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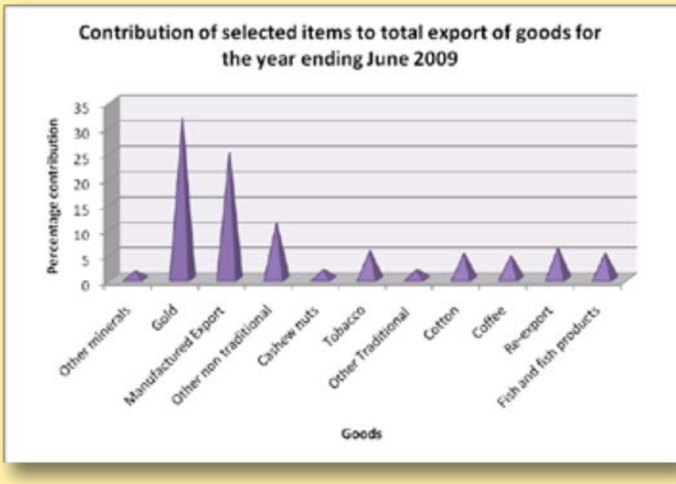
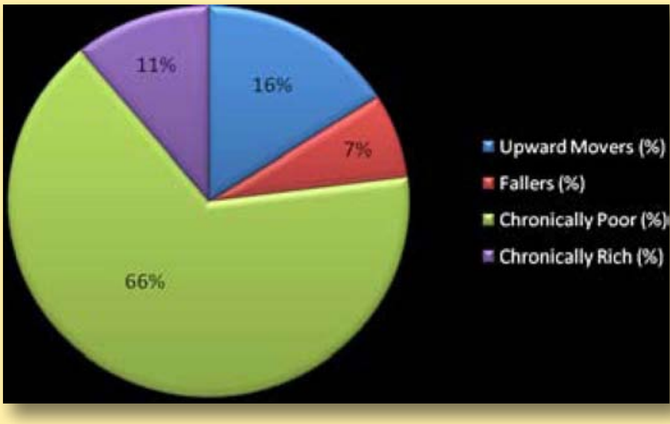
INSIDE



Source: Bank of Tanzania

Poverty: Mean Transition Groups



Quarterly Economic Review

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EDITORIAL NOTE

Despite the global economic crisis coupled with increasing pressure from oil and food product prices the economy of Tanzania performed well during the second quarter of 2009. This is due to a positive impact of the various measures which were taken by the government. The real GDP grew at over 7% with improved public finances whereby the tax revenue collected during that period was higher than in the corresponding period of the fiscal year 2007/08. The period was characterized by lower inflation rate than recorded in December 2008 and external trade performance was fairly satisfactory compared to position in the corresponding period of previous fiscal year. The country exported more and imported less goods and services.

Official statistics on incidence and depth of poverty show that poverty declined marginally across the country from 35.7% in 2001 to 33.3% in 2007. However, the rate of decline in poverty was more in urban areas than in rural areas where agriculture is the main source of income. In rural areas the incidence of poverty decreased slightly from 38.7% to 37.4% during the same period. As a means to stabilize the impact of the global outturn and to improve the livelihood of people in rural areas, Tanzania embarked on two initiatives which include the stimulus plan and *Kilimo Kwanza*. This Quarterly Economic Review (QER) contains the article titled "***Transformation of Agricultural Sector in Tanzania–Justifications for Kilimo Kwanza and Conditions for its Success***", which tries to explain how different is *kilimo kwanza* from other agricultural initiatives that were previously put in place in order to transform the secor. We hope this article will be of special interest as it addresses the most important issues in agricultural development in the country.

This issue of QER also contains an article titled "***Moving out of poverty: Understanding growth and Democracy from the Bottom Up***" which sought to understand, starting from individual, household and community levels, the range of factors that help or hinder getting out of poverty into prosperity over time. It is our expectations that readers will have interest in this article because it provides policy insights based on the experiences of those who in reality have moved out of poverty and stayed out of it over time; those who have maintained their wealth over time, and those who have fallen into and/or stayed trapped in chronic poverty. The study further provides insights on how freedom, power and aspirations contribute in building assets or wealth creation.

The third article on "***Growth and Poverty Reduction in Tanzania: Why such a Mismatch?***" explains why there is a mismatch between economic growth and poverty reduction and where does this mismatch originate. We hope this article will benefit our readers as it uncovers the reasons and barriers which have been obstructing the trickle down effects to happen in Tanzania since early 1990s.

Apart from being of interest to our readers, we expect our articles in this issue to stimulate further debates on each of the respective articles.

ECONOMIC DEVELOPMENTS

Overview

In 2008, the Tanzania economy concentrated on sustaining macroeconomic performance for strong economic growth. This was sought through revenue mobilization, discreet expenditure and controlling the money supply to meet inflation and growth targets as well as maintaining foreign exchange reserve. Despite the global economic crisis coupled with price pressure on oil and food products, the real GDP was estimated to grow at 7.5 percent in 2008 but the actual outturn was 7.4 percent, which is however higher than the 7.1 percent recorded in 2007.

Annual headline inflation rate decreased to 10.7 per cent in June 2009 from 13.5 per cent in December 2008 and 11.3 per cent recorded in May 2009. This rate is slightly higher from 9.3 per cent recoded in June 2008.

The public finances have improved significantly over the last decade. However fiscal performance in the first quarter of 2009/10 was characterized by constraints in revenue collection. During the period between July 2008 and March 2009 total revenue collection was 91.5 percent of budget projections. Shortfalls were mainly registered in taxes on imports and income, while good performance was recorded in taxes on local goods. However, the revenue collected during that period was 21.6 percent higher than in the corresponding period of the fiscal year 2007/08. As a percentage of GDP, tax revenue collections in 2008/09 reached 11.4 percent of GDP, whereas in the corresponding period of 2007/08 it was 10.8 percent of GDP.

External trade performance was fairly satisfactory whereby Tanzania exported goods and services worth USD 4,049.0 million between July 2008 and April 2009, representing an increase of 14.5 percent over the corresponding period in the previous year. While imports of goods and services registered an increase of 11.6 percent over the previous year, with much of the increase coming from goods import.

As a means to stabilize the impact of the global outturn, Tanzania has embarked on two initiatives which include the stimulus plan and Kilimo Kwanza. While there are encouraging signs of improvement, much needs to be done to restore the confidence especially in the financial markets. Economies of Tanzania's major trading partners' are still under recession and this has affected Tanzania's economic performance.

Table 1: Trends in selected macroeconomic indicators, 2002 – 2008

Item	Unit	2002	2003	2004	2005	2006’	2007*	2008*
1. National Accounts and Prices								
1.1 Change in GDP at Factor Cost-Current Prices	Percent	14.8	15.9	15.4	14.3	12.4	16.8	
1.2 Change in GDP at Factor Cost-Constant 2001 Prices[2]	Percent	7.2	6.9	7.8	7.4	6.7	7.1	7.4
1.3 GDP Per Capita-Current Prices[1]	TZS	310,848.4	354,007.6	396,132.4	441,152.1	478,051.4	546,955,7	629,884.4
1.4 GDP Per Capita-Current Prices[1]	USD	321.6	340.9	363.7	390.6	381.7	439.5	526.5
1.5 Change in Consumer Price Index (Inflation)	Percent	4.5	3.5	4.2	4.4	7.3	7.0	10.3
1.6 Saving to GND1 Ratio[3]	Percent	8.0	9.6	10.4	8.7	8.5	6.4	
2. Money Credit and Interest Rates								
2.1 Change in Extended Broad Money Supply (M3)	Percent	25.1	16.1	19.3	38.2	22.0	21.4	
2.2 Change in Broad Money supply (M2)	Percent	18.5	14.2	19.2	36.9	13.7	28.8	
2.3 Change in Narrow Money Supply (Ml)	Percent	25.2	16.1	18.2	33.7	9.8	32.7	
2.4 Change in Reserve Money	Percent	19.1	12.6	23.6	27.7	16.8	30.2	
2.5 Total Credit to GDP Ratio[1]	Percent	8.0	6.9	7.2	10.5	11.7	12.6	
2.6 Private Sector Credit to GDP Ratio[1]	Percent	5.5	6.7	7.6	8.9	11.3	13.8	
2.7 Ratio of Private Credit to Total Credit	Percent	68.4	97.4	104.8	84.6	96.3	109.7	
2.8 Average Deposit Rate (12-Month)[4]	Percent	5.9	5.3	5.7	6.2	8.3	9.3	
2.9 Weighted Average Treasury Bill Rate	Percent	4.5	7.7	9.6	14.8	15.0	11.4	
2.10 Average Long-Term Lending Rate[4]	Percent	16.8	12.2	12.7	13.4	14.9	16.1	
3. Balance of Payments								
3.1 Exports of goods (f.o.b)	Mill. USD	979.6	1,220.9	1,481.6	1,679.1	1,917.6	2,226.6	3,036.7
3.2 Imports of goods (f.o.b)	Mill. USD	-1,511.3	-1,933.5	-2,482.8	-2.997.6	-3,864.1	-4,860.6	-6,483.4
3.3 Trade Balance	Mill. USD	-531.7	-712.6	-1,001.2	-1,318.5	-3,946.5	-2,634.1	-3,446.7
3.4 Balance on Current Account	Mill. USD	78.6	-118.1	-366.7	-864.3	-1,171.6	-1,855.8	-2,350.7
3.5 Overall Balance	Mill. USD	-317.9	389.1	206.0	-222.4	460.7	532.7	108.8
3.7 Gross Official Reserves	Mill. USD	1,528.4	2.037.8	2,296.1	2,048.4	2,128.3	2,755.2	2,869.7
3.8 Reserves Months of Imports (of goods and services)	Months	6.9	7.1	6.6	4.8	4.0	4.5	4.4
3.9 Exchange Rate:								
3.9.1 Annual Average	TZS/ USD	967.1	1,038.9	1,089.1	1,129.2	1,253.9	1,244.1	1,196.3
3.9.2 End of Period	TZS/ USD	976.3	1,063.6	1,043.0	1,165.5	1,261.6	1,132.1	1,280.3
4. **Population (TZ Mainland)**	Million	33.0	34.2	35.3	36.2	37.5	38.3	39.3
5. Public Finance		2002/03	2003/04	2004/05	2005/06[r]	2006/Q7[r]	2007/08*	
5.1 Current Revenue to GDP Ratio’	Percent	12.3	12.1	13.3	13.8	17.1		
5.2 Grants to GDP Ratio[1]	Percent	3.2	3.7	7.4	6.8	6.2		
5.3 Current Expenditure to GDP Ratio[1]	Percent	13.0	12.9	15.1	17.3	20.4		
5.4 Development Expenditure to GDP Ratio[1]	Percent	3.3	3.6	8.6	8.7	8.7		
5.5 Deficit to GDP Ratio (excluding grants)[1]	Percent	-4.0	-4.4	-10.4	-12.2	-12.0		
5.6 Deficit to GDP Ratio (including grants)[1]	Percent	-0.8	-0.6	-3.0	-5.4	-5.8		
6. Total internal Debt Stock	Mill. USD	7,268.1	7,857.0	8,134.8	8,229.5	4,660.9	5,846.4	
Disbursed Debt	Mill. USD	6,233.0	6.678.3	6,799.5	6,971.1	3,442.3	4483.1	
Interest	Mill. USD	1,035.1	1,178.7	1,335.3	1,258.3	1,218.6	1,363.3	
Total External Debt as % of GDP	Percent	75.9	83.5	77.5	72.0	36.7	34.6	

Note:
‘ Calculated on the basis of GDP* at market price
2 Calculated on the basis of GDP at factor cost
3 GNDI stands for gross national disposable income
4 Annual Average
r Revised
* Provisional

Source: Bank of Tanzania Database and National Bureau of Statistics (Economic Survey, National Accounts)

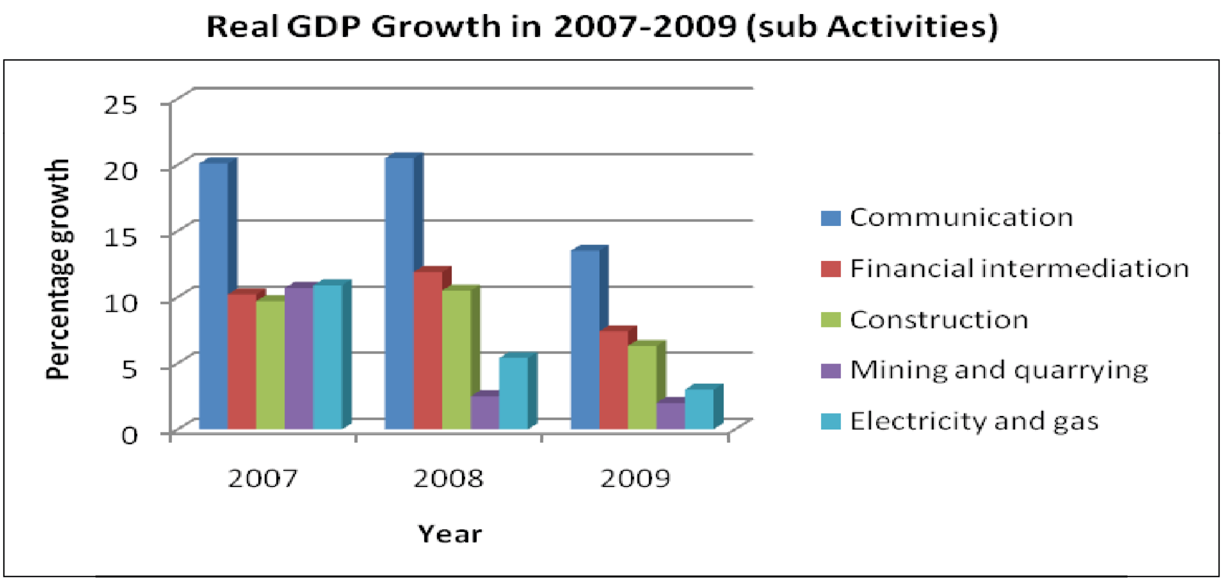
Recent Macroeconomic Developments

GDP GROWTH

Tanzania's real Gross Domestic Product (GDP) grew by 7.4 per cent in 2008, compared to 7.1 per cent in 2007. The growth was mainly driven by good performance in services, agriculture, and industry and construction. Based on the macroeconomic projections and policy targets for the period 2009/10 – 20011/12, real GDP growth is expected to slip to 5.0 percent in 2009 from 7.4 percent in 2008; and begin to recover in 2010. The anticipated slowdown in GDP is associated with the global financial and economic crisis.

The highest growth was recorded in communication sub-activity (20.5 percent) followed by financial intermediation (11.9 percent) and construction (10.5 percent) sub-activities. Despite the generally good performance of the economy as a whole, a notable slow down in the growth of the mining and quarrying sub-activities was observed, having dropped to 2.5 percent, from 10.7 percent recorded in 2007. The growth rate of the electricity and gas sub-activity also dropped from 10.9 per cent in 2007 to 5.4 per cent in 2008. Estimates based on MACMOD_TZ suggest further drop in almost all economic activities in 2009. (fig 1)

Fig 1: Real GDP Growth 2007 – 2009 (Sub-activities)

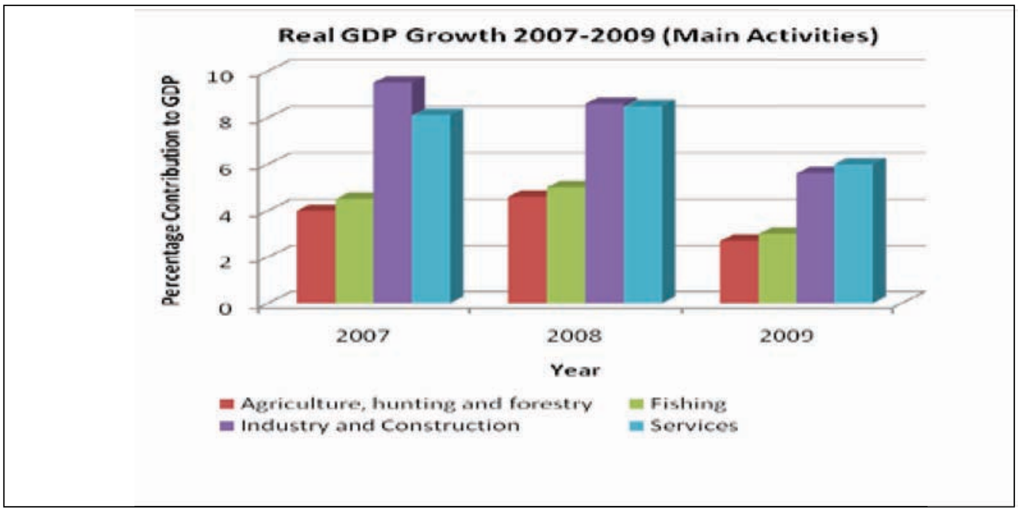


Source: Ministry of Finance – 2009 data is Estimates based on MACMOD_TZ

Construction and manufacturing sub-activities contributed positively in the performance of industry and construction economic activity, bolstered by expansion in road construction, on-going rehabilitation of defunct industries following state divestiture, as well as the operationalization of Special Economic Zones (SEZs).

The agricultural economic activities in 2008, recorded real growth of 4.6 percent, compared to 4.0 percent in 2007. This good performance was mainly a result of improved weather conditions, improved irrigation and rural roads infrastructure; distribution of subsidized fertilizers mainly targeting the major producing regions; availability of quality seeds and other agricultural inputs; and enhanced sensitization of commercial livestock farming. The Fishing economic activities also registered a modest growth from 4.5 percent in 2007 to 5.0 percent in 2008.

Fig 2: Real GDP Growth 2007 – 2009 (Major activities)



Source: Ministry of Finance – 2009 data is Estimates based on MACMOD_TZ

Inflation Development

Inflation continued to be a major source of concern in macroeconomic stability, rising from an annual average of 7.0 percent in 2007, to 12.5 percent in December 2008. Starting September 2008, the economy experienced double digits headline inflation for the first time since 1998. The annual headline inflation rate decreased to 10.7 per cent in June 2009 from 11.3 percent recorded in May 2009 and 13.1 per cent recorded in March 2009. The decrease is associated with drop in both food and non-food inflation.

Similarly, annual food inflation decreased to 17.0 per cent in June 2009 from 17.8 per cent recoded in the year ended May 2009. The 12 month average annual food inflation rate averaged 16.1 per cent in June 2009 compared to 15.6 per cent in the corresponding period of July 2007 to June 2008.

The inflationary pressure on food was associated with increased average prices of some food items such as cereals and cereal products, vegetables, fruits, meat and legumes. Conversely, non-food inflation declined from 6.3 percent recorded in June 2008 to 2.8 per cent in April 2009 and further to 1.0 per cent in June 2009, consistent with the deceleration in inflation in the transportation and fuel, power and water subgroups (table 2).

Table 2: Annual Headline, Food and Non-food Inflation

Major Commodity Group	2007			2008			2009		
	Apr	May	Jun	Apr	May	Jun	Apr	May	Jun
Headline/Overall	6.1	5	5.9	9.7	9.1	9.3	12	11.3	10.7
Food	4.8	2.8	4.6	11.6	11	11.4	17.8	17.8	17
Non-food	8.2	8.4	7.6	6.9	6.5	6.3	2.8	1.3	1

Source: Bank of Tanzania

Agriculture

In 2008, the growth rate of monetary agriculture increased by 4.5 percent compared to 4.1 percent in 2007, while the growth rate of non-monetary agriculture increased by 4.8 percent in 2008 compared to 3.9 percent in 2007. About a decade ago agriculture was the main contributor to GDP in Tanzania. Agriculture also supplies 65 percent of raw materials for domestic industries and 95 percent of the food consumed in the country.

The Government recognises the greatest potential that agriculture has on economic development in terms of job creation and foreign exchange earnings for the country. In addition, agriculture has a considerable impact on the monetary and fiscal policies due to its significant share in the nation's CPI basket. Thus, the transformation of agriculture leading to food surplus and increased agricultural exports will make a significant contribution to stable and low rates of inflation. In this regard, the Government has accorded special priority to agriculture through 'Tanzania's Green Revolution' (*Kilimo Kwanza*) in order to boost growth of the economy and attain substantial reduction in poverty.

Food supply

The National Food Reserve Agency (NFRA) recorded a stock of 94,699 tons of maize and sorghum in June 2009, representing a decrease of 26.5 percent from 128,919 tons recorded in January 2009, but an increase of 19 per cent comparing with the same month in 2008. The NFRA in the 2009/10 financial year planned to purchase 165,000 tons of grains from domestic market to replenish food reserves. (Table 3).

Table 3: National Food Reserve Agency (NFRA) Stock

Tons

Period	2003	2004	2005	2006	2007	2008	2009	% Change 2008 - 09
January	59,961	35,342	119,924	76,813	112,343	139,765	128,919	-7.8
February	59,493	23,791	116,383	43,593	117,838	133,898	125,430	-6.3
March	58,976	22,903	114,760	8,055	121,046	119,022	124,252	4.4
April	54,118	32,387	115,262	3,165	125,509	94,509	122,849	30.0
May	52,857	31,732	113,823	6,210	128,350	79,369	109,876	38.4
June	51,060	37,091	112,823	15,560	128,804	76,649	94,699	23.5
July	50,661	39,195	112,323	13,811	129,306	75,438		
August	52,681	45,988	112,067	28,440	125,653	83,131		
September	61,364	67,685	111,971	80,248	131,937	102,225		
October	59,379	92,710	111,695	87,461	143,717	114,464		
November	52,054	108,448	106,428	100,828	142,624	122,209		
December	41,649	114,030	93,051	110,203	142,044	129,253		

Source: National Food Reserve Agency and Bank of Tanzania

Food supply situation in June 2009 was generally satisfactory, although some districts experienced food shortages. A total of 43,804.5 tons of maize and sorghum were purchased from NFRA by the Government and private traders to respond to the shortage. A total of 279,607 people in 20 districts were likely to be food insecure between April and mid May 2009 according to Rapid Vulnerability Assessment (RVA) conducted in March 2009.

Table 4 shows that whole sale prices of major food crops continued to increase in June 2009 compared with the corresponding period in previous year. However, comparing with May 2009 prices, in June 2009 whole sale prices of primary food items decreased with exception of potatoes. This is associated with food supplies in domestic markets attributed to the ongoing harvest in some parts of the country.

Table 4: National average whole sale prices for selected food items

Tzshs per 100 Kg

Item	2008	2009		% Change	
	June	May	June	Jun 08–Jun 09	May-09-Jun-09
Maize	28,476	34,568	34,324	21.4	-0.7
Rice	85,206	108,442	98,074	27.3	-9.6
Beans	85,900	88,374	87,710	2.9	-0.8
Sorghum	40,477	46,875	46,537	15.8	-0.7
Potatoes	40,927	43,584	46,511	6.6	-6.7

Source: Ministry of Industry, Trade and Marketing

Interest Rate

Interest rates of the money market instruments sustained a downfall. By June 2009 the overall Treasury Bill rate stood at 6.97 percent, from its peak of 13.33 percent in March 2009 and 7.84 in June 2008. The 2-year Treasury Bond rate in June 2009 stood at 11.51 per cent against 15.28 and 12.87 recorded in March 2009 and in June 2008 respectively.

At the end of June 2009, the Discount Rate fell down to 10.31 per cent compared with 18.33 percent in March 2009. The overall Savings Deposit Rate registered a slight decrease from 2.79 per cent in June 2008 and 2.72 per cent in March 2009 to 2.69 in June 2009. Overall time deposit rate slightly went down in June 2009 to 6.52 from 6.79 recorded in March 2009.

The overall Lending Rate charged by Commercial banks in June 2009 stood at 15.48 per cent compared with 14.76 in June 2008 and 15.12 per cent in March 2009. Short-term (up to 1 year) lending rate rose from 13.44 per cent in march 2009 and 13.93 in June 2008 to 14.57 at the end of June 2009.

Table 5: Interest rates structure

Percent

	Jun 2008	Sept. 2008	Dec 2008	Mar. 2009	Jun 2009
Discount Rate	12.48	15.17	15.99	18.33	10.31
Overall Treasury Bills Rate	7.84	10.17	10.99	13.33	6.97
Savings Deposit Rate	2.79	2.67	2.74	2.72	2 .69
2 year Treasury Bond Rates	12.87	13.20	14.35	15.28	11.51
Overall Time Deposit Rate	6.66	6.43	6.39	6.79	6.52
Overall Lending Rate	14.76	14.76	14.91	15.12	15.48
Short-term lending rate (1 yr)	13.93	14.04	13.56	13.44	14.57

Source: Bank of Tanzania

Government Finance

From July 2008 to March 2009 total revenue collected was Tsh 3,229.1 billion representing 91.5 per cent of the estimates. A good performance is seen on tax revenue from Income taxes (Tsh 917.9 billion) followed by VAT and Excise on Local Goods (Tsh 687.2 billion). Major income tax contributions came from PAYE (Pay As You Earn) and corporate and other taxes while major contributors to VAT were domestic goods and services and imports. Non-tax revenue was Tshs 168.5 billion against a target of Tshs 185.0 billion representing a shortage of 9 per cent (Table 6).

The government expenditure between July 2008 and March 2009 was also below budget estimates. Total expenditure reached Tsh 4,657.9 billion against a target of Tsh 5,354.3 billion. The difference is equivalent to Tshs 696.4 billion or 13% of estimates. Total Recurrent expenditure stood at Tsh 3,142.3 Million against a target of Tsh 3,321.2 billion. Thus total recurrent expenditure fell short of target by only 2.4 per cent.

Between July 2008 and March 2009 the government continued to restrain from borrowing from domestic sources and made a net repayment of Tshs 218.9 billion to the banking system. The main objective of this move was to enhance commercial banks lending base for onward lending to the private sector.

Table 6: Summary of Budgetary Performance:

Billions of TZS

Item	2007/2008		2008/2009			
	July - March		July – March			
	Actual	% of GDP	Estimates	Actual	% of Estimates	% of GDP
Total Revenue:	**2,656.2**	**11.6**	**3,529.2**	**3,229.1**	**91.5**	**12.0**
Tax Revenue	2,477.7	10.8	3,344.2	3,060.7	91.5	11.4
Tax on import	942.5	4.1	1,237.5	1,110.8	89.8	4.1
VAT and Excise on Local Goods	532.6	2.3	727.1	687.2	94.5	2.6
Income tax	722.3	3.2	1,027.5	917.9	89.3	3.4
Other tax	280.2	1.2	352.1	344.8	97.9	1.3
Non-tax revenue	178.5	0.8	185.0	168.5	91.1	0.6
Total expenditure	**4,147.4**	18.1	**5,354.3**	**4,657.9**	**87.0**	**17.3**
Recurrent expenditure	2,451.9	10.7	3,321.2	3,142.3	94.6	11.7
Dev. Expenditure and net lending	1,695.5	7.4	2,033.1	1,515.6	74.5	5.6
Fiscal Balance (excl Grants)	-1,491.3	-6.5	-1,825.1	-1,428.8	78.3	-5.3
Grants	1,348.3	5.9	1,196.2	979.1	81.8	3.6
Fiscal Balance (incl. Grants)	-143.0	-0.6	-628.8	-478.6	76.1	-1.8
Overall Balance(Cheques cleared)	**-220.1**	-1.0	**-628.8**	**-651.7**	**103.6**	**-2.4**
Total Financing	**220.1**	**1.0**	**639.4**	**651.7**	**101.9**	**2.4**
Foreign Financing (net)	656.3	2.9	785.8	793.6	101.0	3.0
Net domestic financing	-439.0	-1.9	-200.1	-186.9	93.4	-0.7
Amortization of contingent debt	-6.1	0.0	-16.9	0.0	0.0	0.0
Privatization Proceeds	0.0	0.0	60.0	45.0	75.0	0.2
GDP (in billions of TZS)	**22,883**					**26,878**

Source: Bank of Tanzania

External Trade

During the year ended June 2009, the current account deficit widened to USD 2,555.2 million from a deficit of USD 2,318.2 million recorded during the Corresponding period in the previous year. This development is largely due to trade imbalance between imports of goods and services against exports. During the same period, imports increased by USD 402.7 million compared to an increase of only USD 219.6 million of exports (Table 7)

Table 7: Current Account Balance Millions of USD

Item	June		2009		Year Ending June		%
	2007	2008	May	June	2008P	2009P	Change
Goods Account (net)	**-209.7**	**-312.7**	**-280.6**	**-324.9**	**-3,427.1**	**-3,427.1**	**0.0**
Export	145.1	167.6	168.3	145.7	2,275.5	2,543.0	11.8
Imports	354.8	480.3	448.9	470.6	5,702.6	5,970.0	4.7
Service Accounts (net)	**40.50**	**54.83**	**36.13**	**27.2**	**468.8**	**279.7**	**-40.3**
Receipts	153.5	181.1	156.2	162.1	1,957.2	1,909.3	-2.4
Payments	113.0	126.2	120.1	135.0	1,488.4	1629.6	9.5
Goods and Services (net)	**-169.2**	**-257.8**	**-244.5**	**-297.8**	**-2,958.3**	**-3,147.3**	**6.4**
Exports of goods and services	298.6	348.7	324.5	307.8	4,232.7	4,452.3	5.2
Imports of goods and services	467.8	606.5	569.0	605.6	7,191.0	7,599.6	5.7
Income account (net)	**-9.4**	**-5.6**	**-14.2**	**-5.3**	**-44.8**	**-95.4**	**113.1**
Receipts	5.5	11.8	11.2	19.0	128.4	113.5	-11.6
Payments	15.0	17.3	25.4	24.4	173.2	208.9	20.6
Current Transfers (net)	**-4.6**	**1.6**	**13.4**	**2.9**	**684.9**	**687.5**	**0.4**
Inflows	1.6	11.8	18.5	8.9	762.8	755.7	-0.9
o/w General Government	1.6	11.2	10.1	0.5	659.3	657.6	-0.3
Outflows	6.1	10.2	5.1	6.0	77.9	68.2	-12.5
Current Account Balance	**-183.2**	**-261.8**	**-245.3**	**-300.2**	**-2,318.2**	**-2,555.2**	**10.2**

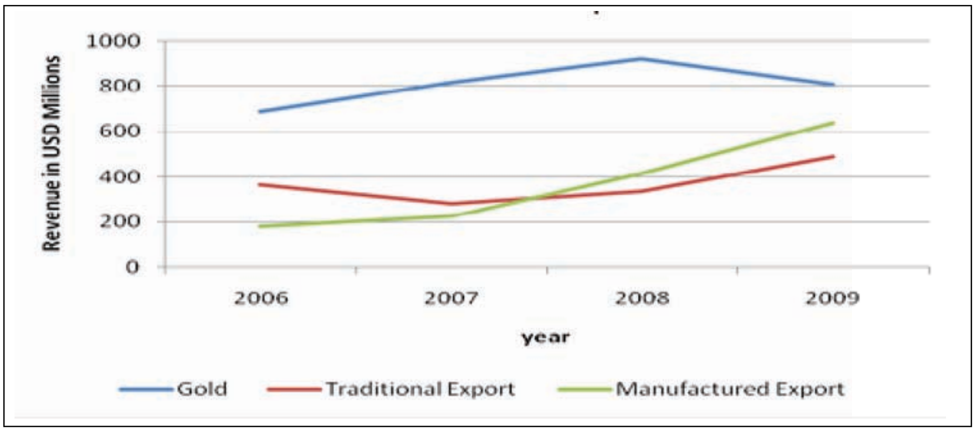
Note: P = Provisional
Source: Bank of Tanzania

Exports

During the year ending June 2009 export of goods increased by 11.8 per cent to USD 2,543.0 million with gold and manufactured goods dominating the total exports accounting for about 57 percent of total exports of goods and services.

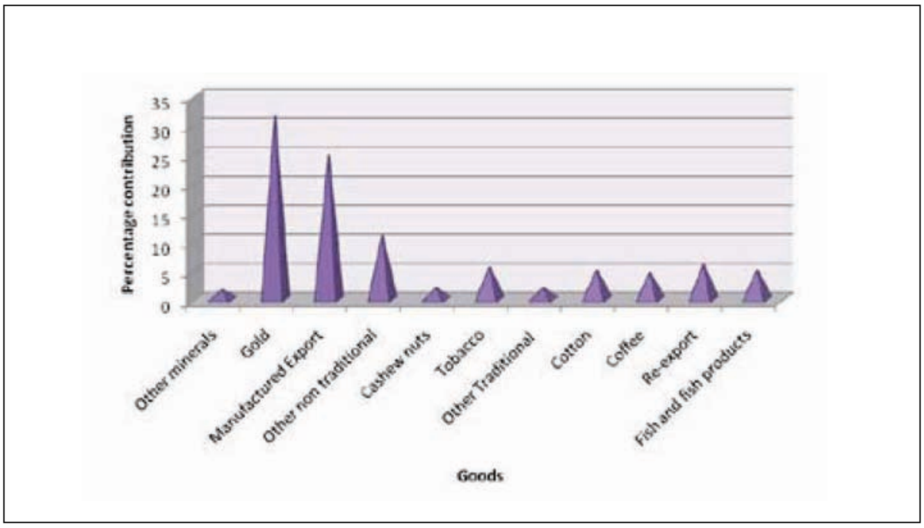
Traditional exports increased by 45.1 percent to USD 488.4 million, on account of significant increases in export volumes of tobacco, cotton and coffee. There was also a notable improvement in export prices of tobacco, tea and sisal in the world market despite the current global financial crisis. Net services decreased to USD 1,909.3 million from USD 1,957.2 million recorded in the corresponding period last year mainly because of decline in transport receipts. However there was an increase in service receipt in June 2009 to USD 162.1 million against USD 156.2 million recorded in May 2009 as the peak tourists season approaches (Table 7).

Fig 3: Selected Goods for Export



Source: Bank of Tanzania

Fig 4: Contribution of selected goods export for the year ending June 2009



Note:
1. Other non-traditional include hotcultural products and other exports
2. Other traditional include sisal, tea and cloves
3. Other minerals include; Tanzanite, rubies, surphires, emeralds, copper,silver and others
4. Re-export refer to goods that are imported and later exported to neighbouring countries. Mainly wheat and refined petroleum products

Source: Bank of Tanzania

Imports

By June 2009 imports reached to USD 5,970.0 millions (f.o.b) with an increase of 4.7 per cent as compared to USD 5,702.6 recorded in June 2008. Total goods imports (f.o.b.) increased by 20.2 percent, to USD 2,602.4 million in June 2009 against USD 2,165.2 recorded in June 2008. On monthly basis imports of goods increased in June 2009 by 4.8 percent to USD 470.6 million from USD 448.9 million recorded in May 2009. While imports of capital and consumer goods increased by 20.2 percent and 11.2 per cent respectively, imports of intermediate goods decreased by 13.0 percent when compared with the levels recorded in June 2008.

The significant increase in capital goods imports was largely associated with the rise in importation of transport, building and construction equipment. This development reflects the increase in investments on mining, communication, manufacturing, transportation and tourism sectors. Meanwhile, the increase in consumer goods is largely attributed to a surge in importation of other consumer goods including pharmaceutical products, plastic items, and textile and paper products. Importation of food and food stuffs registered an increased of 16.8 percent from USD 299.5 in June 2008 to USD 349.9 in June 2009 (Table 8).

Table 8: Imports (f.o.b) by major Category

Millions of USD

Items	2008p	2009		% Change		Year ending June		%
	June	May	June	June 08 – June 09	May 09 - Jun 09	2008	2009	Change
Capital Goods	**207.4**	**218.8**	**209.8**	**1.2**	**-4.1**	**2,165.2**	**2,602.4**	**20.2**
Transport equipment	44.0	77.2	57.2	29.8	-25.9	660.7	757.7	14.7
Building Constructions	55.1	33.7	35.6	-35.4	5.7	504.8	590.0	16.9
Machinery	55.1	107.8	117.0	8.1	8.5	999.7	1,254.6	25.5
Intermediate goods	**193.3**	**113.8**	**145.7**	**-24.6**	**28.0**	**2,339.8**	**2,036.3**	**-13.0**
Oil imports	137.4	76.8	111.2	-19.1	44.7	1,683.4	1433.3	-14.9
Fertilizers	21.9	6.1	1.6	-92.9	-74.6	98.1	133.5	36.1
Industrial Law Materials	34.0	33.0	33.0	-2.9	7.0	558.2	469.5	-15.9
Consumer Goods	**79.6**	**116.3**	**115.1**	**44.6**	**-1.1**	**1,197.6**	**1,331.3**	**11.2**
Food and Food stuffs	13.9	39.5	38.5	176.3	-2.6	299.5	349.9	16.8
All other consumer Goods	65.6	76.8	76.6	16.7	-0.3	898.1	981.5	9.3
Grand Total (fob)	**480.3**	**448.9**	**470.6**	**-2.0**	**4.8**	**5,702.6**	**5,970.0**	**4.7**
Grand Total (cif)	**527.8**	**493.3**	**517.2**	**-2.0**	**4.8**	**6,266.6**	**6,560.5**	**4.7**

Source: Bank of Tanzania

National Debt

The national debt stock at the end of June 2009 stood at USD 8,740.5 million, equivalent to an increase of 12.4 per cent, from the amount at the end of December 2008 of USD 7,772.5. in March 2009 the debt stock stood at USD 7,825. 6. The increase is attributed to new disbursement and issuance of new Government Bonds. Out of the debt stock, external debt accounts for 80.1` per cent and domestic debt accounts for 19.9 per cent.

Table 9: National Debt trend

Millions of USD

Item	**2009**					
	Jan	**Feb**	**Mar**	**Apr**	**May**	**Jun**
External Debt Stock	6,278.9	6,319.8	6,359.9	6590.7	6,622.0	6,999.4
Domestic Debt Stock	1,474.3	1,488.7	1,465.7	1,673.0	1,711.7	1,741.1
Total Debt Stock	**7,753.2**	**7,808.5**	**7,825.6**	**8,263.7**	**8,333.7**	**8,740.5**

Source: Bank of Tanzania

Foreign Exchange

By June 2009, the value of the Shilling had depreciated by 10.5 percent to an average of Tshs. 1,314.20 per USD, from Tshs. 1,176.00 in June 2008, mainly attributed to anxiety and reduced confidence in the market resulting from the likely impact of the Global Financial Crisis. Despite the relatively higher demand for foreign exchange in the year under review, the value of the Shilling has been maintained within the narrow band against the dollar, being in line with the sustained supply of foreign currency in the market by the Bank of Tanzania. The annual exchange rate averaged to Tshs 1,317.43 per USD in 2009, (period average) compared to an annual average of Tshs 1,195.75 per USD in 2008, equivalent to a depreciation of 10.2 percent.

Investment

The Tanzania Government is looking into ways of enhancing the export incentives to investors, especially investors in priority sectors of the economy. The Tanzania Investment Centre (TIC) has so far experienced shrinkage of about 30 percent in the value of new investments by June 2009, compared with the same period last year. Major sources of Foreign Investments in Tanzania are Britain which has an edge over other countries in terms of number and value of projects followed by Kenya, South Africa and India.

Some of the multinational companies in the agriculture, mining and energy sector decided to close their operations and lay off workers as a result of the Global financial crisis. Some have postponed investment in new mining and energy projects. The Government has intensified surveillance of the domestic, international capital and financial markets by setting up an early warning system using selected indicators of financial sector performance on daily basis to determine signs of weakness, established intensified oversight of the banking system and broadened collection of information on the performance of its banks and it ensures necessary adequate capacity of the Bank and the Government to intervene.

The Tanzania Investments Centre (TIC) data indicates that Tanzania received US$695.5 million in foreign direct investment (FDI) in 2008 compared to $653 million recorded in 2007 equivalent to an increase of 6.4 percent. In 2008, TIC approved 871 projects with an employment potential of 109,521 jobs compared to 701 projects with employment potential of 103,958 jobs in 2007. Out of these approved projects 621 were new and 250 were either for rehabilitation or extension.

In 2008 more investments projects were directed to tourism (268), Manufacturing (221), Commercial buildings (141) and transportation (93). These sectors attracted more investors due to easy marketability of the products and services. Dar es Salaam, Arusha and Mwanza regions attracted more investments.

In terms of ownership 450 projects were local, 208 were foreign and 213 were joint ventures. Investments also grew by 24.3 percent in 2008 compared to 3.2 percent in 2007. The growth was attributed to the increase in investments by local investors, especially in the tourism sector (tour operation), commercial buildings and the general improvement in the investment climate

The value of Foreign Direct Investment (FDI) was USD 695.5 million in 2008 compared to USD 653.4 million in 2007, equivalent to an increase of 6.4 percent, this was mainly attributed to enhanced investment promotion and the improvement of the business and investment climate in the country.

By June 2009, TIC had approve a total of 364 projects of which 204 projects are local, 69 foreign and 91 are joint venture. All the projects have created a total of 39,883 employments (Table 10).

Table 10: Approved Projects 1996 -2008 and January - June 2009

Year	Approved Projects	Local projects	Foreign Projects	Joint ventures	Total Employment	FDI Value (Mill.USD)	Growth Rate
1996	111	49	17	45	19,745	148.64	6.2
1997	199	90	53	56	37,311	157.8	9.1
1998	213	111	46	56	35,010	172.2	9.12
1999	181	81	43	57	12,933	517.7	200.6
2000	1624	745	343	536	241,250	463.4	-10.5
2001	220	87	53	80	24,699	467.2	0.82
2002	311	126	104	81	33,132	387.6	-20.5
2003	372	155	109	108	198,458	308.2	7.3
2004	454	208	119	127	55,057	330.6	7.3
2005	550	281	131	138	55,663	447.6	35.4
2006	679	345	161	173	74,946	616.6	6.0
2007	701	376	147	178	103,958	653.4	6.0
2008	871	450	208	213	109,521	695.5	6.4
2009	364	204	69	91	39,883	1875.93	-

Source: TIC 2009. For 2009 include data up to June only

TRANSFORMATION OF AGRICULTURAL SECTOR IN TANZANIA–JUSTIFICATIONS FOR KILIMO KWANZA AND CONDITIONS FOR ITS SUCCESS

By Dr. Oswald Mashindano and Dr. Donatila Kaino

A. General Situation

The 2008 World Development Report (WDR) observes that agricultural and rural sectors have suffered from neglect and underinvestment over the past 20 years. While 75 percent of the world's poor live in rural areas, most developing countries allocate meager resources of their annual budgets to the sector. Furthermore, a mere 4 percent of official development assistance goes to agriculture in developing countries. In Sub-Saharan Africa (SSA), where the sector employs 65 percent of the labor force and generates 32 percent of GDP growth, the sector's contribution to overall, poverty reduction, and food security cannot be overemphasized. Unfortunately, public spending for farming is also only 4 percent of total government spending and the sector is highly taxed. In Tanzania, for example, although the Central Government abolished "nuisance taxes between 2003 and 2004 at local level, the temptation by various local authorities to re-introduce taxes in various forms has persisted to the detriment of farmers and farm productivity. In the SSA region, donor support for emergency food aid has paid insufficient attention to possible local commodity market distortions, income-raising investments; while at the same time rich-countries continue to impose trade barriers and provide subsidies for their key commodities such as cotton and oilseeds hence locking out similar products produced for export from SSA countries. Ligon, Ethan and Elizabeth (2007) observed that growth originating in agriculture is about four times more effective in reducing poverty than GDP growth originating outside the sector. Therefore there is a pressing need for greater investment in agriculture in developing countries and that agriculture must be placed at the center of the development agenda if the goals of halving extreme poverty and hunger by 2015 are to be realized.

There is a general consensus, which is echoed by Robert B. Zoellick World Bank Group President that in order to have dynamic 'agriculture for development' that will benefit millions of rural people in the developing world, agriculture must be given more prominence across the board. At the global level countries must deliver on vital reforms such as cutting down distorting subsidies and opening markets while civil society groups especially farmer organizations need more say in setting the agricultural agenda."

According to the WDR, agriculture can offer pathways out of poverty if efforts are made to increase productivity in the staple food sector; connect smallholders to rapidly expanding high-value horticulture products, poultry, aquaculture, as well as dairy markets; and generate jobs in the rural non-farm economy. Growth in rural non-farm employment is closely linked to growth in agriculture[1] and can be accelerated if there is massive investment in rural education, to provide educational and skill opportunities relevant to emerging job markets, and to develop labor regulations appropriate to rural working conditions. This is important given the increasing urbanization which is also associated with sub-contracting of small farmers by commercial farmers and agro-processors.

[1] In agriculture, production forward and backward linkages is exemplified by value adding activities along a product chain value, such as agro-processing which would further be stimulated by the increase in production of a particular crop

The World Bank report is also concerned about uncertainty in future food prices due to expanding demand for human food, animal feeds, and bio-fuels; the rising price of energy; all occurring against the background of increasing land and water scarcity; as well as climate change effects brought about by deforestation through global warming which also causes land degradation and pollution. The report recommends measures to achieve more sustainable production systems and outlines incentives to protect the environment.

B. The Tanzanian Situation

In 2008, real GDP of Tanzania grew by 7.4 percent compared to 7.1 percent in 2007. However, the 2007 Household Budget Survey (HBS) indicates that between 2001 and 2007, poverty declined marginally across the country. In mainland Tanzania the poverty headcount ratio declined by only 2.2 percent from 35.6 percent in 2000/01 to 33.4 percent in 2007. The rate of decline in poverty was more in urban areas than in rural areas, indicating that poverty is mainly in societies which depend heavily on agriculture as a major economic activity and source of income.

Table 1: Incidence and Depth of Poverty in Tanzania Mainland

Incidence of Poverty	Year	Dar es salaam	Other Urban Areas	Rural Areas	Mainland Tanzania
Food Poverty	1991/92	13.6	15	23.1	21.6
	2000/01	7.5	13.2	20.4	18.7
	2006/07	6.7	12.9	18.4	16.5
Basic Needs Poverty	1991/92	28.1	28.7	40.8	38.6
	2000/01	17.6	25.8	38.7	35.6
	2006/07	16.2	24.1	37.4	33.4

Source: HBS 1991/92, HBS 2000/01, and HBS 2006/07.

Contribution of the Agricultural Sector to Tanzanian Economy

***Contribution to GDP*:** Agricultural sector supplies 65 percent of raw materials for domestic industries and 95 percent of the food consumed in the country. However, the sector's contribution to GDP has been decreasing in the past ten years; it decreased from 31.2 percent in 1998 to 26.1 percent in 2007 following a decrease in contribution of all its sub-sectors i.e. crops, livestock, fishing and forestry and hunting. On the other hand, the growth rate of both monetary and non-monetary agriculture in the period 2007-2008 increased from 4.1 and 3.9 percent to 4.5 and 4.8 percent respectively. Among the factors which explain a declining contribution of the sub-sectors to agriculture include unrecorded outputs particularly in the forestry and fishing sub sector, post harvest losses and low crop yields due to climate change and low capital intensity, including low technology use (i.e. use of traditional hand hoe and low level of fertilizer).

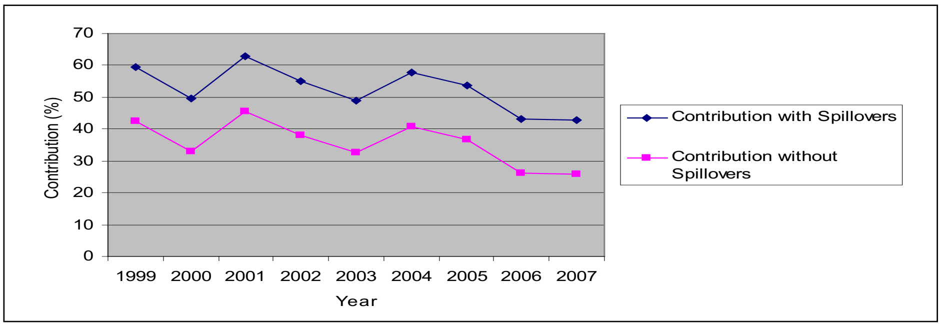
Table 2: Agricultural Share of GDP (in %)

Economic Activity	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Crops	21.6	21.6	21.6	21.4	21.1	20.4	20.2	19.6	18.7	18.6
Livestock	5.3	5.1	5.1	5.1	4.8	4.6	4.5	4.3	4.2	4
Forestry and Hunting	2.6	2.6	2.6	2.6	2.4	2.4	2.3	2.1	2.1	2
Fishing	1.7	1.7	1.7	1.6	1.6	1.6	1.6	1.6	1.6	1.5
Total	**31.2**	**31**	**31**	**30.7**	**29.9**	**29**	**28.6**	**27.6**	**26.6**	**26.1**

Source: NBS and Bank of Tanzania.

Throughout the period 1999 – 2007 the sector's contribution to GDP increases by approximately 20 percentage points to 60 percent when spillover benefits are considered (Figure 1). This implies that, as the overall economy grows at an average annual rate of 5 percent, the agricultural sector accounts for 3.0 percent (i.e. 5 percent x 0.60 = 3.0 percent) of that growth rate; and that the usually recorded growth rates understate the actual contribution of the sector to the country's economy. The high spillover effects of agriculture reflect the strength of linkages the sector has with other sectors of the economy. The large spin-off effects on non-farm sector, mainly is through forward linkages to agro-processing and consumption (World Bank 2001). The Human Resources Development Survey (HRDS) data indicates that a TZS 100 of new household income from export crop proceeds can generate TZS 2,000 worth of additional local employment in the production of non-tradable goods and services. In addition, simulations of the Social Accounting Matrix (SAM) constructed for Tanzania show that this source generates TZS 1.80 increase in overall GDP, in contrast to TZS 1.20 in response to a similar size stimulus from light manufacturing (Wobst, 1999, in World Bank, 2001).

Figure 1: Contribution of the Agricultural Sector to Economic Growth



Contribution to export: In terms of foreign exchange earnings the sector contributed almost half of export earnings during the period 2000 – 2007. This indicates how much the sector supports other non-agricultural sectors both directly and indirectly. However, as indicated in Table 2, during the period 2000 – 2007, the share of traditional export crops in total foreign exchange earnings declined from 34 percent to slightly below 20 percent. This was because of the development in other sectors of the economy. For example, a lot of investments were made in the mining sector, which resulted in an increase of almost fivefold in mineral exports, from US$ 178.2 million in 2002 to US$ 886.5 million in 2007. Also, non-traditional export crops, like flowers, were emerging and some of them were expanding at substantially higher rates. The increasing role of non-traditional crops such as simsim might have helped offset the stagnated level of income from cashew nuts. One of the policy lessons from recent developments in commodity production and export earnings is the need to pay more attention to non-traditional crops which have helped to diversify income sources for Tanzanian farmers. It is also important to support private sector investment in value addition so that the country export processed commodities in the traditional and new markets internationally and in the region.

Table 3: Tanzania Export of Major Traditional Cash Crops in Gross Value (TZS Million)

Crop/Year	2000	2001	2002	2003	2004	2005	2006	2007
Coffee	67,063	49,603	34,052	51,707	53,830	83,577	92,794	143,255
Cotton	30,432	29,173	27,797	48,323	80,072	127,178	56,780	49,807
Sisal	4,482	5,865	6,344	7,558	7,883	8,176	9,296	7,438
Tea	26,215	25,275	28,650	25,661	26,836	28,830	41,682	48,258
Tobacco	30,713	32,292	53,757	41,752	62,157	91,361	129,108	116,893
Cashew nut	68,322	50,941	45,450	43,892	72,257	54,234	62,663	33,816
Total Agric Export	227,226	193,150	196,050	218,894	303,035	393,357	392,323	399,467
Total Exports	666,200	820,200	938,600	1,170,800	1,339,100	1,613,900	1,736,000	2,006,700
Percent of Total Exports	**34.11**	**23.55**	**20.89**	**18.7**	**22.63**	**24.37**	**22.6**	19.91

Source: BoT – Economic Bulletin March 2008.

***Contribution to employment*:** Agriculture is a major employer in Tanzaniaas evidenced by the findings in the Integrated Labour Force Survey of 2001/2002 (ILFS) which shows that 15.5 million people i.e. 87% of the country's labour force was employed in agriculture. The rest, 13%, was either employed in other sectors of the economy or was unemployed. However, 80% of total labour force employed in traditional agriculture is not productively engaged to full capacity. Most of under-employment in rural areas is because the main occupation of most of the rural dwellers is farming, which depends on seasonal and unreliable rains. This is the abundant idle labour which is not only under-employed, but in some cases it is unemployed during off seasons. However, the fact that non-agricultural sectors have been expanding, including the services, which have been drawing young population away from the rural sector, there is a need for realignment of the education system, including focus on technical and Information, Communication and Technology (ICT) to prepare the rural population to the challenges of urban and industrial economy. Note that this is also one of the actionable pillars in KILIMO KWANZA.

Agricultural Resource Capacity: Utilization and Existing Opportunities

Tanzania is endowed with about 44 million hectares of land suitable for agriculture, out of which only 23 percent (10.2 million hectares) is utilized. It is therefore clear that in terms of the existing potentials in agriculture (crop production), 77 percent of arable land is literally unutilized. In other words, about 34 million hectares of land are untapped.

According to the Agricultural Sector Development Programme (ASDP) document, Tanzania has 29.4 million hectares or 31 percent of the total land area that is suitable for irrigation and only about 289,245 hectares or 1.0 percent is under irrigation.

Subsequently, smallholder farmers, responsible for 90 percent of all farm produce, have been underutilizing the existing arable land in the country, as production systems remain archaic in tillage, storage and processing.

Constraints in Agricultural Sector

Despite its significance to the economy of Tanzania, performance of agriculture has been unsatisfactory, due to a number of challenges facing the sector. Chief among the constraints facing agriculture in Tanzania is the domination of small subsistence farmers who largely depend on rain fed agriculture; with very low capital intensity; low technology use; and inefficient resource allocation. The situation is worsened by a poorly developed marketing system, which affects agriculture through a number of market related factors. They include poorly developed infrastructure which affect both access to domestic as well as international markets; string international trade rules most of which are unfavorable; lack of capacity of the local producers to meet standards; and lack of strong local institutions to moderate the marketing system. Manifestation of a poorly developed marketing system in Tanzania has been low income brackets; low capital investment; diminishing livelihood sources; food insecurity, low productivity; and consequently widespread poverty and poor quality of life (URT, 2005a, ESRF, 2006).

A crude labour productivity indicator estimated by dividing the agricultural sector GDP by the working population in the sector (Table 3), and based on the 2002/03 sample census data, reveals that average annual labor productivity increased annually, from 1.16 percent between 1997 and 2000 to 3.7 percent between 2001 and 2006 (URT 2006) which is disquieting.

Table 4: Agricultural Labour Productivity

Labour Productivity	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agricultural Labour Productivity (TZS)	31,926	32,054	32,076	32,847	33,428	34,755	35,994	36,930	**38,635**
Labour Productivity Growth Rate (percent)	**NA**	**0.4**	**0.07**	**2.4**	**1.77**	**3.97**	**3.57**	**2.6**	**4.61**

Source: URT 2006

Government Budget for Agricultural Sector

Data in Table 4 shows that although budget allocation to the agricultural sector has been increasing in the past three years, it is less than 2 percent of GDP, commensurate to the sector's contribution to the GDP. The amount allocated is still far less than what is required in terms of massive investment in the sector to be able to achieve significant impact towards a sustainable green revolution. The Maputo Declaration (2005) requires all member States of AU to allocate at least 10 percent of their national budgets to agriculture and rural development in order to reverse the current trend of under-capitalisation, un-competitiveness and under-performance of the sector.

Table 5: Government Budget for Agricultural Sector 2002/03 – 2009/10

Agric Budget	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Total Government Budget (billions)	2,106	2,418	3,347	4,035	4,788	5,998	7,220	**9,510**
Government budget as percent of GDP	23.4	24.2	28.3	28.9	27.5	26.9	NA	**NA**
Budget for Agric sector (billions)	63.2	84.6	154	133	158	379	460	**667**
Agric budget as percent of total budget	3.0	3.5	4.6	3.3	3.3	6.3	6.4	**7.0**
Agric budget As as percent of GDP	**0.7**	**0.8**	**1.3**	**0.9**	**0.9**	**1.7**		

Source: URT - Economic surveys and author's computations.

The budget also put farm producers in one basket labelled "farmers" and then design a global strategy for addressing their problems. The budget seem to have nothing concrete for smallholder farmers who are the majority and produce more than 90% of total agricultural output in the country (ESRF, 2006).

There is always a mismatch between budgeted and actual expenditure in almost all sectors of the economy because donors who contribute over 30 percent of the budget sometimes do not keep their promises and internal revenue collections fall short of targets. Consequently planned agricultural activities and programmes are not fully implemented.

Government Interventions inAgriculture

Numerous interventions in terms of policies, strategies and programmes have been initiated in Tanzania since independence. These interventions were mainly meant to attract more investments and address pertinent challenges and constraints in the agricultural sector[2]. This has particularly been the case following the sector's significance as the backbone of the economy and hence an engine of growth and development. Among these interventions include:

- *Village settlements* – This is a transformation approach which gave attention to the entire agricultural sector. It involved the creation of village settlements (under Village Settlement Scheme, 1963) in order to motivate peasants to produce crops using advanced farming

[2] See ESRF (2005)

technology under the guidance of extension experts. To attain this objective the government expanded cooperative movement and made credit available to small farmers. She also provided agricultural extension services and increased budgets for training programmes. However, after two years of implementation it became evident that establishing village settlements was extremely expensive (Friis-Hansen 1987, Schmied 1989) and this exercise was stopped in 1966.

- ***Arusha Declaration (1967)*** – This was also a transformation approach which involved the nationalization of the major means of production and the change in political ideology to Socialism and Self-reliance. The change was meant to mobilize the rural sector of the economy and the population (more than 90 percent of total population) that depended on agriculture for their livelihood. In this regard Ujamaa villages (villagization) were created by the government with the intention to develop them into cooperative entities.

  Between 1969 and 1971 about 4500 ujamaa villages were created from an estimated 800 villages with very big variation in terms of achievements as well as concentration. Unfortunately, this intervention also failed because farmers had no incentive to concentrate their labour efforts on emphasized communal activities.

- ***Cooperative movements (1976)*** – This was an improvement approach which facilitated the creation of cooperative unions in order to help farmers to increase production and improve agricultural marketing performance. The unions handled crops from the primary societies before passing them on to the Marketing Boards.

- ***Credit, Extension and Input Supply Policy*** – This was an improvement approach whereby the government attempted to ease agricultural capital constraint by establishing different financial facilities specifically for agricultural activities. Examples include Agricultural Credit Agency (ACA), the National Cooperative and Development Bank (NCDB), the National Development Credit Agency (NDCA) which were established specifically for supplying loans to farmers. In order to provide a comprehensive credit facility which could facilitate transformation of agriculture and improve living standard, the government, in 1967, decided to establish a bank known as "Tanzania Rural Development Bank" (TRDB) which was later renamed as "Cooperative and Rural Development Bank" (CRDB) in 1971. However, this intervention did not succeed because peasant farmers did not have tangible assets to offer as collateral for credit for these banks (Odegaard 1985; Sankhayan 1994: IPS 1995).

- ***Agricultural related campaigns and programmes*** - Agricultural related campaigns and programmes such as *Kilimo cha Kufa na Kupona*, *Chakula Bora*, *Kilimo cha Kisasa, Chakula ni Uhai* aimed at improving smallholder agriculture through better farm management practices and the use of improved technologies. Emphasis was placed on expanding and improving the delivery of services to the agricultural sector. Following economic liberalization and the shift away from state involvement in economic activities, many of these initiatives have now shifted to the Local Government Authorities, NGOs, CBOs and other Private Actors.

- ***Economic Recovery and Adjustment Period*** - In the mid-1980s, the government, supported by the major development partners, initiatedthe economic and structural adjustments in earnest, consisting the National Economic Survival Programmes (NESP), Structural Adjustment Programmes (SAP) and Economic Recovery Programmes (ERP). These programmes involved gradual dismantling of interventionist instruments in the economy in general and in the agricultural sector in particular. In the agricultural sector, it involved allowing private sector participation in the value chain of most agricultural and livestock products, decontrol of producer prices, and privatization of state enterprises.

In addition, there has been a number of policy responses recently in Tanzania. These policies and strategies include Agriculture and Livestock Policy (1997), Agriculture Sector Development Strategy (ASDS) 2001, Poverty Reduction Strategy Paper (PRSP), Cooperative Development Policy (2002), Rural Development Strategy (RDS), National Food Security Policy (2004) and Agricultural Marketing Policy (2005). Under this framework, the country has witnessed mushrooming projects/programs such as Agriculture Sector Development Programme (ASDP), Participatory Agricultural Development and Empowerment Project (PADEP), Agricultural Marketing Systems Development Program (AMSDP), National Irrigation Master Plan (NIMP) District Agricultural Sector Investment Project (DASIP) and District Agricultural Development Plans (DADPs), just to mention a few (ESRF, 2006). As we shall see later, the objectives and most of the focus areas in KILIMO KWANZA are drawn from the previous and particularly most recent policy frameworks presented above. Thus, almost all the agricultural strategies, focus areas and actionable pillars spelt out in KILIMO KWANZA are well known and have been in place since independence, but they have not been able to transform agriculture as anticipated.

Current Status of Agricultural Sector in Tanzania

As pointed out earlier, agriculture in Tanzania is dominated by smallholder farmers (peasants) cultivating average farm size of between 0.9 and 3.0 hectors. About 70 percent of Tanzania's crop area is cultivated by hand hoe, 20 percent by ox plough and 10 percent by tractor. It is rain fed agriculture and mainly produces food crops which occupy 85% of 5.1 million hectors cultivated annually. Women constitute the main part of agricultural labour force . The contribution of the sector to economic growth is decreasing every year due to a decline in labour and land productivity. As noted above, the rate of decline in poverty is more in urban areas than in rural areas. This indicates that government interventions discussed earlier were not effective enough to make the needed transformation in agricultural sector Apart from the above mentioned constraints, it is also believed that the interventions failed to transform agriculture because, most of them were externally initiated and/or donor funded and lacked effective local participation for sustainability..

Having identified problems that hinder agricultural transformation, in June 2009, the government joined hands with the private sector under the umbrella of Tanzania National Business Council (TNBC)[3] to initiate a special drive to revive the sector under the theme "KILIMO KWANZA" (i.e. Agriculture First) that aims at addressing the problems and make the transformation a reality. The focus of Kilimo Kwanza is to:

Box 2: The focus of Kilimo Kwanza

1. Transform Tanzania's agriculture into a modern and commercial sector through a green revolution type of intervention
2. Mainstream and integrate interventions needed to transform agriculture into the Government machinery to ensure its successful implementation
3. Mobilize increased quantum of resources towards the realization of the initiative
4. Mobilize the private sector to substantially increase its investment and shoulder its rightful role in its implementation and
5. Implement the initiative under the following ten actionable pillars:
    a. Political will to push our agricultural transformation
    b. Enhanced financing for agriculture
    c. Institutional reorganization and management of agriculture
    d. Paradigm shift to strategic agricultural production
    e. Land availability for agriculture
    f. Incentives to stimulate investments in agriculture
    g. Industrialization for agricultural transformation
    h. Science, technology and human resources to support agricultural transformation
    i. Infrastructure Development to support agricultural transformation
    j. Mobilization of Tanzanians to support and participate in the implementation of KILIMO KWANZA.

The question now asked is whether **KILIMO KWANZA** will succeed and how different is it from former agricultural transformation initiatives?

[3] Under its Chairman, H.E. Jakaya Mrisho Kikwete, President of the United Republic of Tanzania

The observation made so far is that basically KILIMO KWANZA is not different from past themes like KILIMO CHA KUFA NA KUPONA or SIASA NI KILIMO but the difference is that KILIMO KWANZA stands to gain from the lessons of previous initiatives, which include the need to ensure adequate local participation in planning, funding and implementation. In other words, most of the strategies, focus areas and the actionable pillars have been articulated in the previous agricultural interventions and/or framework, only that they have not been able to achieve the anticipated outcomes. The KILIMO KWANZA focus areas 1, 2, 3 and actionable pillars 5 (a, b, c, e, f, g, h, I, and j) have all been initiated and attempted in the past.

Judging from the overall objective, the theme and direction of KILIMO KWANZA, it is clearly that the programme is meant to motivate and attract both local and foreign private investment in agriculture. A relatively high involvement of the private sector is expected for the programme to be successful. However, in assessing the potential success of KILIMO KWANZA there is need to ask what went wrong with the previous and current policy frameworks, strategies and programmes which have been encouraging the private investment to invest in the sector since early 1980s? This is because the sector has high demand for a range of support services such as agro processing, agri business, extension services, farm implements, pesticides, herbicides, marketing, improved seeds, financial services etc, which the government was not able to provide. It is an open secret that the response of private sector has been dismal, failing to provide the requisite services despite repeated efforts to invite private capital in agriculture.

It will therefore be necessary to identify, understand and seriously address all the factors which were making the private sector shy away from agriculture in the past, if KILIMO KWANZA is to make a meaningful transformation. The new initiative has also identified the need to avail adeaquate working capital and investment/ development capital for the sector. With the intention to establish Tanzania Agricultural Development Bank (TADB) for example, the government is currently taking the right measures towards the right direction. However, as cautioned earlier, there is a need to draw lessons from the Cooperatives and Rural Development Bank (CRDB) which was created to serve the rural agricultural population, but no significant change that occurred on the part of smallholder farmers in terms of accessing credit. Failure of earlier initiatives to capitalize investments through public funding in production (e.g. large scale farming and ranching) and marketing (e.g. National Milling Corporation and General Agricultural Produce Export Corporation (GAPEX) will produce some lessons on how to effectively intervene for the public interest, However, capital and/or financial services are not the only obstacle to private sector involvement in agriculture. Many others exists which need to be addressed as well.

Another caution worth considering is that the involvement of private investors in transforming agriculture if not properly done, can create very few rich farmers and very poor majority of farmers and therefore failure to realize the objectives of poverty reduction initiatives in the country despite the high economic growth. Lessons from ongoing contract farming and leasing of large chunk of village land to large investors provides some useful lessons to ensure some safeguard mechanisms are in place to avoid future social disharmony. The spirit should be of ensuring that private sector investment is properly done for the mutual benefit of both private investors and small farmers. For example, if the problem of collateral by small farmers is not addressed, the newly established Tanzania Agricultural Development Bank (TADB) will end up giving loans to rich private investors. Therefore, small farmers will continue to cultivate small land areas using old technology. Also, if careful land distribution measures are not instituted by the government through local governments, smallscale farmers will not be able to expand their farms because current idle fertile land around them will be occupied by private investors.

Private traders have partly been responsible for both quality and price distortions in the market. Which interventions will KILIMO KWANZA make to address this unmerited problem? Private investors should be used to solve the many problems that small farmers face in agriculture through, for example, use of contract farming whereby big investors commit themselves to buying crops from small farmers at an agreed price provided they meet the required standards. The standards of crops can be monitored by investors by providing extension and financial services to contracted small farmers. In this case smallscale farmers may use output expected as collateral for the services provided by the investor in advance. Consequently, there will be improvement in both labour and land productivity and hence increase in supply of quality crops. In this respect, smallscale farmers will be motivated to expand their farms for more output and the investor will increase the capacity utilization of his industry or will be assured of the supply of quality crops which, as a middleman, will sell in the market at a reasonable price.

The issue of irrigation can also be handled the same way, whereby private investors control the supply of water to small-scale farmers from the dams that are either publicly or privately owned. The investors have to train farmers on how to efficiently irrigate the farms so that they harvest more with minimum water usage. Farmers will have to pay some fee to the investors for supply of water and the services provided. The role of investors in this case is to make sure that the dams are in good order and the water is efficiently supplied to meet the demand of the field crops. It is more motivating to the investors if farmers supply their products to them at an agreed price.

By having fruitful collaboration between private investors and peasant farmers many other things can be done with small input from the government. For example, rural roads connecting communities to district roads can be constructed using contributions in terms of crops from farmers after they have realized the importance of such roads to their development. . This is one of the measures which KILIMO KWANZA need to take into consideration. Another unique feature of Kilimo Kwanza is the realization that all commodities, including food crops have the potential of being tradable goods if the right market is identified. Indeed, some of the non-traditional crops can find easy markets in non-traditional markets such as SADC and COMESA countries as well as Middle East and Far East countries. These countries which impose less string standards compared to European and American markets where Non-Tariff Barriers have prevented Tanzanian producers and exports from accessing their consumers.

It is also important to note that investors are necessary in all levels of the farm commodity value chain, from farming to final delivery of processed goods to consumers locally and internationally. They will be needed in provision of inputs and farm equipment, knowledge delivery, agro-processing, transportation, packaging, storage and marketing/sale of the produce and processed goods. Each value chain for each farm commodity will require specialized intervention by both government and private sector as partners in sustainable development of the agriculture sector.

Recommendations

For the Green revolution to happen under Kilimo Kwanza and the goals of halving extreme poverty and hunger by 2015 to be realized, there is a need of serious investment in agriculture and the sector must be placed at the center of the development agenda. There is a need to understand (and address) the reasons for poor response of the private sector to agricultural needs in the past. The sector should be given special treatment when government allocates resources. Much of the resources allocated to the sector should come from reliable sources in order to avoid mismatch between budgeted and actual expenditure in the sector. For practical reasons and indeed for effectiveness of government policies, producers in the agricultural sector should be categorised into large, medium and small scale farmers, and be specific about the target group to be affected by a given policy decision.

Farmer's sources of income also need to be diversified by paying more attention to non-traditional crops and the livestock sector. It is also important to support private sector investment in value addition so that the country export processed commodities in the traditional and new markets internationally and in the region. The fact that non-agricultural sectors have been increasing, including the services, which have been drawing young population away from the rural sector, call for realignment of the education system, including focus on technical and ICT to prepare the rural population to the challenges of urban and industrial economy.

For private investors to participate in the agricultural sector transformation it is necessary to identify, understand and seriously address all the factors which were making the private sector shy away from agriculture in the past. It is also important to note that investors are necessary in all levels of the farm commodity value chain, from farming to final delivery of processed goods to consumers. The spirit, however, should be of ensuring that private sector investment is properly done for the mutual benefit of both private investors and small farmers. By having fruitful collaboration between private investors and peasant farmers many things can be done with small input from the government.

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MOVING OUT OF POVERTY: UNDERSTANDING GROWTH AND DEMOCRACY FROM THE BOTTOM UP

By Dr. Flora Kessy, Dr. Oswald Mashindano, Mr. Dennis Rweyemamu and Mr. Prosper Charle

1. Introduction

There is unanimous agreement that for poverty to be reduced there must be growth that benefits the poor. However, it has been debatable on how to achieve that balance. For example, growth is said to be a necessary condition but not a sufficient one. In addition to growth, poverty reduction and therefore improved livelihoods of the people requires one to address the equity issues. Review of economic literature based on household surveys indicates that there is a cluster of factors most often associated with growth that is beneficial to the poor. These factors consist household endowments; location or geography; underlying economy; and equality in access to assets i.e. land; education and literacy. It is within this context that the Economic and Social Research Foundation (ESRF) conducted a study on "moving out of poverty, understanding growth and democracy from the bottom up".

The study sought to understand from individuals, households and community levels factors for mobility into and out of poverty of different households and individuals.The study has strong relevance for policy design and monitoring of poverty reduction policies and strategies in Tanzania because starting from the bottom up, it provides policy insights based on the experiences of those who have actually moved out of poverty and stayed out of it over time; those who have maintained their wealth over time (stagnated in the same position overtime); and those who have fallen into poverty. Note that the second category includes those who have been persistently rich and those who have been chronically poor. The study further provides insights on how democracy, freedom, power and aspirations contribute in building assets or wealth creation.

The study focuses on three major policy issues, namely economic growth; governance; and access to markets by way of understanding mobility factors within the three broader variables. The study was conducted against the concern that although the country's economic performance has been satisfactory following implementation of the ongoing economic reforms, there was widespread mismatch between the achievements at macro level and the resulting impacts at the local community level. Moreover, bad governance was increasingly regarded as one of the root causes of poor social, political and economic development. It is perceived that Governments could sometimes act as obstacles to growth either through "sins of omission" (for example if services are not delivered) or "sins of commission" (when the government interferes where it should not). Equally important is the fact that access to markets in a liberalized economy is considered critical given the absence of effective cooperatives and crop authorities and institutional arrangements to moderate free market failures.

In order to achieve its objective, the study explored a wide range of social, political, institutional, and economic mechanisms that impact on poor people's access to economic opportunities and thus their movement into and out of poverty. It also provides insights on how freedom, power and aspirations contribute in building assets and/or wealth creation. Three hypotheses were tested under this study:

(a) Ruvuma Region, being marginalized relative to other regions in Tanzania, has not experienced the desired growth given its agricultural and other economic potentials

(b) Poor access to agricultural markets is one of the major impediments to poverty reduction in the study area

(c) Poor governance is another major impediment to poverty reduction

2. Methodology

Ruvuma region in the southern highlands of Tanzania was chosen as a case study, given its location relative to major trading centers in the country and nature of available livelihood opportunities given the region's proximity to neighboring countries. Measures of poverty, in particular, the headcount ratio and standard of living indicators were used to gauge the direction of growth under the assumption that a district ranking high on several indicators experienced a high growth in the past ten years. The conclusions drawn about growth, based on this assumption, were further confirmed through the interviews at the district level whereby growth variables were grouped into three categories namely, household characteristics; household durable goods and social services.

A three stage sampling was undertaken to select 2 districts, 8 communities, and 810 households[1]. In the first stage, two districts and eight wards were chosen based on selected performance indicators ie growth performance, relative to each other. In the second stage, eight communities were selected based on isolation and proximity to the main centers as well as probability proportion to size, while in the third stage 810 households were sampled based on sorting carried out by members of the Focus Groups. The aim was to ensure that selected households represent the four categories of mobility namely, upward movers, downward movers, chronically poor, and persistent rich. Thus, the sampling was essentially purposive sampling. Welfare ranking of individuals and households and welfare comparison were carried out using the Ladder of Life approach, Individual Life Stories, Community Timeline, Focus Group Discussions, and mobility indices. Mobility Indices have been calculated and compiled in a mobility matrix to compare the degree of prosperity between different communities under study. These are Net Prosperity Index, Moving out of Poverty Index, Net Prosperity of the Poor Index, Churning Index, and Net Prosperity of the Rich Index.

Two major national data sets were used in designing the sampling frame. These were the Household Budget Surveys (HBS 1991/92 and HBS 2000/01), the Demographic and Health Survey (DHS) 1991/92, and the 1999 Tanzania Reproductive and Child Health Survey [TRCHS], which are a variant of DHS. Given that both HBS 1991/92 and HBS 2000/01 data were not designed to be districts representative, stratifying the data set at district level would have resulted into high standard errors which could have affected the analysis. To overcome this caveat, poverty variables from HBS 2000/01 were used to estimate district poverty correlates from Census 2002 data through a Poverty Mapping process (See URT, 2005b). These poverty correlates were then used to inform the sampling frame for this study. The study covers the period from 1996 to 2005[2].

3. Ruvuma's Status of Poverty using Growth and Non-income indicators

Though Ruvuma region recorded positive growth rate overtime, it failed to match the national average growth and was outshined by six other regions with similar socio-economic characteristics. The region's per capita income grew by 17% in real terms between 1997 and 2001 i.e. from TZS 157,749 to TZS 930,010[3]. However, when compared with other regions Ruvuma ranked 10th from the bottom in 2001 dropping from 16th position held in 1997.

Assessment using non-income poverty indicators revealed a mixed picture as Ruvuma was relatively performing better than most other regions in some of these dimensions while faring worse in others. For example, the region's population had the nearest proximity to drinking water sources during the dry season, among the 6 regions but it has more individuals who are below food poverty line (27% of the total regional population) compared to Dar (18%), Arusha (25%) and Rukwa (19%) (Table 3.1).

[1] The 2 Districts are Mbinga and Tunduru, and the 8 communities are Nyoni, Mkalanga, Liuli, Luhindo, and Kikolo in Mbinga District; Muhuwesi, Mu-ungano and Ndenyende in Tunduru District

[2] This survey was conducted in 2006, covering ten years (1995 – 2005). It summarizes the findings of the Ruvuma Regional Synthesis report (based on 8 Community Synthesis Reports).These findings therefore reflect the situation during the study period. ESRF has plans to undertake a follow up study within the same communities in 2015.

[3] The exchange rate was $ 1=TZS 1080 at the time of survey and $ 1=TZS 1300 on September 2006.

Table 3.1: Non Income Indicators based on 2000/01 Household Budget Survey

Indicator	Ruvuma	Singida	DSM	Rukwa	Arusha	Lindi
% of Adults Without Education	15	27	8	30	20	44
% of Household using Piped or Protected Source of Drinking Water	53	61	94	55	59	24
% of Households Within 1 km of Drinking Water in the Dry Season	90	51	84	63	49	47
Mean distance to secondary school	9.2	9.5	2.5	21.3	6.4	25.1
% of Households Within 6 km of Dispensary and/or Health Center	85	82	98	82	73	68
% of Individuals below the Food Poverty Line	27	27	8	19	25	33
% of Individuals below the Basic Needs Poverty Line[1]	41	55	18	31	39	53

Source: URT (2002a); DSM=Dar es Salaam

Using the Human Development Index (HDI), a summary measure of human development measuring the average achievements in three basic dimensions of human development[4] Ruvuma is categorized under Medium Human Development Index (0.514) against the national average of 0.495 for Tanzania. With the Human Poverty Index (HPI) which measures deprivations[5] in the three basic dimensions of human development, Ruvuma Region shows a high HPI (18.2), against an average of 22.1 for Tanzania.

4. Summary of the Results

4.1 Major Livelihood Sources

The study found that 88 percent of respondents were farmers and every household owned land, which produced a large portion of its food requirements especially rice, maize, cassava, and beans. The major non-food cash crop in Mbinga district is coffee, whereas cashew nut is a major cash crop in Tunduru district. Investment in agriculture was mentioned to be the major pillar for movement out of poverty and people were able to accumulate assets and build houses using income acquired from selling agricultural produce. This was supported by the findings that 48 percent had no secondary jobs+, about 3 percent of men were traders and 12 percent engaged in private sector as unskilled laborers.

Fishing was mostly practiced in the villages along the lake shore (Lake Nyasa), and was found to be the major non-agricultural income generating activity, with fish being the major protein source for most Liuli households. However, the industry had declined following a ban imposed on *kokolo* fishing gear as well as restrictions on the use of beach Seine which involve fishing in shallow water. Note that the ban aims at protecting the environment especially the breeding sites, which are normally on shallow waters. Fishermen prefer to do the fishing in shallow waters due to different reasons, including the fact that it is less expensive in terms of size and number of canoes used. One fishing vessel (canoe) is enough to carry all required equipments and fishermen into the water. Security of fishermen is also guaranteed. With beach seine method, lives of fishermen are not endangered.

Mining is a new economic activity practiced in Muhuwesi and Nyoni villages from the mid 1990s. However, it was mostly done by people from other villages, districts, regions of Tanzania, and outside Tanzania e.g. Thailand. These immigrants account for about 60 percent of the people doing mining along Muhuwesi River. The gemstones business has had both positive and negative impacts in these villages. The positive effect is that it has increased money income of some villagers which they have used to build better houses, establish businesses and buy both productive and non-productive assets.

[4] Three basic dimensions of human development include: a long and health life, measured by life expectancy at birth; K\knowledge, measured by adult literacy rate and the combined primary, secondary and tertiary gross national enrollment; and a decent standard of living, as measured by GDP per capita.

[5] Deprivations refers to: lack of a long and healthy life/vulnerability to death at a relatively early age as measured by probability at birth of not surviving to age 40; lack of knowledge/exclusion from the world or learning and communications, as measured by the adult illiteracy rate; lack of a decent standard of living/lack of access to overall economic provisioning,

Most people were attracted to mining such that it had negatively affected agricultural production and contributed to increased school drop-outs as pupils left school prematurely to go into mining activities. There were also increased chances of HIV infection due to the influx of men with money in the mining communities.

4.2 Mobility across Transitory Groups

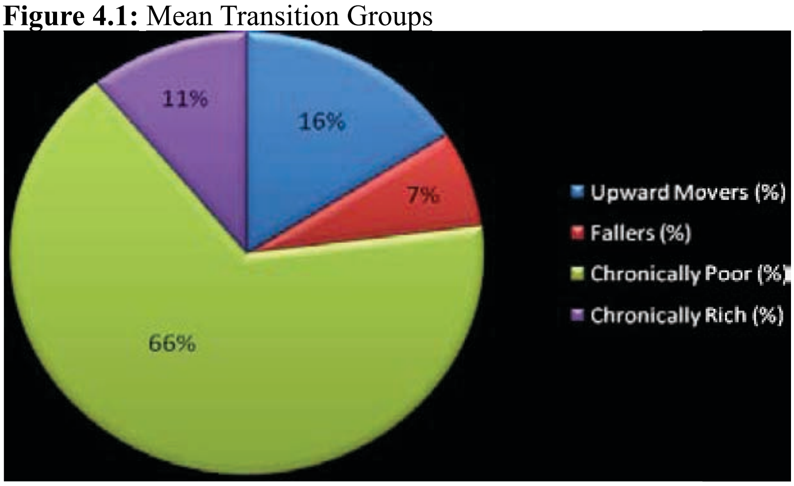
Movement out of or into poverty was considered across four transition groups. These groups include those who have moved out of poverty (upward movers); those who have fallen into poverty (downward movers/ fallers); those who have remained chronically poor over the period under study (chronically poor); and those that have remained persistently rich. These groups were established based on the poverty line figures derived by community members in focus groups discussions. Table 4.1 provides the summary of status of the sorted households per community, whereas Figure 4.1 shows the average figure for each transition group.

Table 4.1: Household's Status of Movement on the Ladder of Life (Female Ladder of Life)

Community	Number of Households Sorted	Upward Movers (%)	Fallers (%)	Chronically Poor (%)	Chronically Rich (%)
Kikolo	100	18	8	56	18
Liuli	100	3	7	83	7
Luhindo	100	16	9	63	12
Mkalanga	100	11	2	86	1
Muhuwesi	106	17	4	59	26
Muungano	103	36	4	53	10
Ndenyende	100	10	2	79	9
Nyoni	101	16	22	53	10
Total	**810**	**127**	**58**	**532**	93

Findings from the mobility matrix show that 66 percent of the total households in the surveyed communities stagnated in poverty (ie they were chronically poor) over the period of 10 years (Figure 4.1). Each community had more than 50 percent of its households in the chronically poor category (Table 4.1). On a more positive note, all communities (except Liuli and Nyoni) had more people moving out of poverty (17%) than moving into poverty (7%). However, 10% of the households remained rich over the period of 10 years, and Muhuwesi community had the highest number of persistently rich households. This could possibly be explained by mining opportunities that emerged in the community in the late 1990s.

Figure 4.1: Mean Transition Groups



4.3 Mobility Indices

In an attempt to compare what happened in different mobility matrices, simple summary statistics that allow for comparison of findings from the Mobility Matrices across communities were also calculated. These summary statistics are: The Net Prosperity Index (NPI), Net Prosperity of the Poor Index (NPPI), Net Prosperity of the Rich Index (NPRI), Moving out of Poverty Index (MOPI) and The Churning Index (CI). NPI measured overall improvement in the households on the ladder of life. A positive NPI indicates that there is general improvement in well-being while a negative NPI signifies decline in well-being. NPPI gauges whether there has been a net increase/decline in wealth in the community, here also a positive value indicates an improvement while a negative value indicate a net decline in wealth. NPRI assesses how prosperity of the rich has evolved over time, that is, whether they have experienced a net gain or loss in wealth. MOPI assesses what happens to the poor, whether they have been able to move out or have remained poor overtime. CI gauges existent of movements up and down the ladder of life over a given time period.

Table 4.2: Measuring Prosperity: Average of Selected Indices

Index	Mean	Median
1. Net Prosperity	0.22	**0.29**
2. Moving Out of Poverty	0.20	**0.21**
3. Net Prosperity of the Poor	0.37	**0.47**
4. Churning Index	0.71	**0.81**
5. Net Prosperity of the Rich	**-0.36**	**-0.33**

The NPI was found to be positive (Table 4.2) indicating that there has been a general improvement in well-being of the people in Ruvuma region during the span of the ten years under study. With respect to developments in individual wards, the NPI in Figure 4.3 shows that only one ward, Liuli, among the 8 wards surveyed experienced a net loss in wealth. The Net Prosperity of the Poor Index is also positive, revealing that in general, the poor have had gained ground during the ten years period.

Table 4.3: Measuring Prosperity: Community Indices (Shifting Index)

Village	NPI	NPP	NPR	MOP (Shifting)
Liuli	-0.530	-0.562	-0.400	0.000
Muhuwesi	0.063	0.200	-0.355	0.221
Nyoni	0.218	0.724	-0.583	0.342
Ndenyende	0.302	0.611	-0.333	0.102
Kikolo	0.310	0.432	-0.038	0.243
Luhindo	0.380	0.736	-0.500	0.181
Muungano	0.403	0.571	-0.333	0.438
Mkalanga	0.743	0.774	-0.333	0.009

Furthermore, the findings show that NPPI is positive and NPRI is negative which can partly be explained by the effect of redistribution between the rich and poor that took place in the communities during the period 1996 and 2006. In other words, while the poor have been gaining ground (except for Liuli), as demonstrated by the Net Prosperity of the Poor Index, the initially rich households, have been losing ground according to the Net Prosperity of the Rich Index (See Tables 4.2, 4.3 and 4.4).

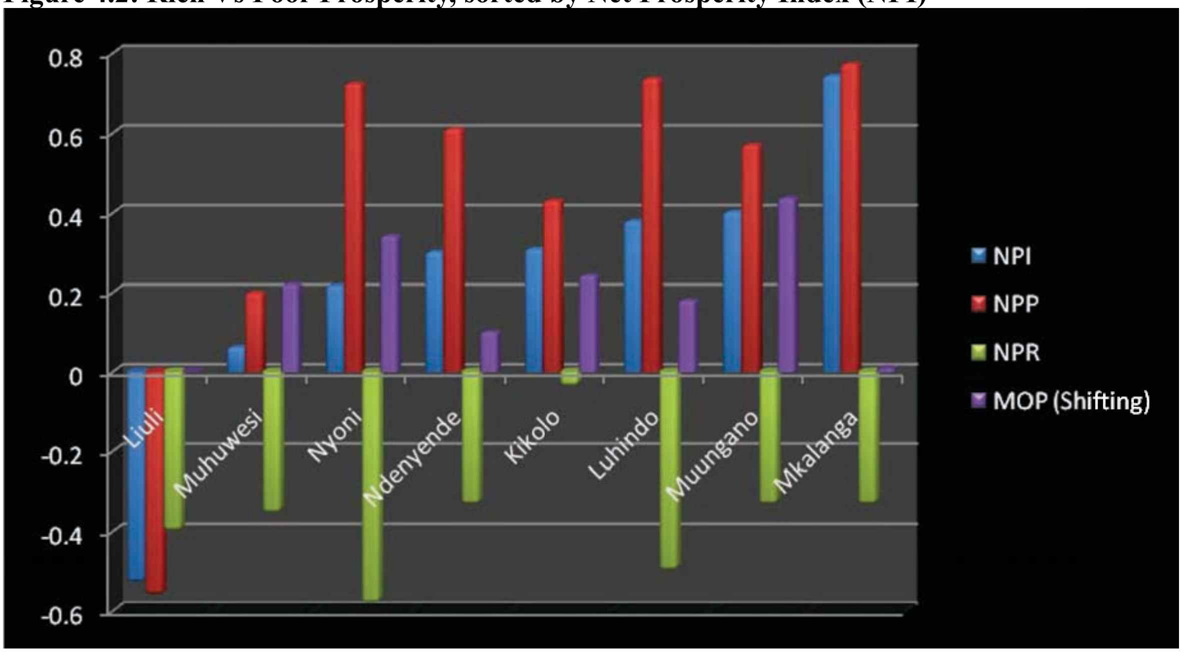
Based on the Moving out of Poverty Index, the study reveals further that about one fifth of the poor were able to climb the ladder of life and move out of poverty. The Churning Index shows that on the aggregate, about 70 percent of the population has moved up or down by at least one step within the 10 years.

Table 4.4: Measuring Prosperity: Community Indices (Fixed Index)

Village	NPI	NPP	NPR	MOP (Fixed)
Liuli	-0.530	-0.562	-0.400	0.137
Muhuwesi	0.063	0.200	-0.355	0.221
Nyoni	0.218	0.724	-0.583	0.342
Ndenyende	0.743	0.774	-0.333	0.118
Kikolo	0.310	0.432	-0.038	0.243
Luhindo	0.390	0.736	-0.500	0.444
Muungano	0.302	0.432	-0.333	0.477
Mkalanga	0.403	0.571	-0.333	0.571

Liuli is the main outlier in the data set, having experienced a decline of both the rich and the poor. Ironically, Liuli is the most developed and diversified of all the surveyed villages, with piped water, a small police post, post office, telephones, and a comparatively good transportation system. There are also a number of vocational training programs and external NGOs active in the area. The decline is mainly attributed to the collapse of the fishing industry following the banning of beach net (*kokolo*) fishing by the government to protect the environmental and particularly the breeding spaces and small fish. This decimated one of the main livelihood sources of the town and had far reaching effects on all sectors. The situation is further exacerbated by the encroachment by the immigrants in the watershed, mountain forest lands and other protected areas, despite government orders to vacate these lands. Frequent attacks by immigrants have destabilized the climate for investment. However, the major motive for the conflicts is not ethnic differences but access to resources.

Figure 4.2: Rich Vs Poor Prosperity, sorted by Net Prosperity Index (NPI)



4.4 Governance and Mobility in Ruvuma

This is a perception survey where secondary information, views of community members as well as village and ward leaders have been analyzed to gauge the linkage between governance variables and growth. Judging from gradual measures and steps taken so far by the Government of Tanzania to empower the grassroot administrative units, and in view of the increasing functions performed by these governance institutions, it is evident that overtime some degree of decentralization is already taking place. Both decentralization and democracy in Ruvuma have created the needed awareness among community members and improved accountability and the sense of ownership of public infrastructure. In other words, there has been some notable improvement overtime in terms of the performance of governance variables in the region. These are mainly participation, inclusiveness, and democracy.

The FGDs findings show that more people in the 8 communities understand the governance institutions, their right and obligations than ten years prior to the current survey. About 28 primary school classes have been constructed in the 8 communities under the Primary Education Development Plan (PEDP) where members of the communities participated in the provision of some construction materials such as bricks, timber and labour. Likewise, participation of villagers in the implementation of the TASAF projects (Health, Water and Education) has also been notable. It is evident also that, this improvement has been translated into the changing pattern of economic activities in agriculture and livestock, and behavioural change towards basic facilities such as schools, water projects, and health facilities which are the basis for improved quality of life of the people. In addition, more legal services such as contract formation and dispute settlement have also been made available to the people through the lower level governance institutions who plays significant role as mediators.

It should however be noted that, despite this achievement, there is still ample room for improvement. For example, it was repeatedly pointed out that, there is still a need to enhance voter education to ensure voters are not taken advantage of or coerced into making inappropriate choices by influential groups who have individual motives. In the case of governance however, it was reported that some degree of problems including lack of accountability, ineffectiveness in service delivery, and breakdown in enforcement of law and order, and corruption continue to plague administrative divisions at village and ward levels as well as at district levels. This has subsequently tended to demoralize individual initiatives towards progress and therefore complicating even further the problem of poverty reduction.

4.5 Factors Underpinning Movement into and out of Poverty

In understanding factors for upward or downward mobility in the studied communities, both community wide and idiosyncratic factors were sought using key informant interview and focus group discussions and individual life stories respectively. Table 4.4 presents the top two events/factors in each village that had a positive effect on the economy or prosperity of the community and movements out of poverty, and the top two negative events that harmed the prosperity of the community as indicated by the members of focus group discussions. The information in Table 4.4 presents the perceptions of both men and women. It is worth noting that, respondents consistently repeated some factors but they were not necessary mentioned among the top two. For example, although the lack of agricultural inputs was not mentioned as one of the top two factors for decline in well being in some communities, it has consistently been reported as one factor for downward mobility and stagnation in all the communities surveyed.

As it can be depicted from Table 4.4, respondents identified events that have had positive effects on the economy or prosperity of the communities to include availability of markets for agricultural produce, presence of health facilities, availability of water services, presence of transport infrastructure facilities, and presence of crop marketing unions and access to farm inputs and credit at affordable costs. On the other hand, factors that have negatively affected their prosperity included lack of agricultural inputs, collapse of cooperative unions, influx of middlemen, crop diseases and attacks from wild animals, insecurity and ban of beach net fishing which compromised livelihoods of individuals living along the lake shores and who were dependent on fishing for income and better livelihoods.

The collapse of Cooperative Unions such as Mbinga Cooperative Union (MBICU) is obviously the most painful factor which had also hit farmers and agricultural communities very hard in Ruvuma. In addition to crop procurement, Cooperative Unions used to distribute agricultural inputs to farmers in advance and recover its money during the marketing season. Most unions were also providing extension services to farmers through their Primary Societies' Demonstration Farms. Thus farmers were guaranteed of the market for their produce, stable prices, farm inputs, and extension services which are currently unreliable and in some cases absent.

Idiosyncratic factors for upward or downward movement were pointed out in the focus group discussions and individual life stories. Factors for downward movement include: Ill health; theft; large number of dependents in some households; unwise spending by some villagers (e.g. excessive drinking); low bargaining power of artisanal miners; lack of "development jealousy," that is lacking the spirit of competition for development; lack of sufficient capital for expansion of production activities; low efforts in farming activities; and investment failures. Others included, insecurity (burglaries and organized thefts and violence), failure of investment ventures due to risks inherent in some of them, HIV/AIDS, and payment of bride price.

Factors for movement up the ladder include: hard work; business expansion,, access to opportunities for income diversification and entrepreneurial savvy of households as well as ability of households to adjust quickly from adverse economic and social shocks.

Table 4.4: Community Wide Factors for Upward and Downward Mobility

Positive and Negative Factors	Community/Village							
	KI	LI	MK	LU	NY	ND	MN	MH
Events/factors that had a positive effect on the economy or prosperity of the community and movements out of poverty								
1. Availability of markets for agricultural produce, for example, coffee, cashew nuts, maize, rice, groundnuts,			√		√	√	√	√
2. Construction of a health facility	√					√		
3. Availability of water services							√	
4. Discovery of gold deposits				√				√
5. Road construction/rehabilitation		√	√					
6. Construction of classrooms under the Primary Education Development Plan (PEDP)	√			√				
7. Abolition of levy		√						
8. Formation of crop marketing unions					√			
Events/factors that had a negative effect on the economy or prosperity of the community and movements out of poverty								
1. Lack of agricultural inputs						√		√
2. Wild animals/vermin	√					√	√	
3. Human diseases							√	
4. Lack of markets/Collapse of MBICU	√	√		√				
5. Crop diseases			√	√	√			
6. Insecurity			√					
7. Floods/El Niño rains					√			
8. Abolition of *kokolo* fishing		√						
9. Decline in gemstone mining activities								√

Note: KI=Kikolo; LI=Liuli; MK=Mkalanga; LU=Luhindo; NY=Nyoni; ND=Ndenyende; MN=Muungano; MH=Muhuwesi.

Initial endowments were also found to be very important factor in the ability of individuals to move out of poverty. Extremely poor people and people with disabilities, who also happen to fall in the extremely poor category, find it very difficult to move up partly because of lack of productive resources that make it difficult for them to engage effectively in productive activities. Disabled people find it even more difficult as in all the surveyed communities there are no formal arrangements to help them out. For them therefore, social capital (existence of informal social networks, and self help groups including family ties) makes a great difference, because through such networks they are able to overcome economic hurdles and move out of poverty. For example, through such arrangements, they are able to obtain credit on softer terms, deal collectively with emergencies and undertake economic activities such as collective farming.

5 Conclusion and Recommendations

Findings from the mobility matrix show that 66 percent of the total households in the surveyed communities stagnated in poverty (ie they were chronically poor) over the period of 10 years (Figure 4.1). Each community had more than 50 percent of its households in the chronically poor category (Table 4.1). On a more positive note, all communities (except Liuli and Nyoni) had more people moving out of poverty (17%) than moving into poverty (7%). However, 10% of the households remained rich over the period of 10 years, and Muhuwesi community had the highest number of persistently rich households. This could possibly be explained by mining opportunities that emerged in the community in the late 1990s.

The NPI was found to be positive (Table 4.2) indicating that there has been a general improvement in well-being of the people in Ruvuma region during the span of the ten years under study. With respect to developments in individual wards, the NPI in Figure 4.**3** shows that only one ward, Liuli, among the 8 wards surveyed experienced a net loss in wealth. The Net Prosperity of the Poor Index is also positive, revealing that in general, the poor have had gained ground during the ten years period. Furthermore, the findings show that NPPI is positive and NPRI is negative which can partly be explained by the effect of redistribution between the rich and poor that took place in the communities during the period 1996 and 2006. In other words, while the poor have been gaining ground (except for Liuli), as demonstrated by the Net Prosperity of the Poor Index, the initially rich households, have been losing ground according to the Net Prosperity of the Rich Index (See Tables 4.2, 4.3 and 4.4).
Based on the Moving out of Poverty Index, the study reveals further that about one fifth of the poor were able to climb the ladder of life and move out of poverty. The Churning Index shows that on the aggregate, about 70 percent of the population has moved up or down by at least one step within the 10 years.

Findings of the study have also shown that there has generally been a notable improvement in economic and social conditions in Ruvuma during the span of ten years under review. Judging from the respondents' perception and the discussion made in the preceding sections, it is evidence that there is a link between growth and grassroots changes in welfare and overall living standards. Likewise, there has been some notable improvement overtime in terms of the performance of governance variables in the eight surveyed communities of Ruvuma Region. These are mainly participation, inclusiveness, and democracy. It is evident also that, this improvement has been translated into individuals behavioral change and the changing pattern of economic activities in agriculture and livestock, and participation in developmet and management of basic facilities such as schools, water projects, and health facilities. These are the basis for improved quality of life of the people. In addition, more legal services such as contract formation and dispute settlement have also made provided to the people by the lower level governance institutions.

Community level factors and processes which are important in terms of moving out of poverty, maintaining wealth or keeping people trapped in the community include access to markets, access to credit, access to social services (such as hospitals, schools, water), road network, destructive and killer animals (monkeys and lions), disruption of sources of livelihood like the case of *kokolo* banning in Liuli, and insecurity like the case of the wave of robbery in Mkalanga and killer animals in Muhuwesi, Ndenyende and Muungano. Idiosyncratic factors for upward or downward movement were pointed out in the household questionnaire, focus group discussions and individual life stories. Factors for downward movement include: Ill health; theft; large number of dependants in some households; unwise spending by some villagers (e.g. excessive drinking); low bargaining power of artisanal miners; lack of sufficient capital for expansion of production activities; and investment failures. Factors for movement up the ladder include: hard work; business expansion; and diversification of economic activities.

To facilitate mobility of individuals out of poverty, it is recommended that concerted efforts be undertaken in facilitating access to markets, agricultural inputs and other forms of support services to the sector. Access to education and entrepreneurial skills is also important for enhancing human development. Furthermore, improvement in health services, access to water, and establishment of programs for the poor and for youth development are also called for. With respect to governance, there is an urgent need to scale up and design advocacy and sensitization programmes on governance geared towards enlightening both the leadership as well as members of the communities on governance related issues.

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GROWTH AND POVERTY REDUCTION IN TANZANIA: WHY SUCH A MISMATCH?[1]

Synthesized By Dr Oswald Mashindano

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

[1] This paper base on online discussion organised by Tanzania Knowledge Network between January - April 2009

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.

"Our policies hardly recognize the existence and significance of the informal economy. Yet the majority of the poorest of the poor have their lives anchored to the informal economy. Growth in Tanzania does not take place in pro poor sectors. Poverty reduction could be a reality if resources and policies are harnessed towards the deregulation and improvement of the informal economy. James Gondwe, Friday, February 06, 2009'

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.

"Economic growth is a necessary condition if Tanzania has to successfully address the problem of poverty. The subsequent adoption of MKUKUTA is therefore the right decision towards the right direction. However, MKUKUTA is a very ambitious policy framework in the sense that it seeks to promote growth of all the sectors in the country and at the same time reducing poverty of the entire community. Festo E. Maro, Wednesday, February 04, 2009."

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 PHDR 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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