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Growth without poverty reduction in Tanzania: Reasons for the mismatch

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What is Chronic Poverty?

The distinguishing feature of chronic poverty is extended duration in absolute poverty.

Therefore, chronically poor people always, or usually, live below a poverty line, which is normally defined in terms of a money indicator (e.g. consumption, income, etc.), but could also be defined in terms of wider or subjective aspects of deprivation.

This is different from the transitorily poor, who move in and out of poverty, or only occasionally fall below the poverty line.

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Abstract

This paper seeks to examine why economic growth in Tanzania in recent years has not led to poverty reduction in the country. It analyses data and findings from a range of literature and national accounting data. One reason for this trend is attributed to inaccuracies in the reporting of economic data; a young, under-educated population, which is compounded by a heavy responsibility on women; and low growth rates in the agricultural sector, which accounts for the majority of the population, further exacerbate this trend. Investment to boost education and help workers move into better-rewarded sectors is vital to address poverty in Tanzania. Importantly, rural investments and training to rural farmers to increase production and processing capacities will substantially contribute rural poverty reduction and reduce rural-urban income inequality.

Keywords: poverty, economic growth, dependence on agriculture, national accounting, and gender.

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1 Introduction

Tanzania is characterised by low per capita income, widespread poverty and a great challenge to meet the goals of the National Strategy for Growth and Reduction of Poverty (NSGRP), known as MKUKUTA in Swahili, and the Millennium Development Goals (MDGs), in 2010 and 2015 respectively (Mbelle, 2007). One of the obvious development challenges that has faced Tanzania for many years is poverty reduction. Because of this, the country has a long and rich history of devising policy frameworks and strategies to achieve higher economic growth, set poverty-reduction targets, improve governance and the quality of life of its people.

On the back of initiatives to address poverty and improve livelihoods in Tanzania, a recent review of the National Vision 2025 revealed that although there has been relatively high economic growth, this has been below the level necessary to meet target poverty and livelihood levels (URT, 2011b). Sources of growth have been limited and, in most cases, not reached the real poor in the rural and peri-urban areas, failing to generate adequate and decent jobs. Poverty has only been marginally reduced, particularly in the case of rural and farming households. Infrastructure is poorly developed and therefore not able to support the economic transformation process.

Findings from the four PHDR (2002, 2003, 2005, 2007) and three Household Budget Surveys (HBS) (1991, 2001, 2007) show that while economic growth has significantly improved over time, the reduction in poverty has not been achieved to the same extent.

1.1 Objectives and rationale of the study

The objective of this paper is to address a number of questions related to the growth–poverty mismatch experienced in Tanzania to uncover the reasons and/or barriers which have been obstructing the trickle-down process in the country since early 1990s. The findings of this study will form a major input into the ongoing debate on the growth–poverty relationship and inform the implementation of MKUKUTA II and MKUZA II, the Zanzibar Strategy for Growth and Reduction of Poverty.

1.2 Methodology

This study is mainly based on desk review, the ESRF-CPRC survey in the districts of Magu, Newala and Nkasi, the TDV 2025 interviews in Morogoro, Lindi, Kigoma, Tanga, Dar-es-Salaam, Tabora, and Rukwa, and the Tanzania Knowledge Network (TAKNET) discussion forum where a range of literature and perceptions on growth trends and poverty have been reviewed and analyzed to understand growth dynamics in Tanzania. In particular, interviews in the various areas we visited and a review of the PHDR and various HBS reports were undertaken to establish the link between economic growth and poverty reduction in Tanzania.

1.2.1 *Type and sources of data*

This study has mainly employed secondary data for analysis. Several institutions and official publications were identified as important sources of secondary data for the study. Official publications included various PHDR and status reports published by the Research and Analysis Working Group (RAWG) secretariat hosted at Research on Poverty Alleviation (REPOA) and the Tanzanian Ministry of Finance (MoFEA), HBS published by the National Bureau of Statistics (NBS), Poverty Reduction Strategy (PRS) progress reports and the MKUKUTA Monitoring Master Plan reports published by MoFEA. Primary data was also collected through interviews in the survey regions and districts mentioned in part 1.3. As noted earlier, the study has also benefited from the TAKNET discussion forum where topics related to growth and poverty in Tanzania are discussed and synthesized for wider circulation.

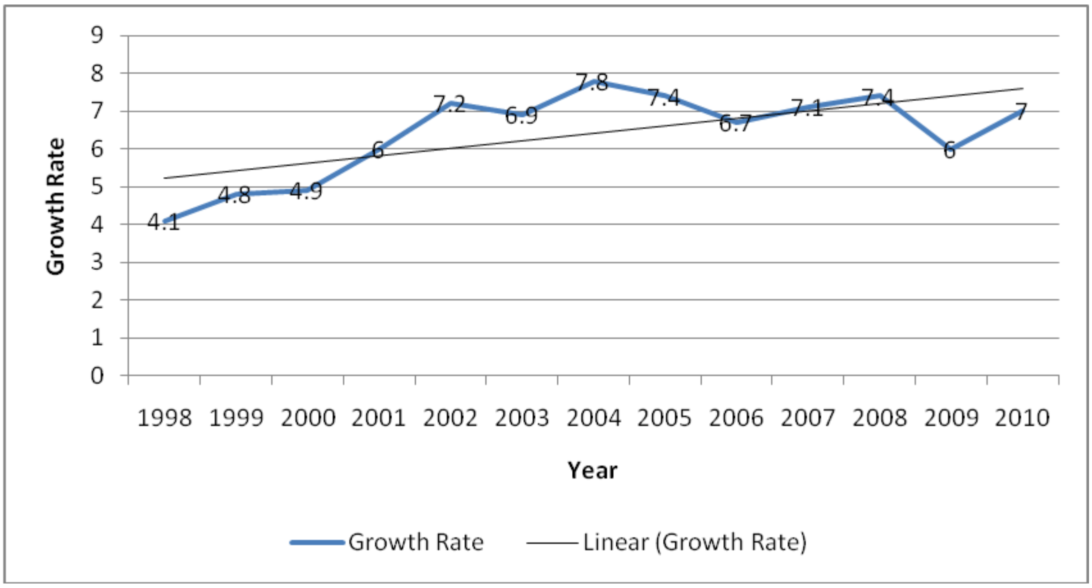
1.2.2 *Method of analysis*

This analysis is based on a review of the set of data and findings collected from the literature. The study employs comparative and trend analyses using information on changes in the rate of growth between various Household Budget Surveys, specifically changes in the headcount ratios of basic needs and food.

2 Synopsis of Tanzania's economic growth

With the exception of a few years, the Gross Domestic Product (GDP) growth trend since the late 1990s has generally been upwards, from 4.1 percent in 1998 to a peak of 7.8 percent in 2004. Growth slowed down in 2009 to 6 percent, largely due to the sharp deceleration of the global economy. However, it bounced back to 7 percent in 2010 (See Figure 2.1). This is nevertheless in line with the 6 to 8 percent targets spelt out in the five-year poverty reduction policy framework, the NSGRP I, or MKUKUTA I in Swahili. These exceptions include the period when Tanzania was facing the impact of shocks from the global food crisis, the power crisis, the global economic and financial crisis and more recently the escalating state of turmoil in some of oil-producing nations. While the global food crisis has led to higher food prices, the chronic power crisis in Tanzania has not only pushed domestic prices up but also cut the production of consumer goods, including merchandise. The impact of the global financial crisis has been multi-dimensional, negatively affecting Tanzania's volumes and the price of exports, the flow of capital and investment and tourism. This has worsened the balance of payments and cause inflationary pressures – an average rate of 7 percent between 2002 and 2010 (URT, 2011). Some sectors have suffered more than others.

Figure 1: Annual real growth rates of Gross Domestic Product, 1998–2010

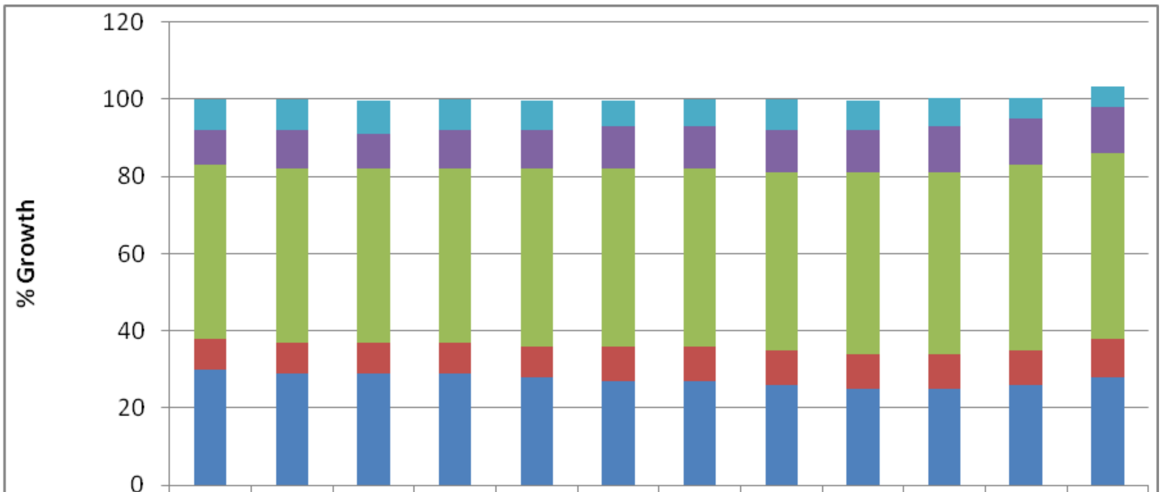


Source: Adapted from Bank of Tanzania data, 2010

The relatively high growth rate that was enjoyed over the last ten years was mainly due to economic and financial reforms and prudent monetary and fiscal policies, all of which encouraged domestic and foreign investment. However, the effect of an average GDP growth rate of 7 percent is likely to be eroded with the ongoing power crisis, the current drought as well as the oil crisis, which has been fuelled by political instability in the major oil-producing countries.

Four important sectors of the Tanzania economy contribute to GDP and economic growth. These are: agriculture; services; industry; and manufacturing. The services sector contributes the largest share to total GDP (See Figures 2.2 and 2.3). It contributed an average of 46 percent per annum between 1998 and 2009. The GDP share of the service sector has been rising, albeit marginally, at least between 2001 and 2008. Note that, the services sector includes: trade and repairs; hotels and restaurants; transport; communications; financial intermediation; real estate; business services; public administration; education; health; and other social and personal services.

Figure 2: Sector contribution to real GDP (percentage)



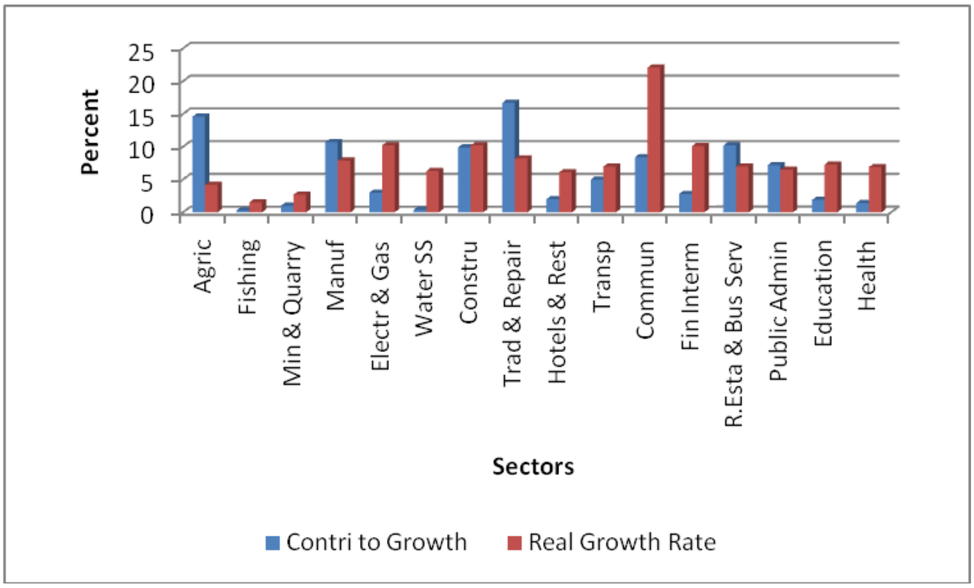
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Other	8	8	8.7	8	7.6	6.6	7.1	7.9	7.6	7.4	5.2	5.4
Industry	9	10	9	10	10	11	11	11	11	12	12	12
Services	45	45	45	45	46	46	46	46	47	47	48	48
Man	8	8	8	8	8	9	9	9	9	9	9	10
Agric	30	29	29	29	28	27	27	26	25	25	26	28

Year

Source: Bank of Tanzania, 2010

Unlike services, the share of agriculture in total GDP has been decreasing gradually since 1999, while industry and manufacturing have risen over time despite lower total shares than that of agriculture. Industry consists of mining and quarrying, water supply, electricity and gas and construction, while agriculture is made up of crops, livestock, forestry and fishery. The sectors that recorded growth rates of more than 10 percent in 2010 were communications, with 22.1 percent growth, followed by construction and electricity and gas, at 10.2 percent, and financial intermediation, with 10.1 percent growth.

Figure 3: Real GDP Growth and Contribution to Growth (2010)



Source: Bank of Tanzania, 2010

3 Poverty reduction initiatives: Implementation and progress

The first comprehensive PRS is the 1997 National Poverty Eradication Strategy (NPES) which provides a framework for poverty eradication initiatives in the country to reduce absolute poverty by 50 percent by 2010 and eradicate it by 2025. The NPES coincides with MKUKUTA I from 2010 and was created five years ahead of the MDG targets. The strategy targeted improved economic growth and incomes as a basis for poverty eradication. A growth rate of 8-10 percent for the economy was targeted. NPES was the first attempt to translate the National Vision 2025 into medium-term targets.

In 2000, the Government crafted the Poverty Reduction Strategy Paper (PRSP) in the context of the Highly Indebted Poor Countries (HIPC) initiative. This three-year first-generation poverty-reduction strategy focused on the priority areas of basic education, primary healthcare, water, roads in rural areas, agricultural research and extension, the judiciary and HIV/AIDS. Consultations with the public on the lessons learned during the implementation of PRSP revealed little progress, if any, in the areas of income poverty, youth, gender, employment, rural electrification, agriculture and water provision. The responses showed disparities across social groups, gender and geographical location. The overall impression was that 'growth helped the poor but was much better for the rich'. (Mbelle, 2007). Among the subsequent conclusions made was that, reliance on growth alone to reduce poverty is neither equitable nor efficient.

The successor strategy, the second-generation NSGRP I or MKUKUTA I (2005-2010), was MDG-based and adopted an outcome-based approach with the twin goals of achieving and sustaining high economic growth and substantial poverty reduction. MKUKUTA I was a five-year strategy which was meant to address poverty by a comprehensive outcome-based approach. The strategy was presented in three broad clusters: growth and reduction of income poverty; quality of life and social well-being; and governance and accountability. In terms of economic growth, the target was a growth rate of 6-8 percent per annum from a base of 6.7 percent in 2004. The poverty reduction targets for 2010 for basic needs poverty 12.9 percent for urban areas and 24 percent for rural areas, down from 25.8 percent and 38.6 percent, respectively, in 2000-01. This longer-term, five-year perspective was considered to be a better timeframe to allow for a more sustained effort in resource mobilization, implementation and evaluation of the impact on poverty compared to three-year targets. Following the review of MKUKUTA I which found insignificant reduction in poverty in Tanzania, the government has made a resolution to develop another development plan. In June 2011, the government launched a five-year development plan spanning from 2011-12 to 2015-16 that aims to boost economic growth from 8 percent to 10 percent annually and expects to raise the per capita income of Tanzanians from the current USD 350 to USD 650 by 2016. It is an important milestone for Tanzania and is a formal implementation of the country's development agenda, as set out in the Tanzania Development Vision 2025.

Public consultations on the lessons learned during the implementation of poverty reduction strategies, and evidence from various MKUKUTA progress reports have revealed little progress, if any, in the areas of income poverty, youth, gender, employment, rural electrification, agriculture and water (Mbelle, 2007)[1]. The responses showed disparities across social groups, gender and geographical location. The overall impression was that growth helped the poor, but was much better for the rich'(*ibid*). Relying on growth alone to reduce poverty is therefore neither equitable nor efficient.

Table 1: Mainland Tanzania - Changes in growth and poverty: 1991-92 to 2000-01 and 2001-02 to 2007

Growth Item	**% Change (1991-92 to 2000-01)**	**% Change (2000-01 – 2007)**
Change in the rate of growth between Household Budget Surveys	+59	+19
Change in head count ratio: basic needs	-2.9	-2.4
Change in head count ratio: food poverty	-2.9	-2.2

Source: Adapted from URT, 2002) and URT, 2007a

The conclusion that emerges from Figure 3.1 is that much of the growth did not translate into poverty reduction, despite a significant change in economic growth between the two Household Budget Surveys, i.e. between the 1991-92 to 2000-01 survey and the 2000-01 to 2007 HBS. As can be seen in Figure 3.1 and the findings presented by the four PHDR and three HBS, the proportion of poor people in Mainland Tanzania declined by 2.9 percent from 38.6 percent in 1991-92 to 35.7 percent in 2000-01 according to the basic-needs measure of poverty and from 21.6 percent in 1991-92 to 18.7 percent in 2000-01 using the food poverty measure. Likewise, the headcount ratio between 2000-01 and 2007 declined by 2.4 percent from 35.7 percent to 33.3 percent and 2.2 percent from 18.7 percent to 16.5 percent, using basic-needs and food-poverty measures respectively (See Table 2).

[1] See also the various Poverty and Human Development Reports (URT, 2002, 2003, 2005, 2007) and HBS Reports 1990-91, 2000-01 and 2007.

Table 2: Percentage of the population below basic-needs and food poverty line in Mainland Tanzania

HBS	Basic- needs poverty	Change in headcount ratio: Basic-needs poverty	Food poverty	Change in headcount ratio: Food poverty
1991/92	38.6	--	21.6	--
2000/02	35.7	- 2.9	18.7	- 2.9
2007	33.3	- 2.4	16.5	- 2.2

Source: URT, 2002c and URT, 2007a

The growth process in Tanzania has not, therefore, been pro-poor, which raises two critical questions: why does this mismatch emerge, and where does it originate?

4 The origins of the growth–poverty mismatch

Common sense and previous studies suggest that economic growth is a significant determinant of poverty reduction as well as improved livelihoods (World Bank, 2004, ESRF, 2006). Indeed, the impressive economic growth rate recorded during the past 15 years in Tanzania would suggest a significant reduction in poverty and improved livelihoods and living standards. However, these are wishful expectations that have not been realised. Around the world, this disparity has attracted debate focused on the cause of the mismatch between growth and poverty.

Four scenarios can be developed from the ongoing debate and existing literature.

4.1 Methodological strength

The first scenario questions the reality and accuracy of the data and the methodologies used to estimate National Income and growth, as well as to estimate the scale of poverty and poverty reduction in Tanzania. Apparently, the accuracy and reliability of date on Tanzania has been in doubt for many years, despite significant improvements over time. Limited resources, political influence and the lack of skills or expertise required for data collection, processing and management are among the major barriers affecting this sector.

There is clear evidence that the National Accounts in Tanzania have a number of gaps both in terms of data sources and the methodology used to estimate income (Msokwa, 2001). For example, National Income accounting has not been able to properly capture the huge subsistence production in agriculture. Another challenge is related to standard measure of weights. Types of measuring weights used in Household Budget Surveys include tins, bundles and heaps. The weight and sometimes size of these tend to change from one seller to another. This can lead to an underestimating or overstating of the value of outputs.

Likewise, data used to estimate figures such as National Income is based on projections which use surveys that are undertaken sporadically. A huge part of the informal economy is normally not captured due to the fact that the activities do not pass through the market and, therefore, market prices not established. The informal sector has other names such as underground, shadow, unofficial and second economy. The informal sector is associated with activities which are not captured and/or are under-reported in official statistics. According to Chipeta (2002), the informal sector consists of all economic activities that are neither monitored nor taxed by the government. It is, therefore, not included in the official Gross National Product (GNP) statistics. Tax evasion is usually associated with transactions and incomes that are not reported, and these mainly occur in this informal economy. The actual contribution of such economies to overall National Income is therefore hard to establish because the figures mainly depend on estimations and projections which employ weak methods. Methodological challenges and gaps facing the National Accounting system in Tanzania make it difficult to ascertain the actual rate of economic growth in the country.

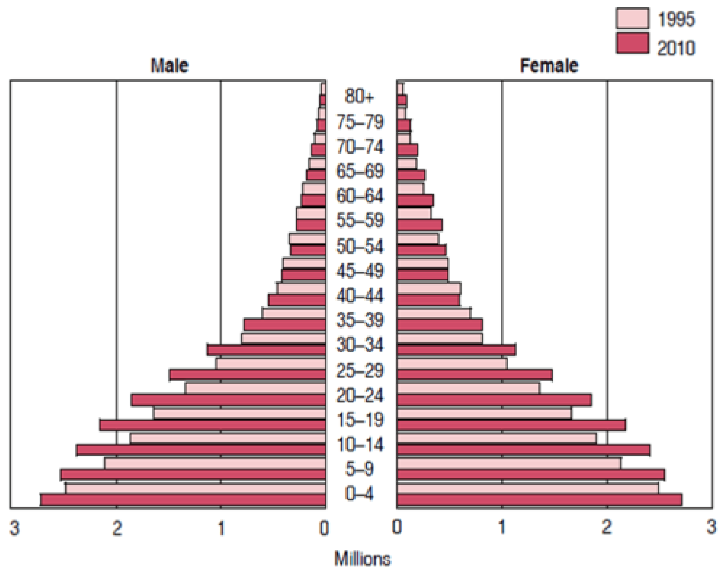
A combination of improved data sources and methodologies for data collection and analysis needs to be employed if Tanzania is to pursue a reliable and accurate national accounting system.

4.2 Demographic factors

Population dynamics in Tanzania are another possible explanation to the growth-poverty mismatch. The country's population increased from 23.2 million in 1988, to 34.4 million in 2002, to an estimated 41.9 million in 2009. The population is predicted to increase to about 50 million by 2015, reaching 65.3 million in 2025 (URT, 2011b). By 2050, the country will have a population of 88.8 million, based on an annual growth rate of 2.9 percent. Given that the country's age structure has a pyramid shape (Figure 4) and people under 30 account for 73 percent of the population, the dependence ratio is about 0.85, compared to 0.84 and 1.12 for Kenya and Uganda, respectively. This ratio reduces real income and negatively affects the purchasing power and ability of households to save for future investment. As a result, poverty levels are persistent despite economic growth.

Figure 4: Population of Tanzania by Age and Sex (1995 – 2010)

Source: US Bureau of Census, International Program, 1995.



Given that most Tanzanians finish schooling at primary level, girls are exposed to marriages and child birth at an early age[2]. On average, each woman bears 5.7 children in her lifetime, which is among the highest fertility levels in the world. Fertility is declining but is still so high that Tanzania's population, which is very young (Figure 4), will continue to grow despite the effects of AIDS. With over 1.3 million new baby Tanzanians

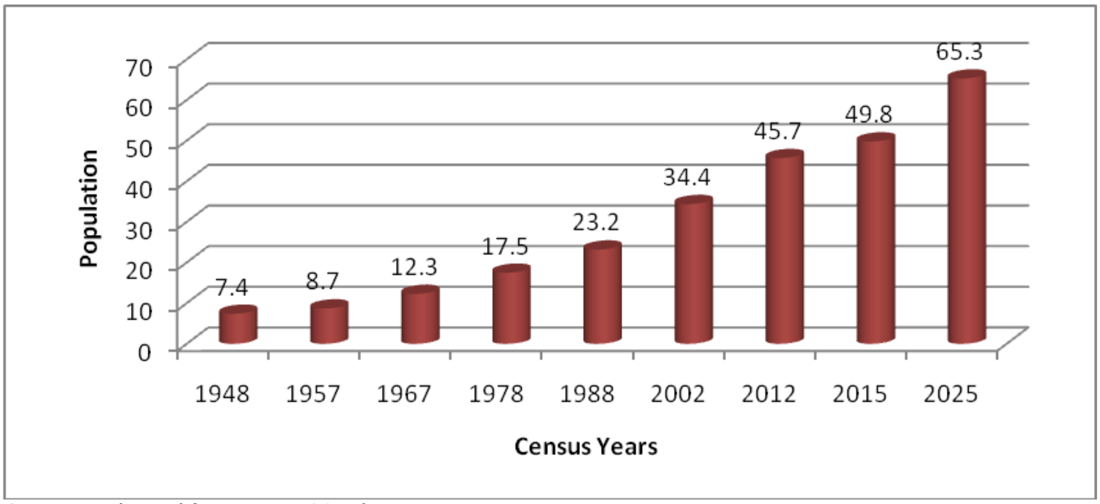
[2] Nationwide about 66 percent of girls will be married before their 20th birthday and 7 percent of young men will have sex before the age of 15.

born each year, with the corresponding large number of potential child bearers, there is an inbuilt momentum for accelerated population growth that has to be checked as a matter of urgency.

Raising the minimum level of education for girls and increasing economic opportunities are among the long-lasting solutions to slowing down population growth in Tanzania, alongside family-planning education and other birth-control measures. Longer schooling delays the entry into family and reproductive life, but also raises self-awareness and confidence to make decisions on reproduction. Households that are engaged in farming, keeping livestock, fishing, and forestry are the poorest. The change in rural per capita income is small due to the fact that annual rural growth, as a proxy of growth of the agricultural sector, was about 4.5 percent while the national population growth rate is 2.9 percent. This situation perpetuates even further the poverty problem in the rural areas.

Population growth will have implications on many facets of planning and economic management as well as food security. Chief among these is obviously a worsening of the poverty situation and subsequent further disruption of the Tanzanian's well-being. Regional variations exist and tend to mirror variations in growth rate with the highest rates in Kigoma (7.4), Bukoba (7.3) and Shinyanga regions (7.3) and the lowest in Kilimanjaro (3.9) and Dar es Salaam (2.5).

Figure 5: Population size 1948 to 2002 and projections to 2025



Source: Adapted from URT, 2011b.

Women in rural Tanzania are shouldering unbearable burden as they take-up more and more of the men's responsibilities (Mashindano, *et al*., 2010). This is particularly due to the rise in male migration, divorce and family abandonment and the increased number of women in full-time care or who are widowed due to chronic illness and deaths related to the HIV/AIDs pandemic, and the rise in effective male absence through alcohol abuse. Abuse during marriage and separation are also on the increase, particularly in rural areas where rights and obligations are difficult to articulate and especially by women. Box 2 shows evidence of the difficulties women are facing collected from ESRF-CPRC survey.

Box 2: Difficulties faced by women

Kuruthum Mbonde (54) is a widow living with three children and two grandchildren. Her husband left her 2.5ha. farm, from which she only manages to produce for subsistence. At her old age, she is finding it difficult to supporting herself and her dependants. When her parents died, they left a 12ha farm with 300 cashew nut trees, but a family dispute over the distribution of that inheritance among her siblings makes it difficult for her to access her share. She said “Women in this village do not have right to inherit land over men. If one has then it’s a privilege from the family”. She relies on seasonal agricultural labor to pay for her rent and to fill the basic needs of her dependants. She said “I am getting old and am frequently sick. I lack the energy to work on the farm but I see cashew nuts on father’s farm. If I harvest for selling before the dispute is resolved, I am afraid something bad will happen to me”.

Kuruthum, Nkangala, Mtwara

Tedious agricultural work and managing the different generations in a household are example of the responsibilities assumed by women, makes it impossible to improve the living standards of their families.

4.3 Strategic resource budget allocation and the need for equitable distribution

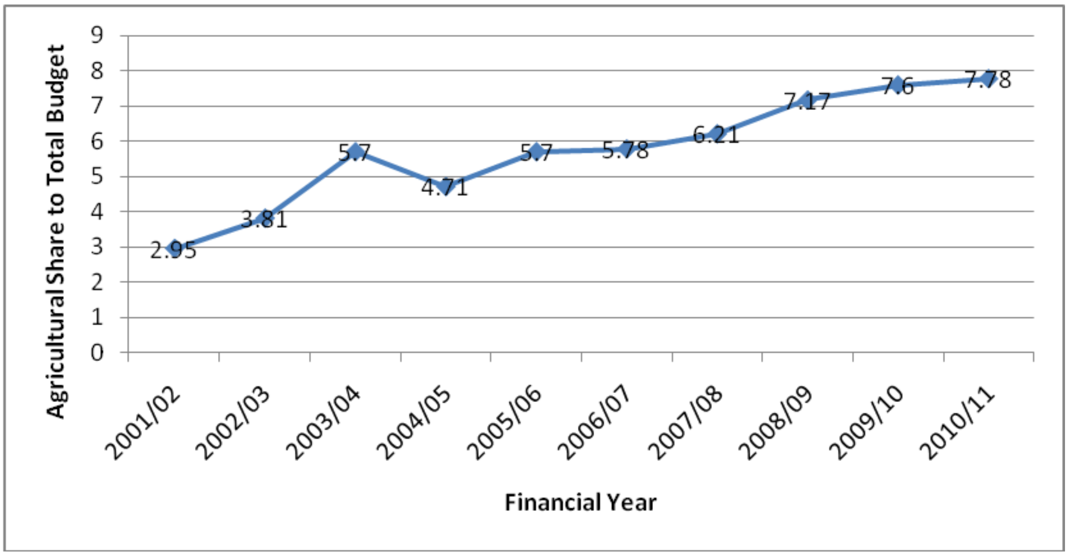
The Government’s Budget is the main mechanism for allocating resources to implement national development strategies such as MKUKUTA and the five-year development plan. Boosting investment is without doubt the most fundamental pre-requisite for creating employment opportunities and attaining most of the targets of MKUKUTA and, by extension, the MDGs. Given Tanzania’s meagre resources, appropriate choices and resource allocation inevitably require interventions to be prioritised in a systematic way, e.g. by cost–benefit or social-economic analysis, and in consideration of its effectiveness in terms of eliminating poverty and improving the quality of life of the people. In other words, priority interventions must be those that:

- are consistent to the overriding objectives;
- are the most efficient and cost effective;
- are quick wins and have a broad impact;
- have catalytic attributes; and
- abide by the principles of the Opportunities and Obstacles for Development.

The rational approach for Tanzania is, therefore, to ensure careful and appropriate economic choices and decisions and the efficient allocation and utilization of available resources, based on the existing rules and regulations as well as the conditions spelt out earlier.

Tanzania has not yet been able to ensure the strategic allocation of resources and there is still room for improved efficiency and effectiveness in resource allocation. This is one of the explanations for the growth-poverty mismatch. Education and agriculture are good examples. It should be noted that, scaling up investment in education is inevitable given the proportion of the population that is of school age (See Figure 4). However, that approach is probably not the most optimal one. Quality of education offered by the mushrooming primary and secondary schools and the crash courses offered to potential teaching staff are likely to increase income disparity and inequality and intensify poverty in the country. Note that the current education system only allows rich Tanzanians to better educate their children, who eventually tend to dominate the decent jobs in the labour market, thus crowding out the poor.

Figure 6: Financing agriculture in Tanzania: 2001-02 to 2010-11



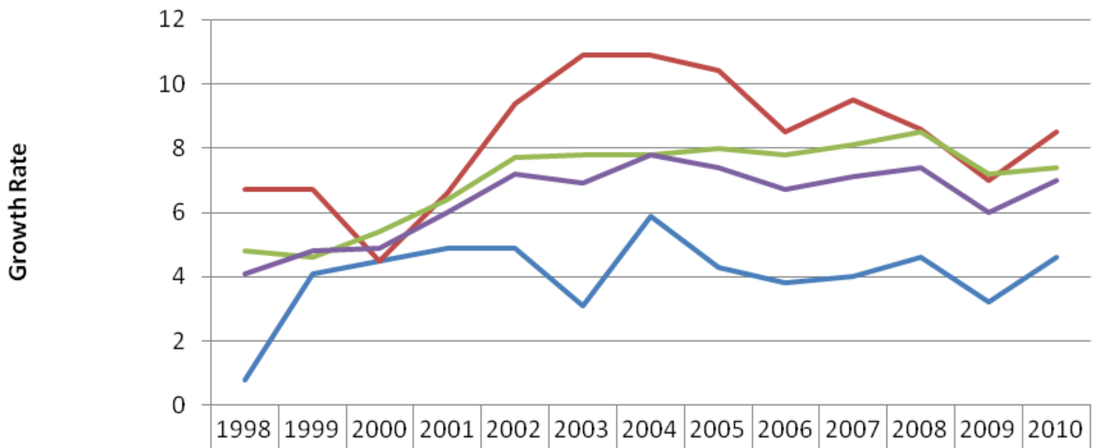
Source: Adapted from URT, 2010.

It has been clearly demonstrated that, among others, under-investment in domestic agriculture lies at the root of Africa's growing dependence on imported food. In 2003, African Heads of State adopted the Maputo declaration that committed to substantially raising public investment in agriculture to at least 10 percent of government spending, in order to achieve 6 percent annual growth in agriculture (URT, 2010). Notwithstanding, the trends in agricultural finance in Tanzania from 2001-02 to 2010-2011 show that, in nominal terms, total resource allocation to agriculture has persistently been below 10 percent despite showing an upward trend (See Figure 6). The fact is that most poverty sits in the agricultural sector where the majority of Tanzanians live.

4.4 Growth in the agricultural sector

From 2000 to 2008, the annual growth of the agricultural sector averaged around 4.6 percent (See Figure 7). In the same period, the GDP grew at an average rate of 7 percent. As can be seen in Figure 7, GDP growth has, to a large extent, been significantly determined by the growth rate of the industry and service sectors, which have averaged 8.6 percent and 7.5 percent, respectively. But employment generated from these sectors represents less than 0.3 percent of the population. From this pattern of economic growth, it is obvious that one of the main reasons why economic growth in Tanzania over the past decade has not been associated with poverty reduction, especially in rural areas, is that the agricultural sector, which supports more than 74 percent of the population, has been growing relatively slowly compared to other major sectors, namely industry and services. In other words, economic growth in Tanzania is not associated with poverty reduction because it takes place outside of the agriculture sector. Pro-poor growth needs to target the poor and, therefore, respective interventions and investment must target agriculture, as well as other sectors. For example, in order for farmers to achieve maximum productivity they need a functional education because education is a factor in productivity. Education will make farmers innovative and able to easily adapt to new methods of farming or even improve them to be suitable for the Tanzanian environment. It should be noted that only 20 percent of the adult population[3] in Tanzania receives education at secondary level of higher (Msambichaka, 2011).

Figure 7: Annual agricultural growth rates



	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Agriculture	0.8	4.1	4.5	4.9	4.9	3.1	5.9	4.3	3.8	4	4.6	3.2	4.6
Industry	6.7	6.7	4.5	6.6	9.4	10.9	10.9	10.4	8.5	9.5	8.6	7	8.5
Service	4.8	4.6	5.4	6.4	7.7	7.8	7.8	8	7.8	8.1	8.5	7.2	7.4
GDP	4.1	4.8	4.9	6	7.2	6.9	7.8	7.4	6.7	7.1	7.4	6	7

Year

Source: Adapted from URT,2011a and URT, 2011b.[4]

[3] For secondary education the figure is 17 percent, post-secondary education 2 percent and university education 1 percent.

[4] Data for 2010 for industry and services are annual averages.

The level of education is therefore too low for a thriving economy and society. The population that is involved in agriculture must be educated for the sector to grow. This does not necessarily imply direct investment in agriculture. Investment may be directed towards the transformation and modernization of other sectors, such as manufacturing. The part of the population that works in agriculture will gradually migrate to manufacturing to take up decent jobs provided that they have the necessary education and skills.

According to the TDV 2025 review report (URT, 2011a), agriculture remains the single highest ranking employer in the country, despite becoming a smaller share of GDP in recent years.[5] For any growth to be inclusive and pro-poor, it must involve a substantial growth in agricultural productivity and allow most of the rural population to benefit by selling their wares to the domestic and export markets. Growth in other sectors provides an opportunity for the surplus labour force to be employed in alternative economic activities without undermining agricultural productivity.

Table 3 presents monthly income by sector and clearly shows that average income in agriculture is the lowest compared to other sectors such as fishing, manufacturing, construction and real estate. Farming households are, therefore, the segment of the Tanzanian population that is most affected by poverty.

Table 3: Median monthly income by sector in 2006

Sector	**Median monthly income (TZS)**
Agriculture and hunting	20,000
Fishing	40,000
Mining and quarrying	60,000
Manufacture	35,000
Electricity, gas and water	190,000
Construction	85,000
Wholesale and retail trade	44,000
Hotel and restaurants	40,000
Transport, storage and communications	56,000
Financial intermediation	160,000
Real estates, renting and business	120,000
Public administration	55,000
Education	40,000

[5] See also URT 2011b

Health and social services	50,000
Other community, social and personal Activities	60,000
Private households with employed persons	24,000

Source: NBS (2007): The Integrated Labour Force Survey, 2006.

Poverty incidence, as demonstrated in Table 4, also affirms such low incomes. A significant share of the population, 38.7 percent, whose primary source of cash income is agriculture are poor. This is higher than the overall poverty incidence in Tanzania, which is 33.6 percent. As noted earlier, compared to other economic activities, the largest share of the poor population in the country (74.2 percent) is engaged in agriculture. Yet, the poverty trend shows a very small decline in poverty incidence within this sector between 2001 and 2007.

Table 4: Distribution of poverty by main source of income

Activity of head of household	2000-01		2007	
	Headcount ratio	Percent of poor	Headcount ratio	Percent of poor
Farming/livestock/fishing/forest	39.9	80.8	38.7	74.2
Government employee	15.3	1.8	10.8	1.6
Parastatal employee/other	8.1	0.3	10.9	0.7
Employee – other	20.2	3.0	20.6	3.3
Self employed/ family helper	28.5	7.9	21.4	10.6
Student	-	-	17.9	0.0
Not active/ home maker	43.1	6.2	46.2	9.6
Total	35.7	100.0	33.4	100.0

Source: NBS, 2009. URT, 2007.

Evidence from the survey and literature shows that farmers are not linked to the required productive resources, assets and services, and therefore lack access to them (da Corta *et al.*, 2010, Mashindano *et al.*, 2010). These resources include land, agricultural finance, livestock and productive equipment. People leave this activity looking for more rewarding economic activities and, consequently, the share of the population engaged in agriculture is declining as people find it less attractive (See Table 3). There is a significant possibility that some remain in the sector because of having no other potential alternative sources of income.

According to Fan *et al.* (2005, cited in Pauw *et al.*, 2010), investment in research and extension yields large and positive impacts on agricultural growth and household incomes. Econometric estimates suggest that, at 1999 prices, every TZS 1m invested in agricultural research grows household incomes to TZS 12.5m and lifts 40 people above the poverty line.

Table 5: Elasticity of total poverty with respect to average income growth by occupation

Occupation	Estimate	STD
Farming/fishing	-2.13	0.103
Government employee	-0.90	0.391
Parastatal employee	-1.50	0.441
Employee other	-1.73	0.271
Self-employed with employees	-1.16	0.373
Self-employed without employees	-1.37	0.162
Urban	-1.292	0.046
Rural	-2.373	0.085

Source: Adapted from HBS, 2007.

These findings correspond to the current results where the elasticity of total poverty with respect to income growth is very high in rural areas. If income increases by 1 percent, poverty for people living in rural areas will decrease by about 2.4 percent. Likewise, the elasticity of total poverty with respect to income growth is very high for the farming activity. If income increases by 1 percent, poverty for people who are engaged in farming will decrease by about 2 percent. The elasticity is low for government (civil service) employees. Investment in the rural projects and farming do not only stimulate income growth, but also significantly reduce poverty compared to urban areas and other activities. Agricultural investment should therefore be a priority if economic growth in Tanzania has to match poverty reduction. Evidence from the field (see box 3) also shows that diversification and mixing off-farm and farm activities contributes substantially to rural poverty reduction.

Box 3: Rural poverty reduction

In the past ten years, Zacharia's well-being improved, as was commented during women and men focus group discussions. Besides crop farming, he also bought maize at USD 4.5 from his village and sold it at USD 9.1 or 11.4 to a neighbouring one. He diversified the business into cattle. He bought cattle at USD 189 and sold it at USD 227. He said running costs were low which meant he made good profit. The income generated has been spent on building a good house and meeting other family expenses

Dominick was raised by his father who was employed by missionaries. Part of his father's wage used for crop production diversification and livestock purchasing. After graduating primary school his father gave him 2ha to become independent. He grew beans and millet and used to sell 100kg millet bag for USD 3.3 and beans for USD 7.6 at a local market. He diversified into poultry production and opened a small grocery store to sell household consumables. His cattle herd grew and monitoring it become difficult. After discussion with his wife he married a second on. This was primarily to reduce the workload of managing different business, including his fast-growing herd.

5 Conclusion and recommendations

The mismatch between economic growth and poverty reduction in Tanzania is real. It has been so throughout the three HBS of 1991-92, 2000-01 and 2007. This inconsistency obviously requires an explanation, which this paper has attempted to make. The ongoing debate and literature associates this mismatch with a number of factors including methodological challenges facing national accounting in Tanzania, demographic factors, resource allocation, the distribution of wealth and stagnation in the agricultural sector.

The National Accounts are mainly affected by the limited resources and lack of skills or expertise required for data collection, processing and management. To address these gaps and weaknesses, the budget for National Accounts must be scaled up and the skills and expertise of the NBS must be improved as these are major barriers affecting the work of the NBS.

An inbuilt momentum for accelerated population growth in Tanzania has to be checked as a matter of urgency. In addition, the government needs to raise the minimum level of education of girls and increase economic opportunities for women. These are among the lasting solutions to slowing down population growth in Tanzania, besides family planning education and other birth control measures. Longer schooling delays entry into family and reproductive life, and also raises self-awareness and confidence to make decisions about reproduction. To ensure strategic resource allocation, Tanzania needs to improve its governance by adhering to national priorities and strengthening its auditing and financial accountability.

More than 74 percent of Tanzanians are connected to agriculture. This is the most deprived population in Tanzania in terms of average household incomes and overall poverty levels. Thus, for any poverty reduction initiative to be effective it must focus on agriculture. The sector has a higher income multiplication effect and higher income elasticity of total poverty. Agriculture therefore has to be the priority for investment and it must grow by more than 6 percent per annum if it is to contribute significantly to growth and poverty reduction in Tanzania.

More specifically, investment in productivity enhancing factors is needed in the agricultural sector. These factors include irrigation, automation, research, development and extension, use of improved agricultural inputs, natural resources, environment and climate change. Investment in roads and infrastructure in rural areas and in agro-processing and packaging will be needed to expand the market especially for priority crops. Promotion of Public Private Partnerships (PPP) and investment in capacity building at all levels are also pre-requisites for agricultural growth.

To stimulate growth in the sector and reduce poverty in rural areas, public expenditure in agriculture should be increased. As a priority, financial services should be made to work effectively and made accessible to the poor and very poor, i.e. by effectively linking them to existing micro-credit schemes. Measures must also be taken to ease access to land, livestock and production equipment. Policies which make land easier to own or rent would be especially helpful. Policies focused on helping poor people acquire or rent farm assets, such as irrigation and oxen, and non-farm business assets, should complement measures focused on land. The poor operate in labour, service and commodity markets which are over-supplied, e.g. petty trade, casual labour, brewing, and subsistence foods. As a result, returns are low. Getting people from poor households into markets with higher returns by improving their skills and tightening over-supplied markets are two ways of enabling people to escape poverty

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