THE UNITED
REPUBLIC OF TANZANIA

The Status of Growth and the Reduction of Income Poverty in Tanzania

Produced by the Research and Analysis Working Group of the MKUKUTA Monitoring System,
Ministry of Planning, Economy and Empowerment

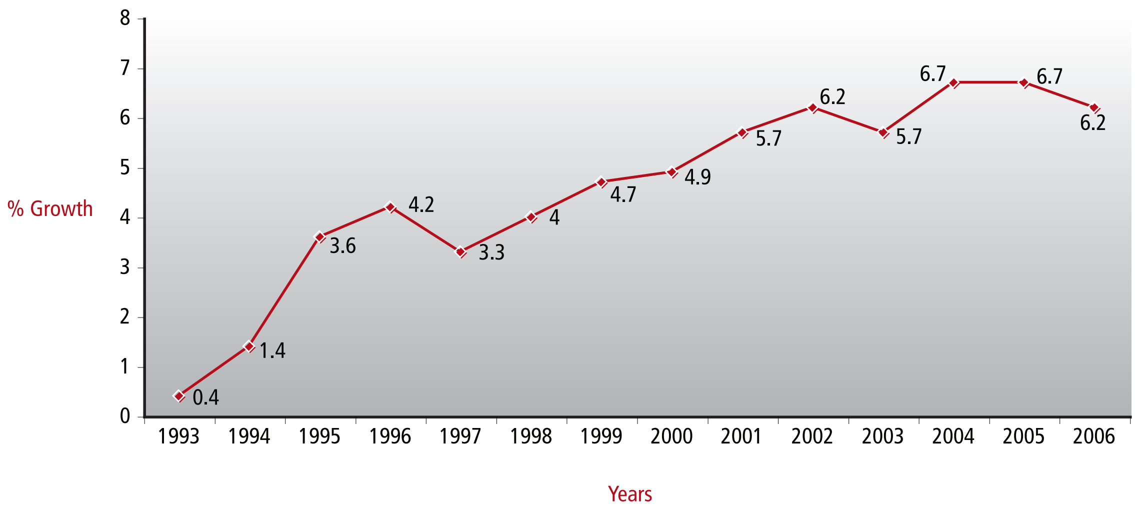
BRIEF 1: POVERTY AND HUMAN DEVELOPMENT REPORT (PHDR) 2007

MKUKUTA's Cluster I focuses on growth and the reduction of income poverty. What are the trends for GDP and sectorial growth? Will the targets set by MKUKUTA be achieved?

GDP Growth

MKUKUTA indicates that a sustained rate of growth of between 6 to 8% is needed to reduce poverty to the targeted level, and the rate of growth has been within this range for the last three years. However, although growth appears to have increased steadily since 1993, its slow overall trajectory is of concern. Growth increased sharply from 1993-96, continued less steeply from 1997-2002, and slowed further from 2004-06. This trend towards declining rates of growth is of serious concern.

Real GDP Growth 1993 – 2006 (1992 constant prices)



Source: United Republic of Tanzania (URT) Economic Surveys, various years

Sectoral Growth: Agriculture, Mining, Manufacturing and Tourism

Agriculture, which is central to poverty reduction in Tanzania, averaged only 4.7% growth from 2000-06 which is not sufficient to meet MKUKUTA's ambitious goals for reducing poverty. The sector is almost entirely driven by smallholder primary production characterised by the use of hand tools, and reliance upon traditional rain-fed cropping methods and animal husbandry. It is proving extremely challenging to tap into the irrigation potential given that most of the production is undertaken by individual smallholders. While a total of 29.4 million hectares, (31% of Tanzania's land area) is suitable for irrigation development, only 227,490 hectares were under irrigation in 2004, increasing slightly to 275,388 hectares in 2006. Only 3% of the total number of agricultural households accessed credit through formal and informal means. Modernization and commercialization of the agricultural sector will have to be given priority if the sector is to raise productivity and contribute more to growth.

Mining has been the most dynamic sector growing at an average of 15% for the same period, but there is little indication of it triggering growth in the local economy or reducing poverty because the mining operations generally continue to be detached from local supply chains. This reduces the flow-on effect of creating employment opportunities and generating additional incomes. The ongoing reviews of mining contracts need to go beyond fiscal obligations to include also the potential for linking with the local economy.

Although the manufacturing sector grew at an average of 7.5% per year over the period 2000-06, its impact on employment and incomes has remained small partly due to its small size and limited linkage with the economy. Strengthening manufacturing's backward linkages to the agricultural sector and the country's natural resource base - especially forestry, minerals and fisheries - as well as the forward linkages to export markets could significantly contribute to growth. Critical constraints have to be addressed including access to, and the cost of financing; infrastructure - especially energy; skilled labour; and unfriendly business environment.

The growth rate in the trade, hotels and restaurants which also reflects expansion in the tourism sector, averaged 7.3% over the period 2000-2006. Tourism not only contributes directly to overall growth, but also indirectly through its linkages with other sectors of the economy. For reasons already given under manufacturing, this sector's potential to contribute to growth and poverty reduction throughout the country is not yet fully realised.

Foreign Direct Investments

Foreign Direct Investments (FDIs) add to the economy's capital formation and consequently to the potential for expanded production capacity. In the past, this investment concentrated in the natural resource sectors, particularly mining. Following the completion of major investments in the mining sector, the percentage increase in FDI slowed down from 25.6% in 2000 to about 7.0% in 2005. It is important that the inflows benefit the entire economy by adding to capital stock and spilling over into other economic sectors. Such FDI would complement domestic investment by 'linking up' with local investments, and stimulating the establishment of new businesses through a 'crowding-in effect'. However, practice in Tanzania has been different; the stagnant share of gross domestic investment in GDP indicates that this 'crowding-in effect' has not been tapped sufficiently. As the country continues to attract increased FDIs, the key challenge will be how to stimulate investments beyond the natural resource sectors while generating strong linkages between these investments and the broader economy.

Credit to the Private Sector

Credit to the private sector indicates the robustness of the banking system in promoting economic growth. Trends show that it has maintained an upward trend since 2000. However, despite these indications of progress, access to credit is still limited to a small number of enterprises with solid collateral in key urban areas. Small and medium enterprises as well as firms located outside the main urban areas are virtually excluded. Commercial banks have displayed increasing risk aversion in lending, preferring to hold a large portion of their liquidity in risk-free government securities. Lending rates have remained high and the spread between lending and deposit rates remains wide, recording 13.3% in 2006. These high rates will continue to deter investments, especially by small and medium entrepreneurs. The impact of increased competition in the banking sector on interest rates will receive a boost from the Government which has started to address aversion to lending by commercial banks, as well as their preference towards holding risk free government papers.

Energy

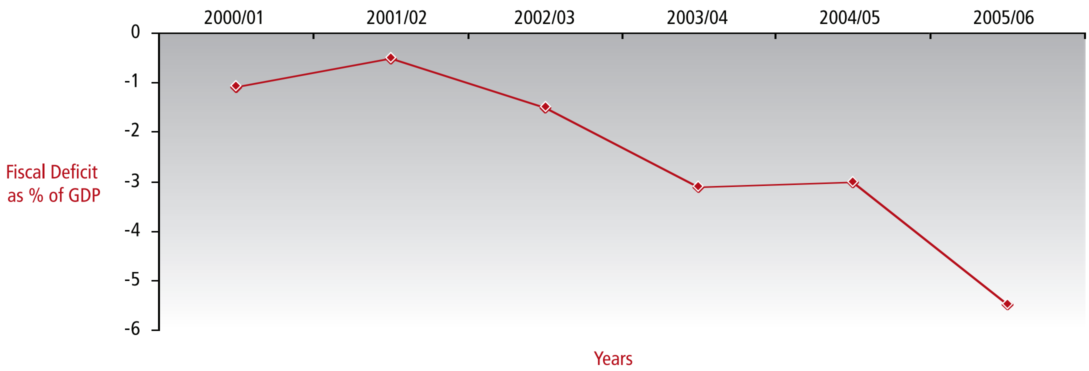
Supply of electricity is a key infrastructural need that underpins economic growth and contributes to quality of life. Half of all power generated in Tanzania is utilised by households; the other half by (light) industries and service providers. Access to electricity for both domestic use and businesses is still low. Out of the 118 districts identified in the Population and Housing Census of 2002, only 18 districts had more than 20% of households accessing electricity. In 31 districts electricity supply is almost non-existent with over 99% of households without access to power. Domestic use of electricity is almost exclusively concentrated in urban areas. Of the 20 districts with the highest level of connectivity to the grid, only Mwanga and Hai are rural districts; while the 20 districts with the least access to electricity are exclusively rural. The greatest access to electricity is in Dar es Salaam but less than 50% of all households are connected.

On the basis of these statistics, it will be difficult to achieve MKUKUTA targets unless significant efforts are made in increasing the availability and affordability of energy. Increasing access to investment financing and enhancing public-private partnerships to overcome the challenges of the energy sector will be crucial to ensure a wider and affordable access to energy.

Fiscal and Inflation Performance

Tanzania's good macroeconomic performance since the mid-1990s has been linked to control of government expenditures. However, after 2002 trends in inflation and fiscal deficits suggest a situation of macroeconomic slippage and provide a picture which is not immediately encouraging to the goal of rapid, broad-based and sustainable private sector led growth. The fiscal deficit as a percentage of GDP (after grants) has widened from -1.1% in 2001/02 to -5.5% in 2005/06. While higher revenues have been collected, public expenditures have risen more rapidly. Partly as a result, inflation has risen reaching a high of 7.6% in 2006 from 4.3% in 2002. Therefore, in the short to medium term there is a need for a better link between the goal of macroeconomic stability and public spending to achieve MKUKUTA targets.

Fiscal Deficit as a Percentage of GDP 2000/01 – 2005/06

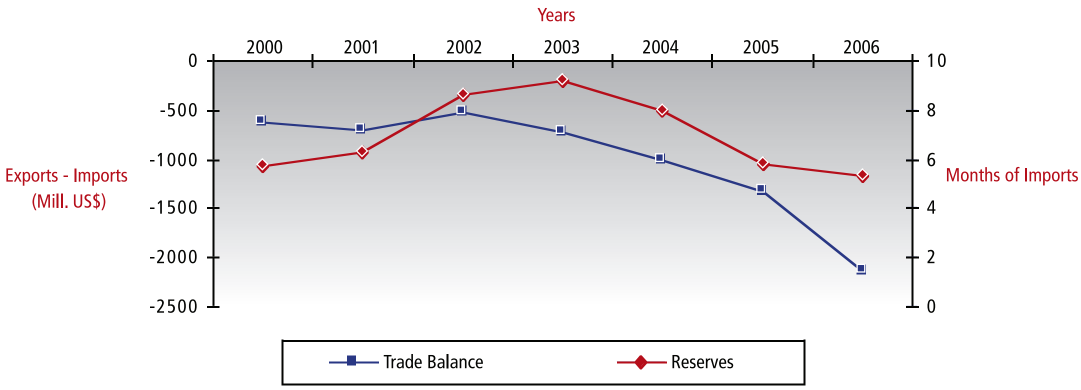


Source: URT Economic Surveys, various years

External Trade

Exports as a percentage of GDP have increased since 2000/01 reaching a peak of 24.1% in 2003/04, this is largely attributable to an increase in services and non-traditional exports, particularly gold, which also fostered large imports of capital goods and equipment. The total share and volume from traditional exports arising from agricultural production declined significantly during this period. However, the increase in total export has been more than offset by increases in imports, resulting in higher trade deficits particularly since 2002. Foreign currency reserves have also been declining continuously from 9.2 months of imports in 2003 to 5.3 months in 2006. Thus, strengthening Tanzania's export competitiveness is still a major challenge for the economy.

Trade Balance and Foreign Currency Reserves 2000 – 2006



Source: Bank of Tanzania Economic Bulletin for the Quarter end March 2007

Poverty and Employment Levels

Estimating poverty requires income and consumption data only available through the Household Budget Surveys (HBS) and the analysis from the 2007 HBS will not be available until mid-2008. A simulation exercise to estimate possible trends since 2000/01 provides a tentative indication that poverty may have declined slightly.

Two areas of concern may be noted. Trends show a rapid increase in the share of government consumption in GDP, with government consumption growing at more than 10% per annum since 2001. This implies that household (private) consumption may be crowded out by government's activities. Also, poverty reduction may not be evenly spread as growth in agricultural GDP has been slower than in overall GDP, therefore urban poverty may be reducing faster than rural. Welfare indicators from various surveys also show that the benefits may be concentrated on the relatively least poor.

Unemployment has been reduced slightly in both rural and urban areas. Between 2000/01 and 2005/06, the share of the public sector in total employment has increased slightly from 2.7% to 2.8%. The share of agriculture in total employment has declined significantly by 7.7 percentage points, indicating that employment growth is shifting away from agriculture towards private non-farm activities, including informal sector employment which has expanded in both urban and rural areas. The unemployment problem is most severe among the youth, with a rate of unemployment among 15-24 year olds of 14.9%. Gender disparities in employment continue to persist, particularly in urban areas. Given the extent of the problem of unemployment, especially among the youth, employment promotion needs to be considered within the overall growth strategy.

Unemployment Rates of Population by Sex and Age, 2006

Sex	15-24 years	25-34 years	35-64 years	65 years and above	Total
Male	14.3%	10.3%	8.9%	8.1%	10.7%
Female	15.4%	13.2%	10.2%	10.4%	12.6%
Total	14.9%	11.8%	9.6%	9.2%	11.7%

Source: ILFS 2006

Food Availability and Accessibility

The food Self Sufficiency Ratio (SSR) compares the volume of domestic food production against the food requirements of the country's population. Since the 1999/2000 season, the SSR has fluctuated between a low of 88% (2003/04) and 112% (2006/07). However, significant variations in food security between different regions and districts have been experienced. In seasons when there is adequate rainfall, Tanzania has managed to produce enough food to meet domestic requirements, as well as export surpluses to neighbouring countries. In these good years, food insecurity arises principally from problems in distributing available foodstuffs from areas of surplus to areas experiencing shortages. However, in poor seasons, the country as a whole is vulnerable to serious food shortages due to low production and inadequate storage capacity.

Key Policy Recommendations

The core macroeconomic indicators show moderate levels of growth from 1995-2003 and a relatively strong macroeconomic context. Yet further analysis reveals that, despite steady increases, the growth trajectory since the mid-1990s has been slow. In addition, key macroeconomic indicators - inflation, fiscal deficit, and trade balance - are showing signs of slow slippage originating from as early as 2002/03.

Ongoing commitment to macroeconomic stability through sound fiscal and monetary policies will remain the foundation for sustained economic growth in Tanzania. A review and adjustment of decisions and actions that affect macroeconomic fundamentals are needed in light of new data to avoid further slippage. More specifically, there is need for a better link between the goals of macroeconomic stability with public spending for achieving MKUKUTA targets.

This brief summarises the status of MKUKUTA's Cluster I as reported in chapter 1 of the 2007 Poverty and Human Development Report (PHDR). The 2007 PHDR provides key information and data on national indicators, gives a framework for determining a strategic approach to growth, and also provides a new type of social sector analysis - illustrating the water sector's potential as an enabler for growth.

There are further briefs concerning the 2007 PHDR:

Brief 2 summarises the status of MKUKUTA's Cluster II – Improvement of quality of life and social well-being
Brief 3 summarises a framework for determining a strategic approach to growth
Brief 4 illustrates the water sector potential as an enabler for growth

The 2007 PHDR and associated briefs are available in electronic copy, and printed reports can be obtained from:

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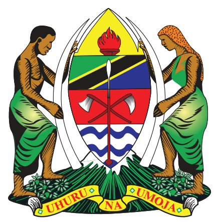

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