MKUKUTA CLUSTER I:
GROWTH AND REDUCTION OF INCOME POVERTY

Assessment of Broad Outcome

The broad outcome for MKUKUTA's first cluster is broad-based and equitable growth that is achieved and sustained. The overall assessment for this cluster indicates progress, but the rate of growth needs to be accelerated, with particular attention to strategies which will generate broad-based growth, especially related to agriculture. Public spending on an enabling environment for growth – such as investments in infrastructure, health and education – is necessary. However, the development of a specific strategy for growth would help focus investment – private as well as public – and assist with the prioritisation of public spending.

Assessment of Cluster-wide Indicators[2]

> **Cluster-wide indicators for MKUKUTA's first cluster are:**
>
> ■ Gross Domestic Product (GDP) growth per annum
> ■ GDP growth of sectors per annum
> ■ Gini co-efficient
> ■ Headcount ratio, basic needs poverty line

Estimates of household income (consumption) poverty – from which the headcount ratio and the Gini coefficient are derived – are calculated every five years in Tanzania from data gathered in the Household Budget Survey (HBS). The next HBS is being developed by the National Bureau of Statistics for 2007. In addition, an Integrated Labour Force Survey (IFLS) is in progress, and information from this survey on employment rates will become available in 2007. The NBS is also actively investigating ways to generate more frequent estimates of household income levels. Until such data is available, GDP indicators are used to assess progress for this cluster.

Table 1: Real GDP Growth in Tanzania 1996-2005

Year	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
% Growth	4.2	3.3	4.0	4.7	4.9	5.7	6.2	5.7	6.7	6.8

Source: URT Economic Surveys, various years

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2   Only MKUKUTA's first cluster has a set of cluster-wide indicators, in addition to indicators for individual cluster goals

The data show growth overall and in several key sectors, as shown in Table 1 and Figure 1. However, the growth rate in agriculture faltered slightly in 2005 as a result of adverse weather conditions. Growth in agriculture has fluctuated around 5 per cent in the past few years and is projected to be 3.8 per cent in 2006. This is lower than growth rates in other sectors – mining, manufacturing, and trade. It is well understood that the growth rate in agriculture must be increased if poverty rates are to be significantly reduced. Poverty disproportionately affects rural areas compared with urban locales, and farmers compared with those employed in other sectors. Consequently, if agricultural growth does not significantly improve, there is a risk that these gaps may widen.

Figure 1: GDP Growth in Tanzania 1996-2005 by Sector
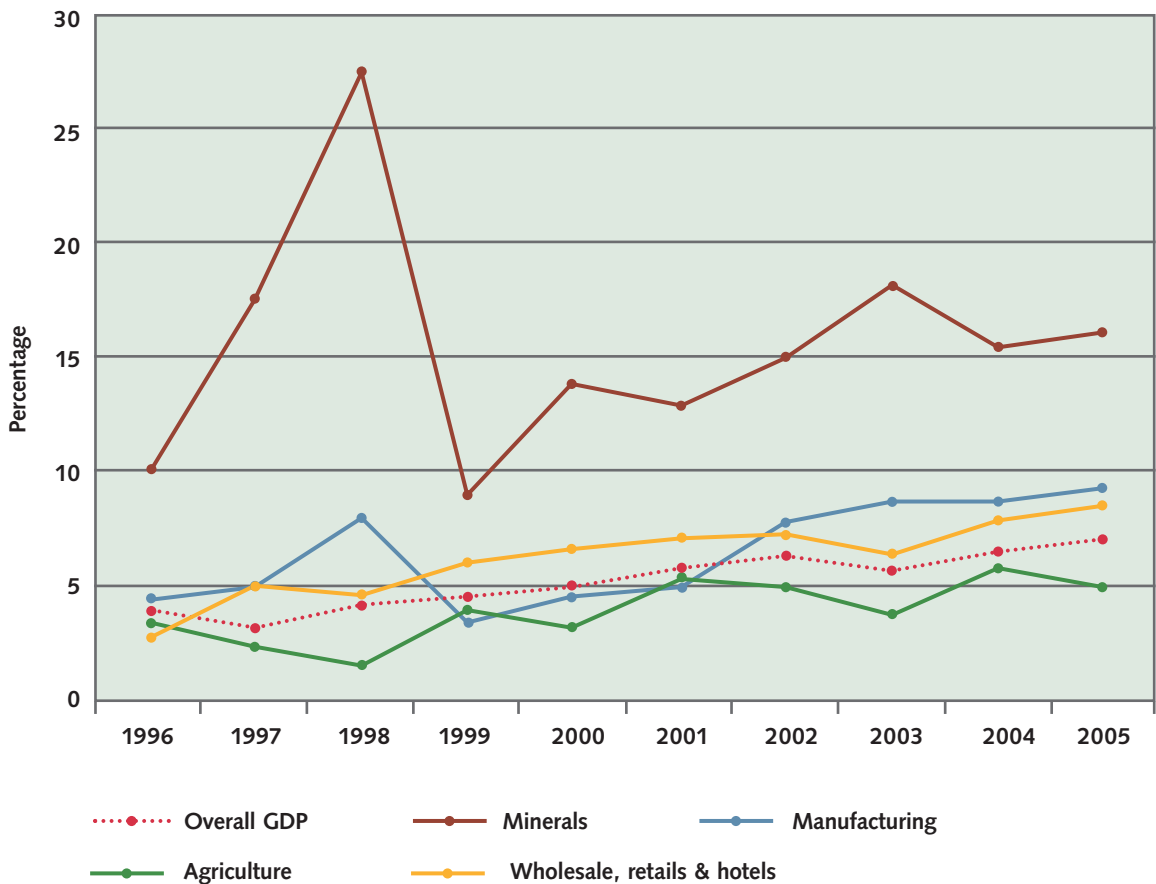
Source: URT Economic Surveys, various years

MKUKUTA indicates that a sustained growth rate of 6-8 per cent is needed to reduce poverty, and estimates of GDP growth are in this range. Projections show rates of growth at the upper end of this range for 2007-2009. See Table 2.

Table 2: Projected Real GDP Growth in Tanzania 2006-2009

Year	2006	2007	2008	2009
% Growth	5.9	7.3	7.7	7.9

Source: Ministry of Planning, Economy and Empowerment, Macroeconomic Policy Framework for the Plan/Budget 2006/07 – 2008/09

The lower projected growth rate in 2006 is the result of adverse weather conditions, which also reduced the supply of hydro-electricity, the mainstay of the national electricity grid. More protracted problems with energy supplies may have further implications for growth and reduction of poverty, especially for urban areas during 2006.

Even with an overall rate of growth close to 8 per cent, the target of the Tanzanian Development Vision 2025 (The President's Office, Planning Commission, 1999) that Tanzania will have a level of income of a middle-income country may not be achieved. The Vision 2025 target requires an annual growth rate of close to 10 per cent.

Assessment of Cluster Goals

The supporting Goals for Cluster I are:

1   Ensuring sound economic management
2   Promoting sustainable and broad-based growth
3   Improving food availability and accessibility at household level in urban and rural areas
4&5 Reducing income poverty of both men and women in urban and rural areas
6   Provision of reliable and affordable energy to consumers

GOAL 1: Ensuring sound economic management

This goal has been highlighted as the necessary foundation of a growth and poverty reduction strategy. Overall, the assessment for 2005 shows continued economic stability, despite higher government expenditures caused by the postponement of elections, adverse weather conditions, and increased oil prices.

GOAL 1

This goal has the following indicators:

● Annual rate of inflation
● Central government revenue as a percentage of GDP
● Fiscal deficit as a percentage of GDP (before and after grants)
● External debt service as a per cent of exports
● Exports as a percentage of GDP

MKUKUTA's target for inflation is 4 per cent. In 2005, the average annual rate was 4.3 per cent, compared to 4.2 per cent in 2004. During the last quarter of 2005 and into 2006, sustained drought and higher oil prices caused an increase in inflation. By March 2006, the annual rate was 6.5 per cent. By July 2006 it had dropped, and by June 2007 it is expected to be down to 4 per cent. As the availability of food is the most critical determinant of the level of prices, falls in the inflation rate depend on improved weather conditions and food availability.

Government domestic revenue collection has increased from 12.2 per cent of GDP in 2000/01 to 13.1 per cent in 2004/05. The budget estimate for 2005/06 is 14.2 per cent. In absolute terms, revenue collections have also been higher. However, domestic revenue needs to be increased further to provide sustainable local funding for national development. In the short-run, tax revenues may be affected by the challenges in the energy sector.

The fiscal deficit as a percentage of GDP after grants was estimated at 6.6 per cent in the budget for 2005/06 and is projected to be 5.0 per cent in 2006/07. The deficit was 4.5 per cent in 2004/05. Reducing the deficit will depend on raising tax revenues, the impact of the energy crisis and oil prices, and on the extent to which government expenditures are managed. Higher expenditures will be incurred as more teachers and health staff are recruited, in addition there are expectations of improved conditions of employment. Therefore, further prioritisation of government spending will be important.

External debt service as a per cent of exports has fallen from 17.3 in 2000 to 11.5 in 2005.

Exports as a percentage of GDP increased by 0.6 percentage points, from 23.1 per cent in 2004 to 23.7 per cent in 2005. This rise is the result of increased export earnings – both from traditional agricultural exports, the value of which rose by 19 per cent compared with 2004, and from non-traditional exports, such as gold exports that increased to US$ 655.5 million in 2005. The value of services exports also rose to US$ 1,206.6 in 2005 from US$ 1,149.9 in 2004, largely due to increased earnings from travel and transportation services associated with tourism and improvements in infrastructure. Imports increased over the same period, largely because of higher imports of capital goods and oil.

Sound economic management must examine not only exports, but also the balance of trade, since the negative balance on goods and services is offset to a large extent by foreign aid. This requires the management of aid inflows, the exchange rate and inflation, and the foreign reserve position.

GOAL 2: Promoting sustainable and broad-based growth

This depends on a strategic vision for growth and for the investments needed to generate growth. Investment in infrastructure has been given priority. Data for an indicator to assess growth in infrastructure – access by rural households to all-season passable roads – will be available in the next Household Budget Survey which will be conducted in 2007. Similarly, data on employment and unemployment are expected from the Integrated Labour Force Survey conducted in 2006.

GOAL 2

The following indicators for Goal 2 are analysed:
- Domestic credit to private sector as a percentage of GDP
- Percentage increase in foreign direct investment
- Interest rate spread on lending and deposits
- Percentage of trunk and regional roads in good and fair condition

MKUKUTA aims to increase domestic credit to the private sector by 1 per cent of GDP annually. In 2005, it was 10.3 per cent, an increase from 8.6 per cent in 2004.

Foreign direct investment increased by 7 per cent in 2005, a slower rate than in previous years, largely due to a slow-down in mining sector investments. To date, foreign direct investment has been heavily concentrated in the mining and tourism sectors and geographically. There has been limited foreign investment in agriculture, and this is likely to be required for improvements in this sector's productivity and marketing.

The interest rate spread from commercial banks in domestic currency increased marginally to 11 per cent by December 2005. This continued high spread reflects banks' perceptions of the high risks of lending due to inadequate legal channels to pursue defaulters. The high lending rates deter investments, especially by small scale enterprises. Much of the lending currently targets the formally employed, for example, teachers and police, or is used for agricultural marketing. Relatively little is directed to investment for production, and generally, this reaches only a select number of larger scale enterprises.

The percentage of trunk and regional roads in good and fair condition improved to 84 per cent in 2005 up from 78 per cent in 2004. These roads are under the jurisdiction of TANROADS. However, rural roads under the jurisdiction of local government authorities are generally in poor condition. It is recognised that improving railways could also play an important role in facilitating transportation.

A further indicator to measure sustainable growth concerns environmental impact. The proposed indicator relates to compliance with environmental standards, for which the National Environment Management Council will work with local government to provide data for monitoring purposes.

GOAL 3: Improving food availability and accessibility at household level in urban and rural areas

The following indicators for this goal are reported:

GOAL 3

- Food self sufficiency ratio
- Proportion of districts reported to have food shortages
- Percentage change in production by smallholder households of key staple crops (maize, rice, sorghum)

The food self-sufficiency ratio assesses the volume of domestic food production against the population's requirements for foodstuffs. Estimates of food crop production from the Ministry of Agriculture have been increasing over the past few years, and the estimates for 2005/06 suggest that, on aggregate, the volume of production was sufficient.

However, within the national estimate of food crop production, geographic variations are substantial. In August 2005, the proportion of districts reported to have food shortages was 29 per cent (34 districts). By January 2006, due to prolonged drought conditions, this percentage had risen to 65 per cent (77 districts).

It is important to note that these indicators do not take into account consumers' capacity to purchase food for their requirements. Household level data will be available in the HBS (2007) on the proportion of households who eat no more than one meal a day.

GOALS 4 and 5: Reducing income poverty of both men and women in rural and urban areas

The HBS (2007) will provide new data on income poverty rates, and more information on the characteristics of rural, predominantly agricultural, households will be available from the HBS and periodic agricultural surveys.

Recognising the critical need to address rural poverty and to improve agricultural productivity, the following indicators have been identified for these goals:

The following indicators for Goals 4 & 5 are analysed:

- Percentage of smallholders participating in contracting production and outgrower schemes
- Total smallholder land under irrigation as a per cent of total cultivatable land
- Percentage of smallholders who accessed formal credit for agricultural purposes
- Percentage of smallholder households who have one or more off-farm income generating activities
- Percentage of households whose main income is derived from the harvesting, processing and marketing of natural resource products

There is growing interest in the development of integrated systems of agricultural production, extension and marketing. Outgrower schemes provide one example of this trend. Crops such as tea, sisal, coffee, and pyrethrum are being developed under such schemes. The longest running scheme is in the sugar industry, where outgrowers now produce 55 per cent of total production, 1.3 million tonnes of sugar cane in 2004/05 (URT Economic Survey 2005).

The Agricultural Sample Census Survey 2002/03 (NBS, 2005) provides data for smallholder agriculture. The next survey is planned for 2008. In 2002/03, **only 3 per cent of total smallholder area was under irrigation**, and **only 3 per cent of smallholders accessed formal credit for agricultural purposes**. The majority (58 per cent) of smallholder households had one or more off-farm income generating activities. For the agricultural sector to develop and achieve real increases in farm productivity much greater investment in farming and farm processing will be required.

GOAL 6: Provision of reliable and affordable energy to consumers

This recognises the essential role energy plays in the economy, both for producers as well as domestic households. Electrification is generally low – 10 per cent in urban areas, 1 per cent in rural – and existing electricity capacity is inadequate. Measures are being taken to increase capacity, to develop alternative sources of generation, and to extend the national grid. For 2006, installed capacity is 852MW from hydro and thermal plants, and 13MW of power will be imported – 8MW from Uganda to supply Bukoba, the regional capital for Kagera and 5MW from Zambia to supply Sumbawanga, the regional capital for Rukwa.

The following indicators have been identified for annual reporting:

- Percentage increase in number of customers connected to the national electricity grid and off-grid
- Total electricity generating capacity and utilisation

An additional indicator to assess the reduction in reliance on wood fuel – percentage of households in rural and urban areas using alternative sources of energy to wood fuel (including charcoal) as their main source of energy for cooking – will be reported periodically. This indicator will complement, from a rural perspective, the environmental indicator for Goal 2 above.

MKUKUTA Cluster I: Indicators, available data and targets[3]

Indicator	Baseline		Trends						Targets
	Estimate	Year	2001	2002	2003	2004	2005	2006	MKUKUTA 2010
Cluster-wide indicators									
GDP Growth per annum %	4.9%	2000	5.7	6.2	5.7	6.7	6.8		6 - 8%
GDP growth of sectors per annum									
Agriculture	3.4%	2000	5.5	5.0	4.0	5.8	5.2		10%
Livestock	2.7%	2000	3.3	3.5	5.0	4.8	4.2		9%
Manufacturing	4.8%	2000	5.0	8.0	8.6	8.6	9.0		15%
Wholesale & retail trade	6.5%	2000	6.7	7.0	6.5	7.8	8.2		
Mining	13.9%	2000	13.5	15.0	18.0	15.4	15.7		
Increased export proportion of value added in mining	0.5%	2004							3%
Gini Coefficient	0.35	2001	0.35						To be determined
Headcount ratio – basic needs poverty line	36%	2001	36						Rural: 24% Urban: 12.9%
GOAL 1: Ensuring sound economic management									
Annual rate of inflation	5.2%	2001	5.2	1.0	3.5	4.2	4.3		4%
Central government revenue as % of GDP	12.2%	2000/1	2001/2 12.1	2002/3 12.8	2003/4 13.4	2004/5 13.1	2005/6 14.2		To be determined
Fiscal deficit as % of GDP (before and after grants)		2000/1	2001/2	2002/3	2003/4	2004/5	2005/6		
- before grants			- 5.6	- 8.2	- 11.2	- 11.8	- 13.5		
- after grants	- 1.2%		- 1.1	- 1.7	- 4.0	- 4.5	- 6.6		- 3%
External debt service as % of exports	17.3%	2000	12	13:1	8:3	11:1	11:5		
Exports as % of GDP	15%	2000	15	18.4	16.5	23.1	23.7		To be determined
GOAL 2: Promoting sustainable and broad based growth									
Proportion of working age population not currently employed %	12.9%	2001							6.9% (& address under-emply. in rural areas)

Indicator	Baseline		Trends						Targets
	Estimate	Year	2001	2002	2003	2004	2005	2006	MKUKUTA 2010
Domestic credit to private sector as % of GDP	4.6%	2000	4.9	6.1	7.7	8.6	10.3		Increase by 1% of GDP p/a
% increase in foreign direct investment	25.6%	2000	24.3	11.4	12.5	9.9	7.0		To be determined
Interest rate spread on lending and deposits percentage points	10.7	2003	9.0	10.2	10.7	11.4	12.0		To be determined
% of rural population who live within 2kms of all season passable road		2006/7							To be determined
% of trunk and regional road network in good & fair condition	51%	2000		51	72	78	84		To be determined
good	16%			14	35	43	53		
fair	35%			37	37	35	31		
Proportion of enterprises undertaking Environmental Impact Assessment complying with standards									To be determined

GOAL 3: Improved food availability and accessibility at household level in urban and rural areas

Indicator	Baseline		Trends						Targets
	Estimate	Year							MKUKUTA 2010
Food self sufficiency ratio (rate)	94	2001/2	2001/2 94	2002/3 102	2003/4 88	2004/5 103	2005/6 103		114
Proportion of districts reported to have food shortages (number)	15	2001/2	2001/2 15	2002/3 13	2003/4 62	2004/5 41	2005/6 41		To be determined
% change in production by smallholder households of key staple crop (maize, rice, sorghum in million tonnes)	9	2003/4							12 million tonnes
Proportion of households who eat no more than one meal per day	1.1	2000/1							To be determined

GOALS 4 & 5: Reducing income poverty of both men and women in rural and urban areas

Indicator	Baseline		Trends						Targets
	Estimate	Year	2001	2002	2003	2004	2005	2006	MKUKUTA 2010
% of smallholders participating in contracting production and outgrower schemes									To be determined
Total smallholder area under irrigation as % of total cultivatable land	2.7%	2002/3		2.7					
% of smallholders who accessed formal credit for agricultural purposes	3.1%	2002/3		3.1					To be determined
% of smallholders who have one or more income generating activities	58.0%	2002/3		58.0					To be determined

Indicator	Baseline		Trends						Targets
	Estimate	Year	2001	2002	2003	2004	2005	2006	MKUKUTA 2010
% of households whose main income is derived from the harvesting, processing and marketing of natural resource products		2006							To be determined
GOAL 6: Provision of reliable and affordable energy to consumers									
% increase in number of customers connected to national electricity grid and off-grid	Grid: 4% Off-grid: 8%	2000							
% of households in rural and urban areas using alternative sources of energy to wood fuel (including charcoal) as their main sources of energy	21%	2000/1							10%
Total electricity generating capacity and utilisation (% difference between capacity and utilisation)	37%	2000							

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3   Sources as noted in the Ministry of Planning, Economy and Empowerment, MKUKUTA Monitoring Secretariat, Indicators to Monitor National Strategy for Growth and Reduction of Poverty (MKUKUTA), draft 1 July 2006