

EXECUTIVE SUMMARY

The 2011 Poverty and Human Development Report (PHDR) presents a consolidated review of progress towards the goals and targets under the National Strategy for Growth and Reduction of Poverty (MKUKUTA). Using the nationally agreed indicators for MKUKUTA I as the framework for the analysis and covering the period from 2001 to 2011, the report aims to critically assess the achievements to date, discuss the merits of policies and programmes implemented, and identify policy actions needed to better align national efforts towards the realisation of MKUKUTA's goals. The report builds on the findings from PHDR 2009 and, whenever possible, uses new data to update progress and trends.

In addition to the status chapter, this year's report explores the interplay between economic growth, productive employment and poverty reduction to identify policy options that can make future growth in Tanzania more inclusive and pro-poor. The report argues that managing structural changes, realising productivity gains by investing more in human capital, and creating an enabling business environment are key actions for the Government of Tanzania to create decent, productive jobs and achieve inclusive growth. In turn, the reconfiguration of the economy towards inclusive growth with expanded private sector employment and productivity can bring about sustainable cuts in income poverty and promote broad-based human development in the country.

Key Findings on the Performance of MKUKUTA I

Cluster I: Growth and the Reduction of Poverty

The Growth Target was Achieved

Overall, the macroeconomic outlook is relatively positive with the economy showing resilience amidst the slowdown in global output owing to the global financial crisis (GFC) of 2008. On average, the Tanzanian economy has grown by 7% per annum over the last ten years, thereby achieving the MKUKUTA I target of an average annual GDP growth of 6% to 8% by 2010. The prompt response to the GFC through provision of a moderate fiscal stimulus package during the 2008/09 and 2009/10 financial years helped to ease the adverse effects of the crisis and enabled the Government to continue the provision of essential services and meet its expenditure targets.

Sound Economic Management

Macroeconomic stability has generally been maintained; however, inflationary pressures have intensified over the last three years with the inflation rate exceeding 10% in 2008 and 2009. The high inflation rate is largely explained by food inflation, rising oil prices and the impact of power shortages. Domestic revenue collection as a percentage of GDP increased steadily from 10.9% in 2000/01 to 16.0% in 2008/09, but declined slightly to 15.3% in 2009/10, falling below the MKUKUTA I target of 16.4%. This shortfall in domestic revenue collection has necessitated a short-term increase in the fiscal deficit, but the Government is acting to improve the taxpayer environment and identify additional tax and non-tax revenue sources to further strengthen national finances. The external debt-to-GDP ratio has fallen considerably since 2000. Exports have increased but with limited diversification. Credit to the private sector has increased from an average of less than 6% of GDP in 2002 to 17% of GDP in 2009, and the interest rate spread between the lending and deposit rate has declined from 15.3% in 2001 to 12.3% in 2009.

Continuing Structural Changes in the Economy but Limited Dividends

The structure of Tanzania's economy has changed gradually over the last decade with the growth rate in agriculture being outpaced by services, manufacturing and construction. The contribution of the agricultural sector to GDP has declined from 29% in 2001 to 24% in 2010. The growth rate in agriculture averaged 4.3% over the period 2000-2010, well below the MKUKUTA target of 10% by 2010. However, the sector continues to employ around three-quarters of the labour force.

The manufacturing sector grew from 4.8% in 2000 to a peak of 9.9% in 2008 before dropping to 7.9% in 2010, a growth rate still well below the MKUKUTA target of 15% by 2010. The sector is yet to effectively exploit linkages with agriculture and the country's natural resource base. The share of mining in GDP is still small even though the sector accounts for a significant share of total export earnings. The linkages of the mining sector with the rest of the economy remain weak and need to be strengthened.

The services sector remains the largest sector of the economy, though its share in total GDP has declined slightly from 45.5% in 2001 to 43.9% in 2010. Tourism constitutes a substantial part of the services sector (contributing over 17% to GDP and nearly 40% of total export earnings). Future earnings from the sector can be improved by expanding infrastructure, encouraging domestic demand and improving the skills of workers and businesses in the industry. Closer links between tourist operations and the local economy will be an important tool in poverty reduction.

Poverty and Inequality

The most recent national data available on household income poverty rates are from the 2007 Household Budget Survey (HBS), which were reported in the 2009 PHDR (URT, 2009b). The 2007 poverty estimates indicated that the economy's significant growth since 2000/01 had not translated into significant reductions in income poverty. The Gini Coefficient, a measure of income inequality, remained unchanged at 0.35 between 2001 and 2007. With no new data, it is not possible to report on the current distribution of income.

Since 2007, growth has more or less continued at the same pace except with a slight dip as a result of the global financial crisis. Based on past trends and with a slight slowdown in the growth rate, it is likely that the poverty reduction target under MKUKUTA I was not met and the country is off-track in meeting the Millennium Development Goals target of poverty reduction by 2015.

With respect to national food security, Tanzania has been self-sufficient in food production since 2005 with a peak in 2007 of 112%. However, food shortages continue to be experienced in some regions. The most recent data indicate around 23% of all households in rural mainland Tanzania were food-insecure. Around three-quarters of the population depend on under-developed smallholder primary agricultural production for their livelihoods. Modest improvements have been noted with respect to smallholder participation in out-grower schemes, access to irrigation, access to credit and diversification into non-farm activities. The Southern Agricultural Growth Corridor of Tanzania (SAGCOT), a large-scale, public-private partnership to develop that region's agricultural potential, and the Tanzania Agriculture and Food Security Investment Plan are promising developments in the sector but there is need to consolidate these initiatives and ensure that more benefits accrue to smallholder farmers and food-insecure households.

There has been limited improvement in the primary road network (trunk and regional roads) with lack of funding cited as the most binding constraint. An expanded road infrastructure has the potential to directly contribute to poverty reduction if two main issues are addressed. Firstly, building and maintaining rural roads should be a priority as these are essential for market development.

Secondly, more needs to be done to exploit labour-based technology, in particular, the employment of local communities in road construction and other public works. At the same time, reliable power supplies are critical for rural economic transformation, including diversification into agro-processing and productive non-farm activities. Sustained investment in developing and maintaining transport infrastructure and expanding power-generating capacity and electrification are medium and long-term imperatives for national development and poverty reduction.

Cluster II: Quality of Life and Social Well-Being

Education

Access to quality education is a pre-requisite for socio-economic and political development in any society. Conversely, low educational attainment and poverty are closely associated. Literacy rates have improved marginally for women since 2004/05 (from 67% to 72%) but less for men (from 80% to 82%). However, levels of literacy among women still lag those of men by ten percentage points.

Substantial progress has been made to increase access to education. The net enrolment rate (NER) in primary schools increased from 66% in 2001 to a peak of 97% in 2007 and 2008. Overall, gender parity in access to primary education has been achieved. However, since 2008, the NER has steadily declined to 94% in 2011, a trend that must be turned around. In 2011, it is estimated that nearly half a million 7 to 13 year-olds did not enrol in school.

The transition rate from primary to secondary schools also rose dramatically from 12% in 2002 to 60% in 2006, but has since fallen to 45% in 2010. The NER in secondary schools has steadily increased from 6% in 2002 to 35% in 2011 – an impressive achievement – but the rate falls short of the MKUKUTA target of 50%. Higher education has expanded even faster. The number of students in higher education institutions has jumped over the last ten years, from less than 31,000 in 2002/03 to almost 140,000 students in the 2010/11 academic year.

Analysis of learning outcomes, however, paints a worrying picture of the quality of education received by Tanzanian children. A large-scale national survey conducted in 2011 revealed alarmingly poor numeracy and literacy skills among primary-aged children. The findings indicate an urgent need to improve the quality of tuition, which in turn, will depend on the increased and equitable deployment of qualified teachers and resources to all areas of the country. The significant decline in students passing Form 4 examinations further points to the need to address educational quality.

Health

Life expectancy has increased from 51 years in 2002 to 58 years in 2010 (57 years for men and 59 years for women), a trend that is closely associated with falling child mortality. Under-five mortality has substantially declined over the last decade from 147 deaths per 1,000 births in 1999 to 81 deaths per 1,000 births in 2010, only marginally missing the MKUKUTA target of 79 for 2010. These gains in child survival are largely due to improvements in Tanzania's health system. There have been notable advances in malaria prevention, diagnosis and treatment. Use of insecticide-treatment mosquito nets has dramatically increased. The MKUKUTA target of 85% DPT-Hb3 vaccination coverage has also been achieved, putting Tanzania ahead of its neighbours in the region in respect of childhood immunisation rates. The age-disaggregated data on child mortality, however, reveal that neonatal mortality has declined far less and constitutes an increasing share of under-five mortality. Increased efforts to address newborn deaths, which are inextricably linked to maternal healthcare, will be needed to ensure the continued rapid reduction in child mortality required to meet the Millennium Development Goal for child survival.

In stark contrast to the gains in child survival, nutritional data show negligible improvement in childhood stunting over the past five years. The rate of stunting far exceeds the MKUKUTA target of 20% by 2010. The greatest damage to children from poor nutrition occurs during pregnancy and up to two years of age. Therefore, interventions to protect the health and improve the nutrition of women during pregnancy need to be prioritized, as well as services that have the greatest impact on the nutrition and survival of young children, especially promotion of exclusive breastfeeding and complementary feeding practices. It is imperative that nutrition be placed high on the development agenda.

The National Road Map (Strategic Plan) to Accelerate Reduction of Maternal, Newborn and Child Deaths in Tanzania (“One Plan”) launched in 2008 aims to reduce maternal mortality by three-quarters from 578 to 193 deaths/100,000 live births and neonatal mortality to 19 deaths/1,000 live births by 2015. However, to date, the maternal mortality ratio (MMR) has declined moderately from 578 maternal deaths per 100,000 births in 2004 to 454 deaths per 100,000 live births in 2010. One of the key operational targets of “One Plan” is increasing coverage of births by skilled birth attendants from 46% to 80%, but so far only a marginal increase to 51% was achieved by 2010. Effective implementation of the plan through increased investment in identified priority actions is required if the 2015 targets are to be achieved. The biggest challenge is in strengthening the capacity of the health system to provide quality delivery and post-natal care, which are prerequisites for reducing and ultimately preventing maternal and newborn deaths.

The 2007/08 THMIS indicates that HIV prevalence in adults (15-49 years) has declined since 2003/04 across most age groups and among both males (from 6.3% to 4.7%) and females (from 7.7% to 6.8%). Notable achievements have been recorded in increasing access to antiretroviral therapy. Major epidemiological disparities, however, raise serious concerns with a greater disease burden among women and in urban areas. The tuberculosis (TB) treatment success rate has improved consistently from 81.3% in 2003 to 88% in 2008, surpassing the global target of 85%. But the TB notification rate, which is estimated at 59%, must be increased to facilitate treatment of infected people and arrest the spread of the disease.

Water and Sanitation

Water supply services in rural areas increased by 7.5 percentage points from 40.4% in 2007 to 47.9% in 2010, indicating that the Water Sector Development Program, which commenced in 2007, is starting to yield results. In the 19 regional urban centres other than Dar es Salaam and Kibaha (which are collectively referred to as “other urban areas”), the coverage of water supply services increased from 80% in 2007 to 86% in 2010. However, the survey data for all urban areas indicated a negligible increase in water access from 80% in 2007 to 81.2%. Although the increase in access to water supply may be attributed to implementation of quick-win projects, progress was not fast enough to achieve the 2010 MKUKUTA targets of 65% for rural areas and 90% for urban areas. Survey data for sanitation indicate a downward trend in household access to basic sanitation, slipping from 93% in 2007 to 86% in 2010. School sanitation and hygiene are also extremely poor, far below MoEVT guidelines. High-level political champions are needed to ensure that all schools are equipped with adequate sanitation facilities. The impact on the health and productivity of Tanzania’s children and adolescents would be profound.

Social Protection

To assess progress towards social protection, MKUKUTA Cluster II also tracks a limited number of indicators related to highly vulnerable populations. A national system of social protection is not yet in place; to date, interventions to address vulnerability are mostly programme-based, limited in scope and duration, and externally funded. The overarching issue in advancing the social protection

agenda in Tanzania is the finalisation and approval of the National Social Protection Framework, which will provide guidance to all actors, state and non-state, to strengthen and expand social protection mechanisms in Tanzania.

With respect to programmes, the current development of the next phase of the National Costed Action Plan (NCPA) for Most Vulnerable Children (MVC), and the scale-up of Tanzania Social Action Fund (TASAF) III to the whole country are two major social protection measures. They represent opportunities to put in place key building blocks of an integrated social protection system, one that must be government-led with gradually increasing financial commitments. Safety nets need to be developed in such a way that they promote economic transformation and support groups that most Tanzanians agree are in need.

Cluster III: Governance and Accountability

A high standard of governance at all levels – within both public and private sectors – is essential for promoting economic growth, reducing poverty and improving the lives of all Tanzanians. Indicators for Cluster III show some improvements in national governance, including the ongoing devolution of responsibility and resources for service delivery from the central government to local government authorities (LGAs), and the increased participation of citizens in local government processes. Progress in reforms to the taxation system and regulation of public procurement are also encouraging.

However, other fundamental pieces of good governance are not in place. Although registration of births is mandatory in Tanzania, only a small proportion of children are registered at birth. In 2010, only 15 out of every 100 children were registered at birth, and only 6 out of every 100 children were issued with a birth certificate. While the Constitution of Tanzania recognises the right to ownership of property, the percentage of households with official title deeds to land has remained low. Only 5% of land in Tanzania is currently registered. The proportion of rural households who owned their land through official certificates was 5.8% in 2007/8, down from 7.1% of households reported in 2002/03.

The fight against corruption is also far from won. Recent high-profile scandals have seriously impacted Tanzania's international standing with development partners, and the flagged cuts to budget support will put at risk national development and poverty reduction goals. There is widespread public dissatisfaction with government efforts to combat corruption overall and the performance of the PCCB in particular. The main reason for dissatisfaction relates to low conviction rates in cases of grand corruption.

The Legal Sector Reform Programme is ongoing with the aim of improving standards of justice and protecting human rights. However, the demand on the judicial system at all levels – police, the courts and detention facilities – exceeds the current capacity to deliver services and ensure fair and equal access to justice. The poor are disproportionately disadvantaged in access to legal representation and redress, while court case delays and conditions within jails frequently violate the rights of alleged and convicted offenders, including juveniles. The national survey of Violence Against Children and the expanded examination of gender-based violence in the Tanzania and Demographic Health Survey (TDHS) 2010 further reveal extremely high rates of violence against women and children. National and local champions are urgently needed to stop institutionalised violence in schools and to transform harmful gender attitudes that perpetuate domestic and sexual violence against women.

Productivity Gains and a Business-Friendly Environment for Inclusive and Job-Rich Growth

As noted above, Tanzania's economy has grown significantly over the last decade, and GDP growth has exhibited strong resilience to external shocks as evidenced by the country's performance during the global financial crisis. The government took prompt action by providing a fiscal stimulus package that mitigated the adverse effects on the economy. Being less integrated with the global financial architecture also provided a degree of protection from the cascading financial turmoil which was triggered by the collapse in the US housing market and quickly engulfed Europe and several emerging economies.

However, the national poverty rate remains high. One-third (33.6%) of Tanzanian households were below the basic needs poverty line in 2007, only marginally less than the poverty rate in 2001 of 35.7%, despite GDP growth averaging 7% per annum over the intervening period. There is now growing consensus that more needs to be done to address the mismatch between growth and poverty reduction.

Putting the economy on a pro-poor growth path will require deliberate and calibrated policy interventions. In this regard, it is important that clear indicators and targets are established so that the nature of future growth can be closely monitored. Poverty rates can capture households' increased income through consumption, but may not be able to explain how growth itself is contributing to increased consumption and welfare. The monitoring system should, therefore, be designed to track the opportunities created by a growing economy in terms of better jobs and income. An employment-centric monitoring system will capture key measures of inclusive growth to inform the better alignment of future policies and programmes.

Productivity serves as a barometer to gauge the health of an economy. To better understand the state of the Tanzanian economy and how resources are being utilised to maximise production and job creation, changes in sector and firm outputs and labour productivity should be carefully monitored to elucidate the impact of structural changes. Many of the economic sectors in Tanzania have recorded relatively higher growth rates, but concurrent labour movements between sectors have complicated the measurement of the changes in labour productivity in each sector.

Like many countries in Africa, Tanzania has not fully benefited from the productivity gains one associates with the structural change from a predominantly agricultural-based economy to a more diversified economy in which services and industry play a larger role. Labour productivity in Tanzania has increased gradually but remains low overall. Much of the improvement has been undermined by what has been described as "perverse" structural changes in Africa. These undesirable effects occur when labour moves from subsistence agriculture characterised by low productivity to equally low-productivity work in the informal economy.

Between 2001 and 2010, the agriculture sector grew at an average rate of 4.3% per annum, but the share of the agricultural sector in GDP declined from 29% to 24%. Labour productivity in agriculture seems to have increased, but that it is more likely the result of labour moving to other economic sectors such as manufacturing and services. However, the sector still employs almost three-quarters of the workforce.

The data available indicate a declining trend in labour productivity in manufacturing, but this can be largely explained by the increased number of workers getting absorbed by the sector. Growth in the manufacturing sector has continued its momentum, recording an almost 8% increase in 2010,

but this rate may not be adequate as many more Tanzanians seek work in this sector, which has generally been associated with better paying jobs.

A closer look at the services sector also underlines the challenges of labour movements. With a share in GDP of 44%, the sector remains the largest sector in the economy. The sector has been growing very rapidly, but it is likely that most of the new jobs in services are in the informal economy. Furthermore, key sub-sectors within services have limited linkages with the domestic economy. For example, tourism constitutes a significant part of the services sector, contributing over 17% to GDP and making up approximately 40% of the total export earnings, but this important sub-sector still has weak backward linkages. In other words, tourism may be categorised as a pro-poor sector owing to its contribution to government revenue, which can then be used for social spending, but the potential of tourism as an inclusive growth sector has not been fully exploited.

Tanzania has a high employment-to-population ratio (EPR), which indicates the country's potential for even higher growth rates. But it may also indicate that many individuals are entering the workforce because they don't have any other choice. Circumstances may be forcing people to find work for reasons of survival when, for example, some may have preferred to study and acquire higher competencies before joining the labour market. Thus, investing in skills development in collaboration with the private sector will better enable Tanzanians to participate in the national economy as well as benefit from the expansion in the labour market in the East Africa Community.

Several countries that have grown rapidly and cut poverty rates at the same time have also experienced higher labour and firm productivity. Moreover, the relationship between labour and firm productivity is closely interlinked; improvements in labour productivity directly contribute to increased firm output. Labour productivity is also closely related to income, which in turn determines the consumption pattern of households – a key indicator for measuring poverty rates.

The importance of this relationship between productivity and growth thus calls for designing public policies that are better aligned to human development and poverty reduction. Such a strategy requires enabling more people and firms to participate and contribute productively in the economy. Unfortunately, many low-income countries place barriers in the way of the private sector that negatively affect productivity instead of creating incentives for an inclusive economy. A vast number of firms in Tanzania are very small, with very few able to expand and grow. These enterprises face numerous legal and regulatory challenges and often lack support services, such as access to financing and business development.

Lack of physical infrastructure, including unreliable and costly sources of energy also compound the problems experienced by these enterprises. Recurrent energy shortages and poor transport infrastructure, especially roads, are the most visible constraints faced by businesses in Tanzania. Facing these obstacles in a high-cost economy like Tanzania discourages firms from investing in future expansion and often pushes them to stay outside the formal economy. This not only diminishes the potential for creating good jobs, but also results in lost revenue for the government, as it is not able to effectively track and tax these informal businesses.

The economic potential of the numerous micro and small enterprises in the economy has not been effectively harnessed. Small enterprises, even those that are registered, have limited access to services. Although the financial sector has been liberalised and expanded quite significantly since the second generation of financial sector reform, access to finance, especially for the agricultural sector and small enterprises remains very low.

Hurdles in registration of land are not friendly to property rights. Currently, only 5% of land in Tanzania is registered, compared with 30% in Kenya and 18% in Uganda. Without registered titles to land and business premises, agricultural producers and small enterprises will continue to face barriers accessing credit and long-term investments will continue to be undermined.

To reverse the effects of “perverse” structural changes and make the Tanzanian economy more inclusive, there are no better substitutes than investing in human capital and implementing pro-poor industrial and agriculture policies. These policies should be driven not only by a desire to increase growth, but also a people-centered approach that prioritises the creation of productive employment. A paradigm shift will require the state to play a proactive role to create enabling conditions for domestic enterprises to unleash their productivity and ensure that people have the skills and entrepreneurial attributes to engage in gainful employment. A competitive and business-friendly environment and investing in human skills and economic infrastructure should therefore be at the heart of future policies and programmes.

CONCLUSION TO PHDR 2011

PHDR 2011 comes at a critical juncture in national development. With great uncertainty persisting in the global economy and many donor nations facing severe fiscal constraints, Tanzania, as other successful emerging economies have demonstrated before it, must exploit strategic domestic opportunities for economic growth.

The country has a distinct geographical advantage to serve as a regional trade and transportation hub, with access to the markets within the East African Community and Southern African Development Community. Tanzania's extensive agricultural resources can fuel agro-based processing and manufacturing, and its vast reserves of natural resources can supply domestic needs and support export growth.

But to realise the Tanzania Development Vision 2025 of a middle-income country with a high level of human development that is free of poverty, the Government needs to remove the constraints to growth and unleash the potential of its labour force. At every turn, domestic entrepreneurs need to be supported and facilitated to increase productivity and generate jobs so that an ever-growing number of households can secure and sustain decent livelihoods.

At the same time, the significant gains in indicators of quality of life and social well-being need to be maintained and expanded through the provision of high-quality public services. Tanzania is on track to meet key Millennium Development Goals by 2015, but all actors and every available resource need to be applied to make that happen.