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Growth and Poverty Reduction in Tanzania: Why such a Mismatch?

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1 Introduction

Poverty in Tanzania is now a song of every one, from the government leaders (political leaders) to households. It has been interpreted and understood differently among communities from different geographical locations. Findings from the four Human Development Reports (PHDR) and three Household Budget Survey (HBS), show that while economic growth has made notable positive change overtime, reduction in poverty has not been significant or proportional. The change in growth between 1991/92 and 2000/01, and 2000/01 and 2007 HBS is 206% and 15% respectively, where as a reduction of the proportion of people living below basic needs poverty line (headcount ratio) in Tanzania mainland has been only 2.9% and 2.4% between the two periods respectively. Likewise, the change in head count ratio using food poverty line in the two respective periods was reduced by 2.9% and 2.2% only, which does not match the economic growth.

Therefore growth has not translated into poverty reduction despite the fact that the economy recorded a significant change in growth between the two HBS. The growth process in Tanzania has not therefore been pro-poor, which raises two critical questions namely, why does this mismatch emerge and where does it originate.

2 Objective of the Discussion Topic

This topic was intended to address a number of questions related to this growth – poverty mismatch with the intention to uncover the reasons and barriers which have been obstructing the trickle down effects to happen in Tanzania since early 1990s.

3 Why Growth Poverty Reduction Mismatch?

As noted earlier, the 2007 HBS reveals that the %age of Tanzanians living below the basic needs poverty line has slightly fallen from 35.7% in 2001 to 33.3 in 2007 (a decrease of only 2.4%). About 12.8 million people are still living in poverty out of the population of 38.3 million. The situation in rural areas, where the majority live is even more-worse as the incidence of poverty has decreased by only 1.3% (from 38.7 to 37.4%) during the same period. According to the forum discussions, these statistics indicate that growth has not manifested itself into poverty reduction in the country. It suggests that growth alone cannot lead to poverty reduction in the country. Although growth is a necessary condition, it is not a sufficient one. Other factors also matter and need to be taken into account when analyzing the growth – poverty relationship and when designing policies and strategies for growth and poverty reduction.

3.1 Sectoral Composition of Growth

About 90% of the discussants have the view that, in analyzing the effectiveness of growth on poverty reduction, sectoral composition matters significantly, as it reveals all sectors that are important and capable to address poverty. However, while economic growth is doing well, the drivers of such growth are a few sectors to which the majority of Tanzanians (the rural peasants) do not belong. Under such circumstances one should not expect to see any significant change in people's poverty levels and livelihoods. As a mitigating factor, there is therefore a great need to deliberately direct investments in sectors in which majority of the people will participate such as the agricultural sector, targeting the most vulnerable and guarantee a proper distribution of income.

The findings from the discussion forum clearly point to the fact that, growth of rural sector and in particular the agricultural sector is critical and necessary if poverty is to be addressed squarely. Note that about 80% of the poor live in rural areas, and out of them 81% live in households where the main activity is agriculture. Sectoral composition therefore deserves a great attention if growth is to make an impact to the poor. Over the period of 2000-2006, agricultural sector growth has averaged above 4%. This rate of growth is not higher enough to reduce poverty for the majority of the rural poor. MKUKUTA for example states clearly that if poverty is to be reduced by 50% by 2010, agricultural sector growth has to be sustained at a rate of 10% for a period of at least 5 years (2006-2010). This has not been realized as we reach 2010, which is the end of MKUKUTA implementation. The sector's share to GDP is also consistently declining. It has declined from 30.3% in 1998 to 25.8 in 2007.

Like the case with the agricultural sector, another area with high poverty levels and where growth could make a direct impact in terms of poverty reduction and improvement of livelihoods is the informal sector. Estimates show that there are more than 3 million informal enterprises in Tanzania each employing not more than 5 people. With higher growth rate, this is another sector which has a potential to address poverty in Tanzania.

3.2 Lack of Commodity Boom Growth and Multiplier Effect

In terms of commodity boom, the discussion shows that, unlike other countries, Tanzania has not been experiencing a commodity boom. Economic growth in Tanzania is not based on commodity boom, where goods and services are produced in large quantities to meet the growing demand of the people and therefore scale up their consumption baskets and subsequently improve the quality of life. Economic growth we witness today is based on one or two growth sectors namely mining and tourism.

This growth does not have any significant multiplier effect in the domestic economy, as much of the output from the two sectors leaves the country without making any significant contribution to the host country. This is particularly true in mining. Mining has been the most dynamic sector growing at an average rate of 15% and 10.7% in 2006 and 2007 respectively, thus making a significant contribution in the overall national economic growth. However, there is little indication of the mining growth triggering growth in the local economy and subsequently reduce poverty and improve livelihoods of the people, because the mining operations are generally detached from local supply chains. This detachment affects negatively capacity of the local economy to create jobs and generate additional incomes. The ongoing reviews of mining contracts should therefore go beyond fiscal obligations to include the potential for linking sectoral growth with the local economy.

Literature shows that, the average income multiplier of 5 African countries for an increase in rural household incomes was 2.47 and the income multiplier for export crops in Tanzania was even higher at 3. In addition, export agriculture in Tanzania generates 80% spin-off benefits in terms of demand for consumption of goods and services in the surrounding economy, and hence employment or income generation opportunities. This is much higher than 20% for urban light manufacturing. This is a potential and comparative advantage which Tanzania could have tapped with the incomes generated from the Mining Sector.

3.3 Lack of Strategic Resource Allocation

More than 60% of the forum discussion also mentioned strategic resource allocation. Owing to the short term as well as long term large financing gap in Tanzania, there is a clear necessity to be strategic in both resource mobilization as well as resource allocation if MKUKUTA targets and therefore MDG targets are to be attained. Investment expansion is no doubt the most fundamental pre-requisite for creating employment opportunities thus attaining most of the targets of MKUKUTA and MDGs. Given the merger resources Tanzania can manage, appropriate choices and resource allocation would inevitably require prioritization of interventions in a systematic way (eg through cost – benefit analysis or social-economic analysis etc) and in consideration of its effectiveness in terms of eliminating poverty and improving the quality of life of the people.

The rational approach for Tanzania should therefore be to ensure careful and appropriate economic choices and decisions; efficient allocation and utilization of the available resources. Tanzania has not yet been able to achieve Strategic Resource Allocation. There is still a huge room for improvement of efficiency and effectiveness in resource allocation. Education sector can make a good example. It should be noted that, scaling up investment in Education Sector is inevitable given the proportion of the school age population in the country. However, the approach towards that end is probably not the most optimal one. Quality of education offered by the mushrooming primary schools, secondary schools and the crash training programmes offered to the respective teaching staff is likely to increase income disparity and inequality, and intensify poverty in the country. This is particularly true because, the system favours rich people (to give their children better education) who will eventually grab better jobs and dominate the labour market, leaving the poor in the periphery.

3.4 Population Growth Rate and Demographic Pattern

A number of discussions also centered on population dynamics. The findings from the four PHD Reports and the HBS analyses suggest that population factor has not been dealt with thoroughly to be able to explore and gauge the effect of population on poverty reduction initiatives and welfare of the people. Since the 1991/92 HBS, the country's population has been growing at a rate of between 2.5% to 3%. The current population growth rate for example, according to the 2002 population census stands at 2.9%. This is one of the highest population growth rates in Africa and around the world, which tend to affect defuse economic growth in terms of its impact on poverty and livelihoods of the people. Unplanned population growth increases the dependence ratio of the country which can easily suppress the effects of growth. Higher population growth rate can therefore be counter effective in terms of poverty reduction and improvement of the quality of life of the people. Research on population dynamics is therefore necessary if the demographic factors are to be clearly understood.

The present population in Tanzania exhibits a pyramid demographic pattern, in that about 44% of the total household members in the country (Tanzania Mainland) are below 14 years of age, while approximately 25% and 16% of the total Mainland household members are between 15 – 29 and 30 – 44 years of age respectively. The remaining 10% and 4% are approximately between 45 and 64, and above 65 years of age respectively. More than 50% of the population is within inactive and non productive age cohort (0 – 14 years of age, above 65 years of age, and others with disability and sick ones within 15 to 64 years of age). Thus, given such a pattern, dependence ratio is obviously high making the household income brackets insufficient to meet basic requirements of the household members. The poverty escape routes for most households are subsequently limited. This claim is also supported by HBS 2007 data for average household size where it is reported that the average household size for Mainland Tanzania was 5.7 during the 1991/92 HBS, 4.9 using the 2000/01 HBS, and 4.8 using 2007 HBS. This is close to 5 members per household for 2007. Given the 51.7% active population (15 – 64 age group), the dependence ratio can be estimated at not less than 90% which is very disquieting.

4 Recommendations

A number of issues have been raised in the discussion which point to the fact that the impact of economic growth in Tanzania is not felt because it is interfered by a chain of factors. First, growth occurs in the poverty reduction unrelated sectors; lack of strategic resource allocation; lack of commodity boom growth and multiplier effect; population growth rate and demographic pattern.

Thus, Tanzania needs to analyze sectoral contributions to economic growth with the aim of determining the sectors with both high growth and poverty reduction potentials. Ensure the alignment of the resource allocation to livelihood of the people. In addition, appropriate population policies and measures are required to monitor and control the growth rate and therefore influence demographic pattern in the country. Lastly, the government needs to ensure that growth in mining and other growth sectors is internalized for the benefit of the domestic economy and the people.

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