurance companies have entered arrangements with mobile phone organisations to distribute microinsurance products.

6.1 Property risk insurance

Penetration of property catastrophe risk insurance in Tanzania is extremely low and is limited by low penetration for non-life insurance more generally. Non-life insurance penetration in Tanzania is estimated as 0.77%¹³ of GDP. This is below the average for Africa (1.12% of GDP) and significantly below the more developed African markets of South Africa (2.6% of GDP), Namibia (2.5% of GDP) and Kenya (2.02% of GDP). However the case becomes bleaker when one looks to the % of the population with non-life insurance, with most recent figures placing the figure at less than 0.6% of adults¹⁴.

Reinsurance can generally be found for insured risks, however it is provided by international reinsurance companies. The reinsurance account, essentially commercial and industrial buildings, is heavily weighted by a relatively small number of substantial risks. The majority of housing insured are high value houses with mortgages. Thus what limited reinsurance capacity is required for the Tanzanian market can be found internationally.

6.2 Reinsurance

The technical and financial capacity of the domestic insurance market to underwrite catastrophe risk is limited. There is low internal reinsurance capacity in Tanzania. Large and complex risks cannot typically be handled by domestic companies and are therefore insured on the international markets. Tanzania has one local reinsurance company, Tanzania National Reinsurance Corporation Ltd (Tan Re). There is legislation in place that requires local insurance companies to purchase reinsurance from Tan Re; however this will be phased out after 2015¹⁵. Catastrophe peril cover (covering the standard range of perils including earthquake, windstorm and flood) is not universally included in property damage insurance policies.

Given the poor performance of the domestic non-life insurance market, many international reinsurance companies are threatening to leave the market. International reinsurer concerns over the losses in recent years in the Tanzanian insurance market culminated in the threat of withdrawal of reinsurance support from the market unless certain corrective measures were put in place. In effect at least one major reinsurer withdrew from offering treaty covers in the market.

6.3 Agriculture insurance

There is little (if any) commercial agricultural insurance in Tanzania. There have been a small number of pilot projects introducing crop insurance to small-scale subsistence farmers. These projects tend to be linked to micro-credit schemes¹⁶. There have been no major recent developments.

Agricultural lenders are investigating ways to expand outreach of credit to rural areas; however the covariate nature of agricultural risk is a key issue. The AIDP team learnt when on mission in Tanzania in May 2013, a key reason why financial institutions were reluctant to lend to the agricultural sector was due to the high level of risk it would expose their balance sheets to. A large-scale agricultural insurance program could support resilient, viable expansion of agriculture credit to farmers by removing or

¹³ AXCO

¹⁴ Tanzania Access to Insurance Diagnostic, a2ii

¹⁵ Tan Re has applied for an extension of this term past 2015

reducing agriculture production risk from the balance sheet of rural banks and cooperatives – thus enabling the urgent need for expansion of agricultural credit.

The agricultural value chain potential has not yet been reaped. Agricultural entities such as processing plants, out-grower schemes, input supplier networks, lenders and cooperatives could act as insurance distributors. Yet agricultural value chain infrastructure is underdeveloped and where aggregators have enough capacity, scale is limited.

6.4 Legal and regulatory environment

The Tanzania Insurance Regulatory Authority (TIRA) is an independent regulatory authority (subject to the general supervision of the minister of finance) regulates insurance under the Insurance Act 2009. This act applies to both mainland Tanzania and Zanzibar, was made effective in July 2009.

Current regulation does not account for catastrophe risk. A fixed US\$ amount and net premiums are used to calculate the capital and solvency margin which are increased annually by the change in CPI or 10% (whichever is lower). The possibility of large correlated losses to the portfolio as a result of a disaster is not accounted for. Quantification of catastrophe risk either through scenario analysis or probabilistic catastrophe modelling is not taking place, and is therefore not informing regulation. Catastrophe losses to the insurance industry are, however, currently limited by the extremely low level of insurance penetration. Reinsurance can be rejected by the commissioner of insurance if the commissioner believes the retention levels are either too high or too low.

East African Commonwealth (EAC) countries have agreed to cooperate in the regulation and supervision of the EAC insurance sector. A memorandum of understanding was signed in August 2010 by members of the EAC.

6.5 Demand for insurance

Given the low levels of non-life insurance penetration in Tanzania, an argument can be made for the expansion of the non-life insurance market. With only 0.6% of the population having any form of insurance, and the insurance account primarily being composed of commercial and industrial policies, there is clear logic that there is a need to expand the non-life insurance market.

Demand studies conducted in Tanzania indicate that large proportions of the population may be willing to purchase insurance, should it be made available at an acceptable cost¹⁷. The combination of insurable risks faced along with the sub-optimal coping mechanisms employed indicate a latent demand for especially health and life insurance and people would be willing to dedicate part of their constrained budgets to insurance if it offers value to them.

The potential target market of individuals who are underserved by insurance could be as large as 16 million individuals. An access to insurance report³ identified the total opportunity for microinsurance to be up to 66% of adults (16.4 million individuals). This indicates a significant untapped opportunity, should the risk market infrastructure and other barriers be overcome.

7. Opportunities

- **Work with the Government to establish a national integrated DRFI Strategy.** Given the low levels of catastrophe risk combined with the high levels of agricultural risk (with approximately 75% of the population reliant on agriculture for their livelihoods) donors can work with the Government to help

¹⁷ Tanzania Access to Insurance Diagnostic Document 8: Understanding consumer needs and segmenting the target market 2012

establish priorities for risk management through a DRFI strategy. This strategy would incorporate the **development of the catastrophe insurance market** and well as the **development of a comprehensive sovereign DRFI plan**. The sovereign DRFI plan will give the Government immediate access to funding and transparent and effective budget execution processes post shock events, enhancing the proposed work of the ARC.

- **Expansion of catastrophe insurance into Tanzania could be seen as a second phase of an engagement looking to develop these markets in Eastern Africa, with Kenya targeted in the first phase.** Given the comparative advantages of engaging in Kenya (see Kenya note), a potential course of action would be to use Kenya as a demonstration case in east Africa to spark interest in the Government for development of catastrophe and agriculture insurance markets.

List of Acronyms

AFSP	Accelerated Food Security Program
AIDP	Agriculture Insurance Development program
ARMT	Agriculture Risk Management Team
ART	Alternative Risk Transfer
CBO	Community-based organization
CPI	Consumer Price Index
DMD	Disaster Management Department
DRFI	Disaster Risk Financing and Insurance
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
EAC	East African Commonwealth
EM-DAT	Emergency Events Database
FSD	Financial Sector Deepening Trust
GIIF	Global Index Insurance Facility
GoT	Government of Tanzania
HFA	Hyogo Framework for Action
KOICA	Korea International Cooperation Agency
NOG	National Operational Guidelines for Disaster Management
TASAF	Tanzania Social Action Fund
TIRA	Tanzanian Insurance Regulatory Authority
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WDI	World Development Indicator