CHAPTER 1: STATUS OF POVERTY

Introduction

This chapter presents data for indicators of the current status of income and non-income poverty, based on operational targets specified in the MKUKUTA, as well as the PRS targets, together with data for past years wherever possible, so that trends may be assessed.

Reporting of poverty indicators in previous Poverty and Human Development Reports has followed a common classification: indicators of income poverty and those of non-income poverty. MKUKUTA is based on three clusters: growth and reduction of income poverty, the quality of life, and social well-being, governance and accountability. This status chapter follows the common classification. The first section is concerned with income poverty, the second with indicators of non-income poverty which are associated with MKUKUTA's cluster 2.

For this year's PHDR, issues of governance are incorporated in the two main sections of the status chapter and in the analytical chapter 3. The revised poverty monitoring system will include specific indicators of governance which will be agreed in the process of revision, and these indicators will be reported in the next PHDR.

Income Poverty[2]

The outcome which MKUKUTA's first cluster aims to achieve is sustained, broad-based and equitable growth. It proposes to achieve this through:

- strategies of sound economic management
- accelerating GDP growth
- improving food availability and accessibility
- reducing income poverty among rural as well as urban households

The emphasis, therefore, is not only on the aggregate growth of the economy as a whole, but on ensuring that this growth is sustained and equitably shared. Inequality matters not only from a social perspective, but also because if unchecked it can jeopardise efforts to ensure that growth reduces poverty.

Table 1 summarises the current data on income poverty indicators. For some indicators - GDP, agriculture and inflation – data are made available on an annual basis. Baselines for employment indicators are from the Integrated Labour Force Survey of 2001. The estimates cited here are from national definitions of unemployment which include those who have been discouraged from looking for work. New estimates will be available from the survey to be undertaken early in 2006. A more extensive list of indicators is expected, as a result of the revision to the monitoring system, fully to incorporate the targets of MKUKUTA.

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[2]The normal practice has been followed in estimating poverty which is to use reports of household consumption and match them with established poverty lines. Expenditure patterns tend to be more stable than income and are commonly used as the best indicators of income poverty. The term "income poverty" has been used throughout since it is in more common usage than the more technically correct "consumption poverty."

Table 1. Income poverty indicators, baseline and targets

Indicator	Baseline		Trend				Targets	
	Estimate	Year	2001	2002	2003	2004	PRS 2003	MKUKUTA 2010
% of the population below the basic needs poverty line	36	2000-01					30	19
% of the population below the food poverty line	19	2000-01					15	10
GDP growth rate (%)	4.9	2000	5.7	6.2	5.7	6.7	6	6-8
Agricultural growth rate (%)	3.4	2000	5.5	5.0	4.0	6.0	5	10
Inflation rate (%)	5.9	2000	5.2	4.5	3.5	4.1	4	4
% of working age population not currently employed	13	2000-01						7

Sources: National Bureau of Statistics (2002); Economic Surveys, various

The Household Budget Survey is the main source of estimates of the incidence of income poverty. The results of the last survey, conducted in 2000/01, have been extensively reported by the National Bureau of Statistics and by earlier Poverty and Human Development Reports. In summary, the change in the percentage of households living below the poverty line was small between 1991/92 and 2000/01, with a greater decline in poverty among households in Dar es Salaam than among rural households or those in other urban areas.

At the same time the overall economic growth rate has been accelerating, with especially encouraging growth in agricultural GDP in 2004. After taking account of the population growth rate, per capita economic growth rates are more modest, and not yet sufficient to generate significant poverty reduction.

Current status of Poverty

Both the Poverty and Human Development Reports in 2002 and 2003 assessed the trend of poverty in the 1990s based on the Household Budget Surveys (HBS) of 1991/92 and 2000/01 (RAWG 2002, 2003). These surveys indicate that about 36 per cent of Tanzanians were living below the poverty line in 2000/01; only 3 percentage points less than the 39 per cent estimated in 1991/92. The incidence of poverty in rural areas decreased from 41 to 39 per cent; in Dar es Salaam the decrease was from 28 to 18 percent. Other urban areas, except Dar es Salaam, recorded a small decrease in poverty in the 1990s from 29 to 26 per cent of households. Based on this trend it is only in Dar es Salaam that the target to halve the incidence of poverty by the year 2010 is likely to be reached.

Though poverty declined markedly in Dar es Salaam, the drop in poverty was not sufficient to significantly reduce national poverty rates. This is mainly because Dar es Salaam constitutes a small proportion of the national population (7.4 per cent in 2002). It is obvious in this case that declines in poverty in Dar es Salaam have only a minor effect on national poverty rates. While the decline in poverty in rural households in the 1990s was very small, it accounted for more than half the drop in the national poverty rate. Urban areas accounted for 27 per cent of the reduction in poverty during 1992-2001 (World Bank, 2005). Consequently acceleration in national poverty reduction could more quickly be achieved through an accelerated decline in rural poverty.

Explaining the current level of Poverty

Several factors account for the current level of poverty. We know that growth and inequality are both important in determining poverty reduction. Unlike data on GDP growth, data on income inequality are not available on an annual basis. This section tries to relate current growth and inequality with poverty but with the data limitations in mind. It is based on recent work of the World Bank in Tanzania towards the Country Economic Memorandum, and analysis of Professor M. Wuyts (2005).

Growth

Tanzania experienced weak economic growth in the early 1990s when the growth rate was lower than that of the population. Since the mid 1990s, however, the country experienced higher growth rate, increasing from the average of 4.0 per cent between 1995-1999 to 5.8 per cent between 2000-2004. In 2004 the growth rate was 6.7 per cent, which exceeded the targeted level of an annual increase of 6 per cent. The major challenge the country is facing is how to sustain this growth rate at the same time as ensuring that the benefits of growth are broadly shared.

Table 2. Average annual GDP growth rate, 1990 to 2004

1990-1994	1995-1999	2000-2004
2.5	4.0	5.8

Source: URT 2004, Economic Survey

Much of this growth has been attributed to the macroeconomic reforms which the country adopted in the 1990s, though growth in agriculture still depends critically on weather conditions. Some of the policy reforms include trade and exchange liberalisation, parastatal sector reform, investment promotion, tax reforms, financial sector reforms and civil service reforms. The reforms encouraged private sector participation in the economy. Foreign direct investment has increased tremendously since the end of the 1990s.

With the data which are available, analyses have examined the extent to which recent growth has contributed to poverty reduction, and have assessed possible relationships between growth and poverty reduction. Two elements have been analysed: the components of growth and the poverty elasticity of growth. The analysis of the composition of growth assesses the extent to which incomes from the sectors which are growing faster are affecting rates of poverty where poverty is concentrated. Analysis of the poverty elasticity of growth examines the extent to which poverty is reduced in response to the recent growth rate of the economy, which is in turn related to the composition of growth.

Composition of growth

National estimates of GDP are broken down into nine sectors.[3] The mining sector has recorded the highest rate of growth since 1990. Tourism, manufacturing and construction had relatively lower growth rates in the 1990s but have shown large increases in recent years.

[3]The sectors are agriculture; mining and quarrying; manufacturing; electricity and water; construction; tourism; transport and communication; finance, insurance, real estate & business services; and public administration and other services.

Other sectors of the economy have lower growth rates, averaging less than 5 per cent for the whole period 1990 to 2004.[4]

Agriculture remains by far the sector with the largest share of GDP. Its share averages approximately 50 per cent since 1990. While the mining sector has the highest growth rate, its share of GDP remains one of the lowest because it is growing from a very low base. Tourism and finance, insurance, real estate and business services also have relatively high shares of GDP; other sectors' shares are less than 10 per cent each.

In the analysis of the relationship between growth and poverty reduction, the greatest interest, however, is in the assessment of components of growth between agriculture and non-agriculture. According to the Household Budget Survey, 80 per cent of the poor are rural (NBS, 2002) and 81 per cent of the poor live in households where the main economic activity of the head of household is agriculture. Furthermore, 70 per cent of the employed work in agriculture (ILFS, 2002). Agriculture therefore deserves prominence in the discussion of growth and poverty. Table 3 shows estimates of growth rates in agriculture and other sectors (aggregated into industry and services) from 1990 to 2004.[5]

Table 3. Average annual growth, 1990-2004

Economic activity	Avg. Ann. Growth Rate			Avg. Contr. To Growth		
	1990-94	1995-99	2000-04	1990-94	1995-99	2000-04
Agriculture	3.1%	3.6%	4.8%	1.5%	1.8%	2.3%
Industry	2.0%	5.4%	8.7%	0.3%	0.9%	1.5%
Services	1.9%	3.8%	5.9%	0.7%	1.3%	2.0%
Total GDP (factor cost)	2.5%	4.0%	5.8%	2.5%	4.0%	5.8%

Source: URT 2004, Economic Survey

The growth rate in agriculture since 1995 has been lower than that of the non-agricultural sectors. With an estimated population growth rate of 2.8 per cent, the average per capita growth in agriculture has been only of 0.3 per cent and 0.8 per cent in 1990-94 and 1995-99 respectively. Moreover, while agriculture makes the largest contribution to total growth, its share is falling - from 1.5 per cent out of a total of 2.5 per cent - to 2.3 per cent out of the total 5.8 per cent. Non-agricultural sectors made much smaller contributions to overall growth rates in the early 1990s but their contributions to total growth of GDP are increasing fast. The low rate of agricultural growth is perhaps the main reason why reduction in rural poverty is slow despite the recent high growth rate of the economy as a whole. Significant poverty reduction depends on higher growth in the rural economy, and particularly in the agricultural sector.

Poverty elasticity of growth

The poverty elasticity of growth is a measure of the effect of growth on poverty reduction. The World Bank has recently undertaken an analysis of poverty elasticity of growth under different growth scenarios disaggregated between rural and urban. Table 4 summarises the results of this analysis.

[4]See appendices for details of growth and share of each sector between 1990 and 2004.
[5]See Appendix Table 1 for the detailed disaggregated data.

The estimated poverty elasticities are lower for rural than for urban areas. The same rates of growth cause a smaller reduction in rural poverty rates because poverty is deeper among rural households than among urban households.

Table 4. Poverty elasticities assuming different consumption growth rates

	1% growth	5% growth	10% growth
Rural	-1.3	-1.6	-1.8
Urban	-2.6	-2.0	-2.0

Source: Calculated from HBS 2001

Inequality

While growth increases the size of the cake, inequality leads to its disproportionate distribution. Regardless of the rate of growth achieved overall, a high level of inequality may lead to very little, if any, impact on poverty reduction.

Analysis of the household budget surveys indicates that there has not been a significant increase in inequality in the 1990s. The most commonly used indicator of inequality, the Gini coefficient, increased from 0.34 in 1991/92 to 0.35 in 2000/01.[6] Inequality appears to have increased to a greater extent in urban areas, especially in Dar es Salaam, where the Gini coefficient increased from 0.30 in 1991/92 to 0.36 in 2000/01. Other urban areas, apart from Dar es Salaam, experienced a small increase in the Gini coefficient in the 1990s from 0.35 to 0.36 between the two household budget surveys. On the other hand, the Gini coefficient in rural areas remained unchanged at the level of 0.33.

Compared to other East African countries, Tanzania has a relatively lower level of inequality, with lower values of Gini coefficient, as shown in Table 5 below.

Table 5. Gini coefficients of three East African countries in the 1990s

Country	Gini coefficient	Share of total income	
		Bottom 10%	Top 10%
Kenya (1997)	0.45	1.8	34.9
Tanzania (1993)	0.38	2.8	30.1
Uganda (1999)	0.39	2.6	31.2

Source: World Bank 2001

The least poor 10 per cent of the population in both Kenya and Uganda controls a bigger share of national income than those in Tanzania. At the other end of the income distribution, the poorest 10 per cent of the population in Tanzania controls a bigger share of the national income than their counterparts in Kenya and Uganda.

While measures of income inequality show no significant increase in the 1990s, and Tanzania seems to be more equitable than other East African countries, inequality remains an issue that can have an adverse impact on efforts to reduce poverty.

[6] Gini coefficient measures inequality in the distribution of income. Its value ranges from zero to one, with zero representing perfect equality and one representing perfect inequality.

Decomposition of changes in poverty

Table 6 summarises the results of an analysis of changes in poverty which have taken place during the 1990s, from the date of the household budget survey in 1990/91 and that of 2000/01. The data in the table show the change in poverty rate nationally, in Dar es Salaam, other urban areas and in rural households, and then shows how much of this change is attributable to the effects of growth, how much to changes in inequality, and how much remains to be explained, the residual. [7]

The data in Table 6 show that generally, poverty reduction has been influenced to a greater extent by growth than by changes in inequality[8] or by any residual component. Moreover, growth had a greater impact on poverty reduction in areas where the rate of poverty was lower than in other areas, notably in Dar es Salaam.

Table 6. Decomposition of changes in poverty (%)

	Country level	Dar es Salaam	Other urban	Rural
Poverty 1991	38.6	28.1	28.7	40.8
Poverty 2001	35.4	17.6	26.0	38.7
Change 1991/2001	-3.2	-10.5	-2.7	-2.1
Growth impact	-8.4	-18.4	-6.6	-5.3
Inequality impact	5.5	12.4	4.0	2.7
Residual	-0.2	-4.5	-0.2	0.6

Source: World Bank 2005

The data also show that changes in inequality have adversely affected poverty reduction. The World Bank's analysis for the Country Economic Memorandum (2005) concluded that, whereas in the 1990s growth in Tanzania reduced poverty rates in all areas, changes in inequality mitigated the impact of this growth on poverty reduction. In Dar es Salaam, for example, the report indicates that all income groups benefited from growth, but the non-poor benefited more than proportionally. Had inequality not increased and the rate of growth remained the same, poverty in Dar es Salaam would have dropped an additional 10 percentage points.

Are MKUKUTA's poverty targets likely to be achieved?

Table 1 summarises the targets for various indicators of income poverty. In the case of GDP overall and its sectoral composition, growth rates are estimated on an annual basis. However, information to generate estimates of the incidence of poverty is generally available only on an infrequent basis. Even in countries with a well-established tradition of conducting national household surveys, it is not uncommon to find that surveys of household income and expenditure are 3 to 5 years apart. Projections of poverty rates, therefore, are commonly used in order to provide estimates when there are no direct estimates available from a survey. This section provides information about such projections beyond the 2000/01

[7] For further information on the decomposition of poverty into growth components, inequality components and residual, see Datt and Ravallion (1992)

[8] More discussion on inequality in relation to poverty reduction to follow

data and onwards in order to assess the likelihood that expected economic growth will be sufficient to attain the target of reducing the incidence of poverty by half by 2010.

Poverty projections

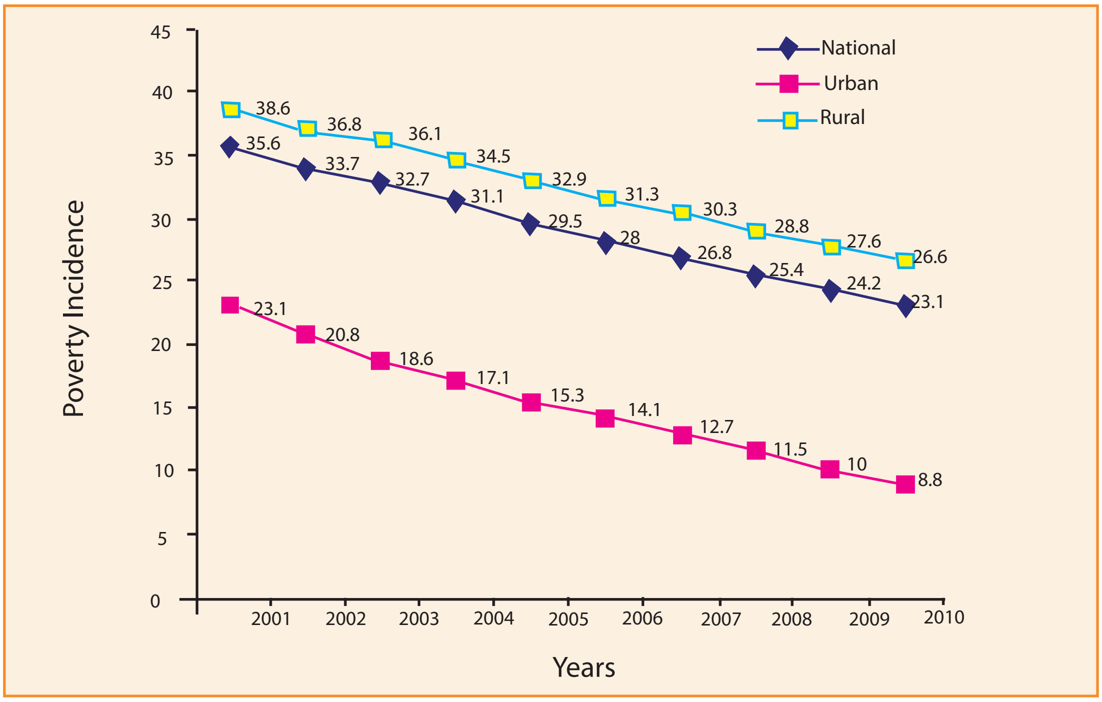
Growth and distribution need to be taken into account to project future rates of poverty. The following simplified assumptions have been made in order to generate the projections for the period of MKUKUTA:[9]

- the growth rate of per capita income (GDP) is used as a proxy for changes in consumption.
- to generate separate projections of rural and urban poverty rates, per capita growth in agricultural GDP and per capita growth in non-agricultural GDP are used as proxies for changes in rural and urban consumption respectively.

Many urban households engage in agricultural production, and many rural households' livelihoods depend on non-agricultural as well as agricultural enterprise. The direct association of rural households with agriculture and urban households with non-agriculture is a simplification, but one which is helpful for this exposition.

Figure 1 presents poverty projections to 2010. The projections have used actual per capita rural (agricultural) and urban (non-agricultural) growth rates for the period 2002 to 2004, available in the Government's Economic Survey. For the period from 2005 through 2010, the average growth rates for the period 2001 to 2004 have been used - per capita rural of 2.2 per cent and urban of 4.4 per cent. [10]

Figure 1. Projected poverty, 2001-2010



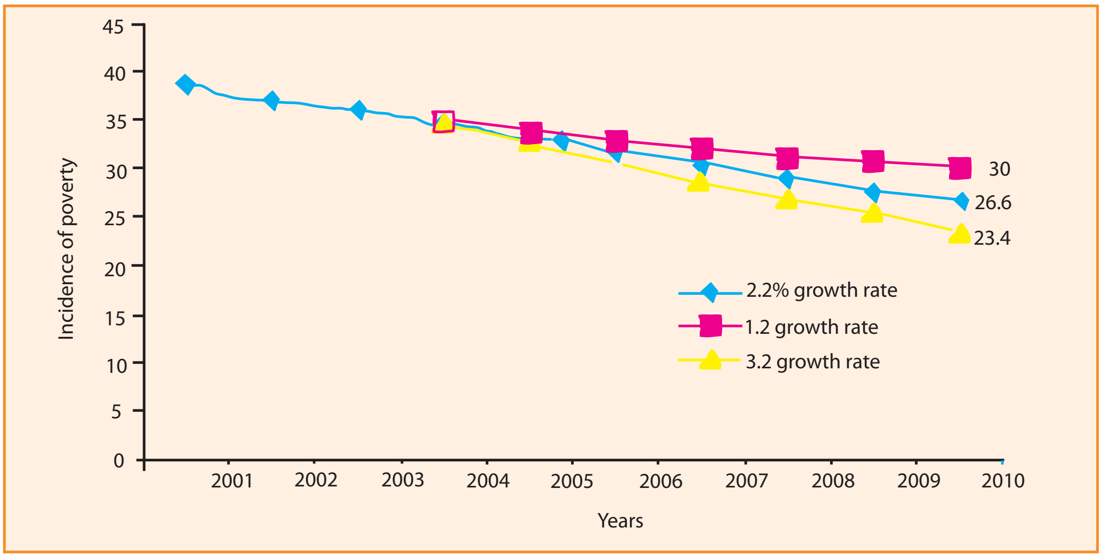
Source: Adapted from Demombynes and Hoogeveen, 2004

[9] Discussion of the uncertainties about this prediction will be discussed below
[10] In computing per capita growth rate an average population growth rate of 2.9 was used

If these growth rates are sustained over the period to 2010, MKUKUTA's aim of halving the incidence of poverty by the year 2010 will not be reached. The overall national poverty rate will be 23 per cent, as opposed to the target of 19 per cent. The disaggregated analysis, however, shows that a separate urban target will be reached. With a sustained urban growth rate of 4.4 per cent per annum, the rate of urban poverty is projected to be 8.8 per cent by 2010, compared with a target of 14 per cent. On the other hand, a continuing rural growth rate of 2.2 per cent per annum will result in a rural poverty rate of 26.6 per cent, compared with a target of 20 per cent.

These projections are based on a number of assumptions. Deviations from the rates of growth which have been projected will lead to different outcomes. For example, a small change in rural growth would lead to a substantial change in the rural poverty rate in 2010. Figure 1.2 shows projected rural poverty rates assuming average agricultural growth of 2.2 per cent, as well as 1.2 per cent and 3.2 per cent for the period 2005 to 2010.

Figure 2. Projected rural poverty with 1% more and less per capita agricultural growth



Source: Adapted from Demombynes and Hoogeveen, 2004

These projections show that with this smaller growth in agriculture, the rural poverty rate declines only to 30 per cent rather than 27 per cent. On the other hand, should agricultural growth be 3.3 per cent per annum, the projected rural poverty rate in 2010 would be 23 per cent, not too far off the target.

Other changes may take place. Migration from rural to urban areas is likely to affect the relative weight of agricultural to non-agricultural production. The likehood that increasing urban migration will lead to reduced overall poverty depends on whether migrants are able to take up higher income opportunities than those they left behind.

The projections are based on per capita growth in GDP in agricultural and non-agricultural sectors, since direct annual estimates of household income and expenditure are difficult and costly to generate. The use of per capita GDP growth as a proxy for changes in household poverty rates assumes that changes in growth mirror the changes in household expenditure. This may not necessarily be the case. If a substantial amount of growth is channelled into savings, for example, the direct relationship which has been assumed may no longer be valid.

Another factor which needs to be taken into account is the likely change in the terms of trade between Tanzania and the rest of the world, and between agriculture (rural) and non-agricultural (urban) sectors within Tanzania. Prices – and relative prices – are important. GDP growth rates are measured at constant prices and so they do not take into account price changes over time which may differ between urban and rural and between Tanzania and its trading partners.[11] For an open economy such as Tanzania's, international terms of trade determine the extent to which changing earnings from exports result in increased purchasing power, and the consequent reduction in rates of poverty, taking into account the changing costs of imports.

During the 1990s, the composition of Tanzania's exports has changed substantially. Traditional export crops are a much smaller proportion of exports while minerals and tourism constitute a much larger proportion. Export prices for Tanzania's traditional cash crops have fallen over this period too. World market prices have fallen, but it is also possible that prices for Tanzanian exporters may have fallen because of lower quality exports. Both have implications for crop producers, and it is possible that the relative price changes have adversely affected rural households in Tanzania. There may be rising production, as captured in the GDP data, but this may not necessarily be associated with lower rates of rural poverty.

A similar assessment is involved in examining relative changes in poverty between rural (agricultural) and urban (non-agricultural). If their relative purchasing power changes because the relative prices of agricultural produce fall compared to the prices of goods and services provided by urban residents, increased rural production measured by agricultural GDP will not result in reduced poverty.

Conclusions and Recommendations

Summary of progress

GDP growth rates overall, and in agriculture, have increased with especially positive growth in 2004. The extent to which this growth results in reductions in poverty, and especially in reduced rural poverty, is mitigated by changes in inequality and may also be affected by changes in the terms of trade, both internationally and rural-urban.

Policy and operational issues identified

Rural growth is critical in reducing poverty in Tanzania, and growth in smallholder agriculture is most critical. Measures are needed to increase smallholders' productivity, to assist in improving the quality of produce and to command higher prices for their produce by moving up the value chain.

Recommendations for indicators and monitoring systems

The survey programme of the National Bureau of Statistics includes a household budget survey and an integrated labour force survey in 2005/06. New information will therefore be available from these surveys which will assist in a more complete assessment of changes in households' economic situation and poverty rates.

[11] It is only in a closed economy where growth rate of GDP can necessarily lead to poverty reduction after correcting inequality (Wuyts, 2005).

More information about changes in prices and terms of trade might usefully be incorporated into the monitoring system whose revision is under consideration.

Non - Income Poverty

The main operational targets of MKUKUTA concern education and health, nutrition, HIV/AIDS, water and sanitation and social protection. Effective universal access to quality public services is also a goal of cluster 2 in MKUKUTA.