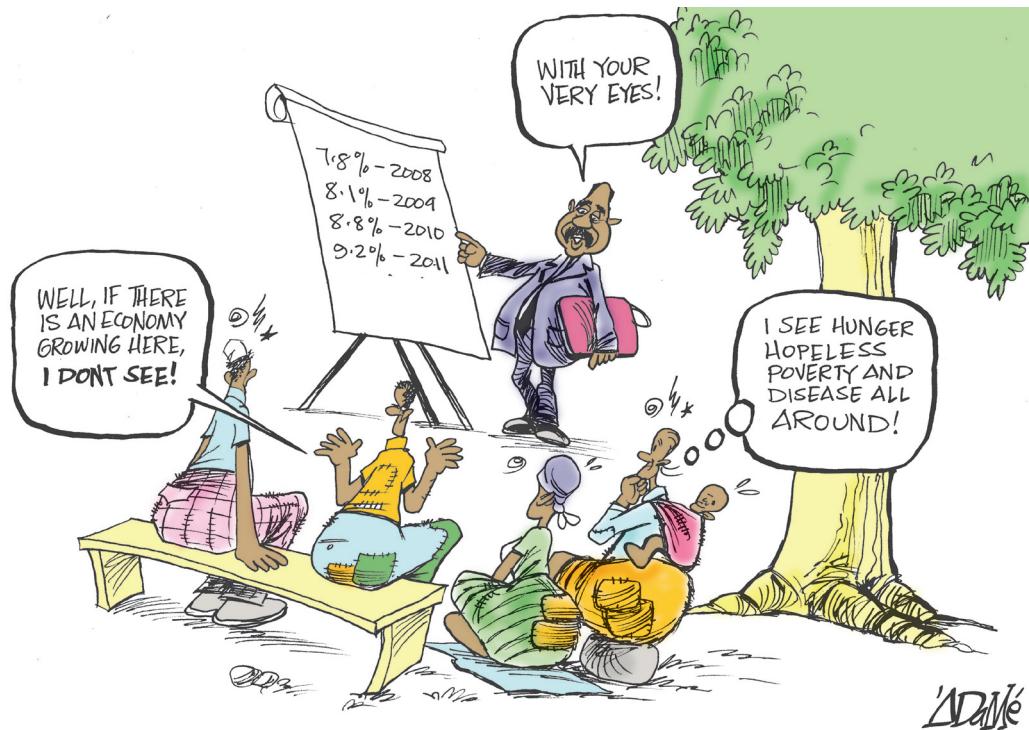


Growth in Tanzania: Is it Reducing Poverty?



Introduction

Tanzania has received wide recognition for steering its economy in the right direction. In its recent publication, "Tanzania: the story of an African transition" the IMF argues that in the last two decades the Tanzanian economy went through a period of successful transition in which economic liberalization and institutional reform led to a recovery of GDP growth to more than 7% per year since 2000.

Has this growth succeeded in improving lives of people? This note demonstrates that this "successful transition" has

- failed to bring poverty reduction,
- most of the progress has occurred in Dar es Salaam and not in rural areas, and
- is associated with the poorest getting poorer and the richest richer

At the same time

- Tanzania remains off track to achieving the poverty MDG /MKUKUTA targets, and
- does worse than comparator countries in Africa and Asia

Fact 1: Economic transition has not reduced poverty significantly

Surveys carried out by the National Bureau of Statistics (NBS) show the absence of any noticeable poverty reduction. Between 2001 and 2007 the fraction of poor people in Tanzania declined very little (NBS 2001; 2007). The decline is so small that it is not possible to say with a high degree of certainty whether poverty actually went down, or whether it remained unchanged.

Table1: Poverty incidence since 1991

	1991	2001	2007
Dar es Salaam	28.1	17.6	16.0
Other urban	28.7	25.8	24.2
Rural	40.8	38.6	37.4
Tanzania Mainland	38.6	35.6	33.4

Source: National Bureau of Statistics 2001 & 2007

Overall, in the 16 year period between 1991 and 2007, poverty fell by about 5%. But most of this change can be explained by progress in Dar es Salaam. In rural areas, and other urban areas, the decline in poverty is too small to give confidence that poverty has actually fallen.

Fact 2: There are more poor people today than in 2001

While the *percent* of people living in poverty (i.e. on less than Tshs 500 per person per day, see Box 1) went down slightly since 2000/1, because the population has increased, the total *number* of people living below the poverty line increased by 1.3 million in the same period (see Table 2 below).

Table 2: Increase in amount of poor (in millions) between 2001 and 2007

	Population (TZ mainland)	Poverty rate (%)	Number of people in poverty
2001	32.4	35.6	11.5
2007	38.3	33.4	12.8

Increase in number of poor: 1.3 million

Source: Economic Survey – Table 33, National Bureau of Statistics 2001 & 2007

Box 1: How is poverty measured?

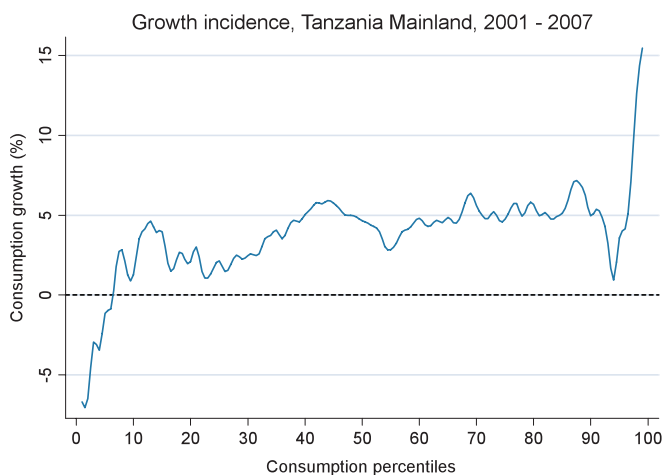
In Tanzania people are considered poor when their consumption is less than the national poverty line, whereby consumption includes all goods bought and those produced and consumed at home, such as food, household equipment, clothes, personal effects, personal care, recreation, cleaning, domestic services, contributions, fuel, petrol, soap and cigarettes. Not all consumption items are included in poverty calculations. Expenses on health, education and water are excluded for instance.

The national poverty line was estimated by the NBS in 2001 based on the 2000/01 Household Budget Survey. It represents the cost of goods (food and other goods) typically consumed by poor households. In 2001 the national poverty line was Tshs 7,253 per person per 28 days. As prices increased by 93% between 2000/1 and 2007, the 2007 poverty line is Tshs 13,998 ($7,253 \times 1.93$) or approximately Tshs 500 per person per day.

Fact 3: The very rich got richer and the extremely poor got poorer

Not only did poverty not change much since 2000/1, extremely poor households became poorer, while very rich households got richer between 2000/1 and 2007. This is illustrated in the graph below that shows the rate of consumption growth for each income group. On the horizontal axis the population is ranked from the poorest to the richest, with the most poor on the left side of the axis and the richest on the right side.

Figure 1 Change in consumption since 2000/1 by income group



Source: Development Partner Group, 2008

The plot lies almost entirely above the zero line, showing that almost all income groups increased their consumption. However, the increase is small, 0.8 percent per annum on

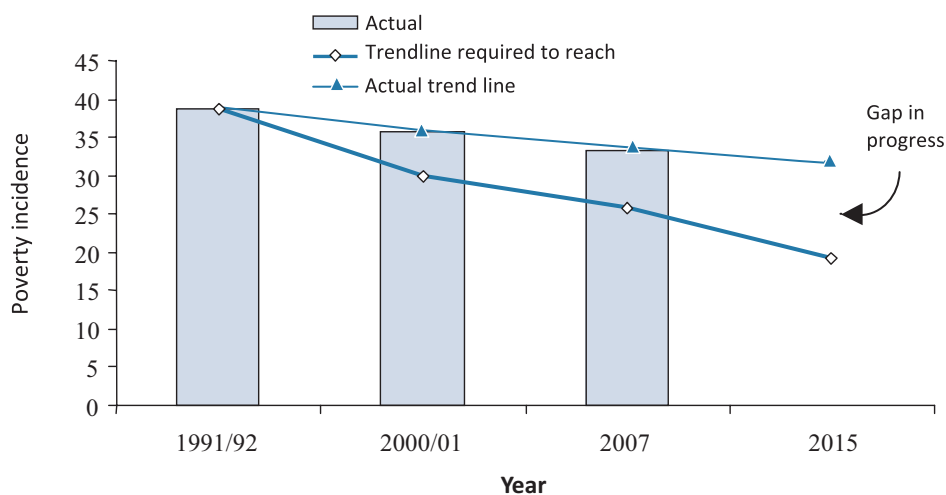
average, or 5% over the entire period. The plot also shows that the poorest 10 percent of the population are worse off, i.e. their consumption levels went down. In contrast, the wealthiest households got better off. This indicates a worrying pattern where the poorest are left behind and richest are getting richer.

Fact 4: Tanzania is not on track to achieve MDG/MKUKUTA poverty targets

Tanzania has signed up to the Millennium Development Goals (MDGs). The First MDG commits Tanzania to reduce poverty between 1990 and 2015 by 50%. In 1991/92 poverty was 38% in Tanzania, so the objective is to reduce poverty to 19% by 2015. Figure 2 below illustrates that Tanzania is off-track to reaching this target. The bars in the figure show actual poverty levels, and the thin line shows the current trend line, while the bold line is the decline in poverty that Tanzania would have to achieve to reach the MDG goal.

It is clear that already in 2000/01 Tanzania was off track as the bar exceeded the trend line by 5.9%. Between 2001 and 2007 the situation got worse as the bar now exceeds the trend line by approximately 7.6%. The MKUKUTA target, which aims to achieve the MDG target by 2010, is entirely out of reach.

Figure 2: Poverty incidence relative to the MDG trend line.

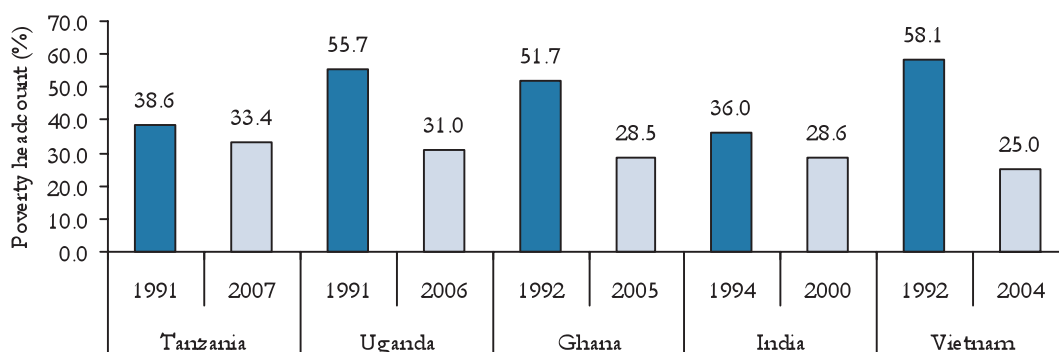


Source: Development Partner Group, 2008

Fact 5: Tanzania has performed poorly compared to other countries

Tanzania's performance in poverty reduction compares poorly relative to comparator countries which like Tanzania were relatively stable and who underwent macro-economic reform in the region (Ghana, Uganda) and in Asia (Vietnam and India). Whereas in Tanzania headcount poverty declined by 2.4% between 1991 and 2007, it dropped in Uganda, Ghana and Vietnam by 10 times as much: approximately 23 to 24%. India too achieved a much higher reduction in poverty (by 7%) over a much shorter period.

Figure 3: Changes in poverty headcount in selected countries



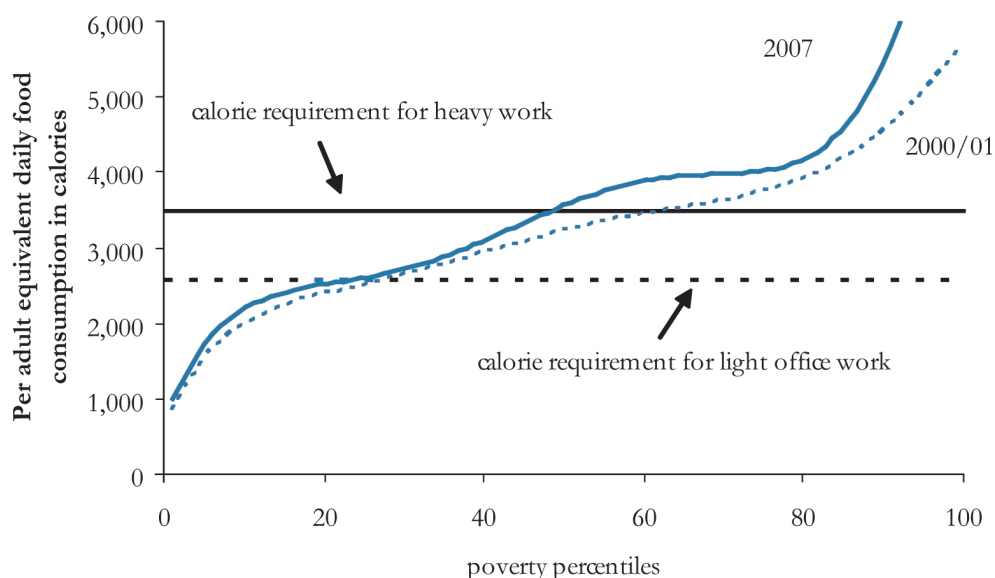
Source: Development Partner Group, 2008.

Fact 6: Up to half the people are undernourished

The first MDG also focuses on reducing hunger. Tanzania has made progress in this area and the fraction of malnourished children has reduced since 1991. Nevertheless almost 4 out of every 10 children aged 0 to 59 months are chronically undernourished and about 1 out of every 5 children weighs too little.

In line with the slight increase in consumption, calorie intake has increased since 2001, albeit marginally. As Figure 4 below illustrates, about 25% of the population consumes too few calories to sustain their body and carry out light office work. Only half the population consumes sufficient calories to sustain the calorie requirements required for heavy (agricultural) work. Yet, it is precisely those consuming least calories (poor households) that are most likely to be involved in physically strenuous activity.

Figure 4: Caloric intake per adult equivalent



Source: Research and Analysis Working Group February 2009 draft

In addition, Tanzanians continue to have undiversified diets. This increases the risk of nutrition related diseases such as iodine deficiency, iron deficiency or vitamin A deficiency. In turn this leads to reduced labor productivity and increased susceptibility to disease. Malnutrition is associated with 56% of childhood mortality in Tanzania and losses of up to 13% of intelligence. A study in the Kagera region found that malnourished children lose up to two years of education compared to their adequately nourished peers (World Bank, 2007).

Fact 7: People own more assets, but their overall value remains the same

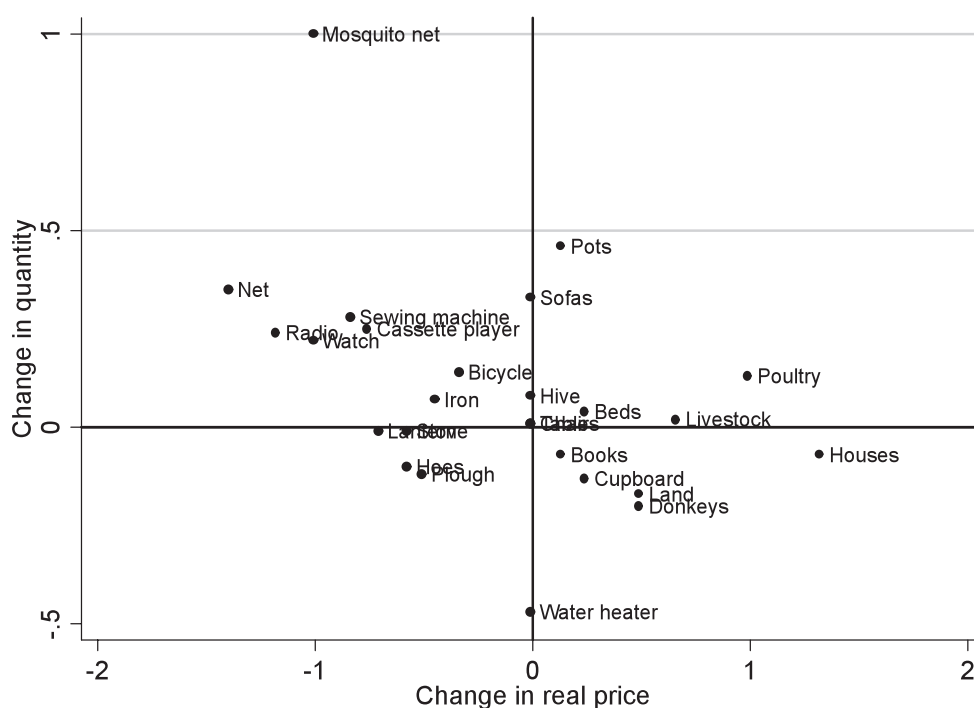
Since 2001 ownership of consumer durables increased substantially. Ownership of televisions more than tripled while ownership of bed nets doubled. Items such as radios and bicycles also saw considerable increases, and the ownership of (mobile) phones boomed: in 2007 a quarter of all household owned at least one phone. The increase in consumer durables is mirrored in improvements in housing conditions, although there the changes are less impressive (NBS 2008).

The increase in ownership of consumer durables implies an increase in welfare and may be somewhat surprising in view of the small increase in consumption. A change in relative prices appears to be behind this increase. What has happened is that households

started to own more of those durables that became (relatively) cheaper and fewer of the items that became relatively more expensive. This is illustrated in Figure 5 below. The assets which saw the greatest increase, such as watches and mosquito nets, are the assets for which prices dropped most. The reverse happened for consumer durables that became relatively more expensive.

In line with the limited change in consumption, the overall value of assets owned remained almost constant. Excluding cell phones, the value of assets declined slightly. When mobile phones are included, the overall value of assets increases by 3% expressed in 2000/01 prices.

Figure 5: Changes in real prices and changes in ownership of consumer durables



Source: Own calculations based on Poverty Monitoring Group, *Rapid Poverty Assessment 2008*.
 Note: to calculate the real change in price, the Fisher price index for assets (101%) is deducted from the nominal price change

Conclusion

Economic liberalization in Tanzania has, to date, failed on an important count: to reduce income poverty for most people. This is not to deny advances in other areas (e.g. more poor children are enrolled in school, more assets are owned) but it illustrates that for the majority of Tanzanians the ability to sustain themselves did not change significantly. From this perspective, it is hard to argue that the economic transition in Tanzania has been a success. Addressing this challenge honestly and imaginatively needs to be at the top of the policy and political agendas.

This brief has been produced by Policy Forum, in association with Twaweza.



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