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## Growth and poverty reduction in Tanzania

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WIDER Working Paper 2015/051

## **Growth and poverty reduction in Tanzania**

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Finn Tarp<sup>1</sup>

June 2015

**Abstract:** After many years of relatively slow growth, Tanzania's national accounts data report accelerated aggregate growth since around 2000. Our analysis shows that there has been somewhat slower growth in private consumption and in sectors such as agriculture in which most of the poor work and live. The household survey data documents a limited reduction in consumption poverty over the period, and what poverty reduction there has been has mostly occurred in Dar es Salaam. Indicators of non-monetary poverty have gradually improved over the past 20 years but significant differences across the country remain.

**Keywords:** Tanzania, growth, poverty, inequality, non-monetary poverty

**JEL classification:** I32, O10, O40, O55

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## 1 Introduction

Tanzania is the fifth largest country in sub-Saharan Africa in terms of population, accounting for around five per cent of the region's people. It is a major economy in East Africa and an active member of the East African Community. Tanzania is actively involved in Southern African discussions, being a member of the Southern African Development Community.

Julius Nyerere, the first President of Tanzania from shortly after its independence in 1962 until 1985, pursued a development policy based on a vision of African Socialism, in particular between 1967 and the late 1970s. The economy deteriorated sharply over this period, leaving Tanzania as one of the poorest and most aid-dependent countries in the world. At the same time, Tanzania made progress in many aspects of social development. From the 1970s onwards, Tanzania increasingly borrowed from the IMF and the World Bank and, after Nyerere's departure in 1985, the country started to undertake reforms in order to pursue more market-oriented policies. Over time, better economic performance followed, though growth remained slow even in the 1990s. Since around 2000, Tanzania has reported an improved economic growth performance.

Tanzania is also by now well known for not having been able to translate this growth into significant reduction in monetary poverty. This apparent contrast, which has dominated recent literature on Tanzania's economic performance, is an important focus of this chapter. Authors who have also addressed this conundrum include Arndt et al. (2013); Atkinson and Lugo (2010); Demombynes and Hoogeveen (2007); Hoogeveen and Ruhinduka (2009); Kessy et al. (2013); Mashindano et al. (2011); Mkenda et al. (2010); Osberg and Bandara (2012); and World Bank (2007, 2012, and 2013). The general conclusion from these studies is that growth and consumption-based poverty are in several respects 'delinked' (Pauw and Thurlow 2011). The gross domestic product (GDP) elasticity of poverty reduction of around -0.19 for the period 2001–07 illustrates this weak effect. While more recent data suggests a possible improvement (the elasticity increasing to -0.83 during the period 2007–12), the available data continue to point to a weak link between economic growth and monetary poverty reduction.

Reflecting the above observation, this paper begins by analysing the recent pattern of growth in Tanzania and considers the likely consequences of this for poverty reduction, over a period characterized by large increases in the prices of food and fuel. The first part of the paper focuses on the record in terms of monetary poverty and its seeming unresponsiveness to growth. Much of the focus is on the period since 2000 when the seeming disconnect arises. The 1990s were characterized by limited growth and limited poverty reduction between 1991/92 and 2001 (from 38.6 per cent to 35.7 per cent). As noted, the national accounts data report improved growth in per capita GDP and average per capita private consumption since around 2000, while the rate of monetary poverty reduction has continued to be slow. Four main household surveys are used for the analysis, the Household Budget Surveys (HBS) conducted in 1991/92, 2000/01, 2007 and 2011/12.<sup>1</sup> We also draw on Demographic and Health Surveys (DHS) to assess progress in non-monetary domains.

Key to understanding the difficulties in analysing how growth and poverty interact in Tanzania is the fact that there are serious issues with the underlying data. These concern both the national accounts estimates of economic growth (Jerven 2011) and the household survey evidence on poverty trends (World Bank 2015a; Eele et al. 2000). Both are decidedly questionable in tracking changes over time, which is a central concern addressed in this paper. The data uncertainty is one

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<sup>1</sup> See World Bank (2015b) for the latest World Bank report.

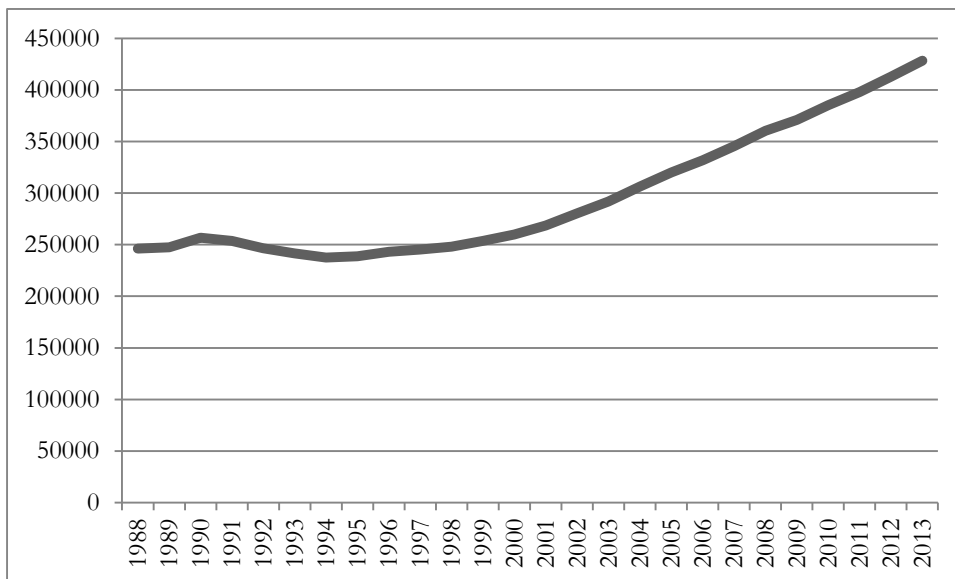
key feature of this paper. Nevertheless, both the surveys and the national accounts suggest a somewhat slower growth in real private consumption which is then somewhat less out of line with the progress in relation to monetary poverty. Importantly, the non-monetary indicators show reasonably good progress since 1991.

The paper first presents in Section 2 the economic growth story over a longer period of time and then in more detail over the period covered by the four HBSs. A discussion of the macroeconomic composition of growth considers the likely implications for progress in poverty reduction. The responsiveness of poverty to growth is discussed in detail in Section 3. This discussion highlights major differences between the national accounts-based measures of growth and the growth in average household consumption from the household surveys. How responsive poverty is to growth depends critically on how growth is measured. Section 4 then looks at the nature of consumption poverty reduction in more detail. While results for the more recent period might suggest a more positive poverty reduction record, concerns about data comparability and the adequacy of price adjustments raise the question of how robust this finding is. Evidence on selected more straightforwardly measured non-monetary indicators of deprivation is briefly reviewed in Section 5, after which Section 6 concludes.

## 2 The recent pattern of growth in Tanzania

Data from World Development Indicators on real GDP in local currency values from 1988 to 2013 are presented in Figure 1. This chart confirms that the 1990s were characterized by at best modest growth, as well as some periods of decline. By contrast since 2001 annual growth in real per capita GDP averaged 3.9 per cent a year, and was never less than 2.9 per cent which occurred in 2009 following the financial, food, and fuel crises.

Figure 1: Growth of real local currency per capita GDP in Tanzania



Source: World Bank (2015b).

Table 1: Real GDP growth, by expenditure category and sector, 1992, 2001, 2007, and 2012

	Mena growth rates per annum			Shares			
	1992–2001	2001–07	2007–12	1991	2001	2007	2012
<i>By expenditure category</i>							
Real GDP (2001 prices)	3.8	7.2	6.6	100.0	100.0	100.0	100.0
Consumption	2.0*	8.0	8.0	99.7	86.8	90.7	94.9
Public	14.8*	15.0	12.0	4.2	11.9	18.1	23.2
Private	0.9*	6.6	6.9	95.8	75.0	72.6	71.7
Investment	17.4	13.3	14.0	5.9	17.4	24.3	31.9
Gross fixed capital formation		13.5	14.0	5.8	17.0	24.0	31.5
Government		26.0	5.5		3.2	8.4	8.7
Private		9.4	18.3		13.8	15.6	22.8
Change in stocks		1.8	12.2	0.1	0.4	0.3	0.4
Net exports		32.2	24.6	-5.8	-4.3	-15.0	-26.8
<i>By sector</i>							
Agriculture and fishing		4.4	3.9	44.7	30.7	26.2	22.8
Crops		4.7	4.2	32.9	21.4	18.6	16.5
Livestock		3.1	3.1	6.3	5.0	4.0	3.3
Forestry and hunting		3.4	3.4	3.0	2.5	2.0	1.7
Fishing		5.8	2.7	2.6	1.7	1.6	1.3
Industry and construction		9.9	7.7	15.1	18.0	20.9	21.8
Mining and quarrying		15.4	3.3	1.0	1.8	2.7	2.3
Manufacturing		8.8	8.4	7.6	8.4	9.2	9.9
Electricity and water		6.2	6.1	1.4	2.6	2.5	2.4
Electricity		6.5	6.3	1.3	2.2	2.1	2.0
Water		4.9	5.6	0.2	0.5	0.4	0.4
Construction		11.3	9.0	5.0	5.2	6.5	7.3
Services		7.9	7.9	37.5	45.5	47.3	49.9
Trade, hotels and restaurants		7.7	7.8	14.8	15.8	16.2	17.0
Trade and repairs		8.3	8.3	0.0	13.0	13.8	14.8
Hotels and restaurants		4.6	4.9	0.0	2.8	2.4	2.2
Transport and communication		8.7	11.6	4.8	6.6	7.2	9.0
Transport		6.3	6.7	0.0	5.4	5.1	5.1
Communications		16.9	20.8	0.0	1.2	2.1	3.9
Finance intermediation		10.2	11.0	3.4	1.5	1.8	2.2
Real estate and business services		7.0	6.8	5.9	10.3	10.2	10.2
Public administration		9.5	6.1	6.0	7.0	8.0	7.7
Education		4.7	7.0	1.0	2.1	1.8	1.8
Health		8.4	6.7	0.6	1.3	1.4	1.4
Other social and personal services		2.8	3.3	1.1	0.9	0.7	0.6

Note: \*relates to period 1991–2001 instead of 1992–2001 due to missing data for 1992.

Source: World Bank (2015a).

A more detailed presentation of the national accounts is set out in Table 1 corresponding to the periods covered by the four HBSs. This confirms the difference between the 1990s and the period since 2000. Real GDP in 2001 prices grew at an average rate of 3.8 per cent per annum between 1992 and 2001—by 7.2 per cent per annum between 2001 and 2007, and 6.6 per cent between 2007 and 2012. Population growth averaged 2.9 per cent over the 1992–2012 period, so this translates into slow per capita GDP growth in the 1990s, and then more satisfactory, though by no means impressive, growth in real per capita GDP since 2001.

A disaggregation of the overall growth rate provides important clues about its expected poverty reduction impacts. Looking first at GDP by expenditure component, the national accounts estimate of private consumption grew by only 0.9 per cent per annum between 1991 and 2001; and by 6.6 per cent and 6.9 per cent per annum over the periods 2001–07 and 2007–12, respectively. Private consumption therefore fell in per capita terms between 1991 and 2001. Importantly, public consumption grew much faster than private consumption over each of these periods.

There were also very large increases in investment over each of these sub-periods, generally at much faster rates than consumption. Available data do not enable a public–private disaggregation for the 1992–2001 years. The government predominantly accounted for the investment growth between 2001–07, while between 2007–12 private investment dominates, including investment for natural resource exploitation.

It is also clear that Tanzania had a sharply negative balance of trade throughout this period. Imports supported this consumption and investment growth. In 1991 net exports were -5.8 per cent of GDP; by 2007 and 2012 this figure had reached -15.0 and -26.8 per cent, respectively. The trade deficit growth from 1991 to 2007 probably reflects aid, while the deficit in 2007–12 is likely related to offshore natural gas and other resource investments (predominantly undertaken by the private sector).

The investments that have taken place form part of the explanation of the faster growth in the 2000s. The increased public consumption, and public investment in the first period, has implications for non-monetary outcomes for which government provision is important and helps to set the stage for faster growth in the domestic economy. The relatively slow increase in aggregate private consumption taking place over much of this period suggests that slower progress in reducing monetary poverty might be expected.

While data are not available to analyse the sectoral pattern of the growth in real GDP from 1992 to 2001, data in current prices for this period suggest faster growth in industry/construction and services compared with agriculture. The detailed pattern of real growth is available for the second and third sub-periods. Particularly fast growing subsectors over these periods include first and foremost communications, followed by financial intermediation, construction, transport and communication, manufacturing, trade and repairs and, in the earlier sub-period, mining and quarrying. All showed significant growth rates. Again agriculture grew much more slowly over this period. Growth performance seems to have been better in urban areas than in rural areas, where poverty is concentrated.

The above review relies on aggregate macroeconomic figures. Both the expenditure composition of growth, which is oriented more to investment and government as opposed to private consumption, and its sectoral pattern, which is oriented towards urban sectors, suggest slower progress in reducing consumption-based poverty than might be presumed from headline GDP growth.

### 3 Micro-level evidence on consumption poverty in Tanzania and its responsiveness to growth

In this section, we turn to household level data. Microeconomic analysis is possible based on the four HBSs, conducted by the National Bureau of Statistics in 1991/92, 2000/01, 2007, and 2011/12. These are nationally representative surveys of the mainland Tanzania population. Among other things, they collect the data to estimate household consumption, which can then be used to measure living standards as total real household consumption per adult equivalent. There were some differences in the survey questionnaires used through time. Some revisions in 2011/12 compared with earlier rounds are of particular relevance. As a result, there were methodological differences in the analysis conducted across the two latest surveys, compared with the analysis originally done on the first three surveys. For this reason, two different estimates of poverty in 2007 have been made here in order to compare like with like.

The summary national level poverty headcount estimates from this data, as published by the National Bureau of Statistics (1991/92–2007) (Government of Tanzania 2009) and the World Bank (2007–2011/2) are presented in Table 2. The poverty headcount in 1992 was 38.6 per cent. Estimates for 2000/01 and 2007, based on consumption measures constructed to be as comparable as possible, showed poverty headcounts of 35.7 per cent and 33.6 per cent respectively. Progress in reducing the poverty headcount over this 15-year period therefore appears to be quite slow, and the absolute numbers of poor people rose by an estimated 3.3 million. Between 2007 and 2011/12 the poverty headcount is estimated to have fallen from a revised estimate of 34.4 per cent in 2007 to 28.2 per cent in 2011/12. This corresponds to a reduction in the absolute numbers of poor people by around 670,000.

Table 2: Trends in poverty headcounts and growth elasticities of poverty reduction

	1992	2001	2007	2012	Percentage change		
					1992–2001	2001–07	2007–12
<i>HBS data</i>							
<i>Poverty headcounts (%)</i>							
<i>Direct (2007 unrevised)</i>	38.6	35.7	33.6		-7.5	-5.9	
Direct			34.4	28.2			-18.0
Imputed with cell			33.1	28.2			-14.8
<i>Household budget survey</i>							
Mean household consumption per capita (2011/12 prices, spatially adjusted)			581,538	611,691			5.1
Mean household consumption per capita (2007 prices)	192,318	203,170	208,770		5.6	2.9	
'Growth' elasticity of poverty*					-1.32	-2.14	-3.47
<i>National accounts data</i>							
Per capita GDP	247,960	270,576	347,776	426,357	9.1	28.5	22.6
Growth elasticity of poverty*					-0.82	-0.21	-0.80
Per capita private consumption	-	202,850	252,523	305,556	-	24.5	21.0
'Growth' elasticity of poverty*					-	-0.24	-0.86

Note: \*National accounts data in constant (2001) prices. National accounts estimates normalized on total population, including households in institutions not included in the HBS estimates.

Source: World Bank (2015a) and authors' computation from HBS datasets.



Given the concern expressed at the beginning of the lack of responsiveness of poverty to growth, these figures are used next as a basis for estimating the growth elasticity of poverty reduction. Their construction for the three sub-periods under consideration here is reported in Table 2. Two ways of doing this are pursued: one based on national accounts aggregates, and second, an approach, using the estimated growth in household consumption from the survey data.

In using national accounts data, the growth elasticity can be computed with respect to growth in per capita GDP or growth in per capita private consumption. With respect to per capita GDP, the elasticities are low, all less than 1, and especially low between 2001 and 2007 when growth was fast (per capita GDP increased by 28.5 per cent) and poverty reduction was very modest, falling by only 2.9 percentage points or 5.9 per cent. The elasticity is higher between 2007 and 2011/12, when poverty reduction was faster and growth slightly slower, yet it was still only -0.80. The elasticity with respect to per capita consumption is only slightly higher than the elasticities with respect to per capita GDP for the full period between 2001–12.

Such statistics feed concerns about the poverty-reducing impact of growth in Tanzania. The values are low compared with several other African countries studied in this volume, to say nothing of some East Asian countries. This raises the question of what it is about the growth experience of Tanzania that results in such poverty outcomes, and what might be done to improve it in future.

When these same calculations are done in relation to the household survey-based measure of consumption, the results paint a different picture. The growth in per capita consumption reported by the household survey data is generally much less, especially in the 2000s. Compared with the estimates of 24 and 21 cumulative per cent changes in real per capita private consumption expenditure over the 2001–07 and 2007–12 periods from the national accounts, the household surveys suggest cumulative changes over these periods of 2.9 per cent and 5.1 per cent, respectively. The assessment of whether growth is effective in reducing poverty then critically depends on which of the two measures of aggregate real consumption one takes as the basis of analysis.

In Table 2, when we took the ‘growth’ denominator to be the percentage change in real private consumption per capita from the national accounts, the consumption growth elasticity of poverty reduction (based on changes between 2007 and 2012) was just -0.86. If instead we measured ‘growth’ using the percentage change in mean real household consumption per capita from the two HBSs, the estimated ‘growth’ elasticity of poverty increases to -3.5. The elasticity estimated using household consumption is also significantly higher between 2000/01 and 2007. Poverty appears to be relatively unresponsive to growth only if the latter is measured from the national accounts. Using consumption measured in the HBSs (which is also used in the measurement of poverty itself) leads to a more optimistic assessment in terms of responsiveness—poverty did respond to much more limited ‘growth’, but a less optimistic assessment in terms of consumption growth. In this view, the core issue underlying the limited poverty reduction is the lack of growth in real household consumption.

With this background, it is important to ask which measure of consumption should be considered more reliable. At the outset, it is important to recognize that there are differences between the two approaches to estimating consumption. The national accounts measure of private consumption is a macro-founded indicator, while the household survey-based measure is a micro-founded indicator computed primarily for purposes of poverty analysis. In addition, the estimates are obtained in very different ways. Typically, the national accounts estimate of private consumption is obtained as a residual, once absorption by firms and government is accounted for. Surveys obtain their estimates directly from household interviews, based on respondent recall or diary keeping.

There are strengths and weaknesses to both, yet the underlying concepts certainly overlap closely enough to suggest that similar estimates of levels and growth rates should emerge in general.

The observation that national accounts and household survey-based estimates of consumption can differ significantly is not an issue unique to Tanzania, rather it is an issue which has been quite widely studied. Ravallion (2001: 5) concludes, 'it is evident that when the levels or growth rates from these two data sources differ there can be no presumption that the NAS [national accounts] is right and the surveys are wrong, or vice versa, since they are not really measuring the same thing, and both are prone to errors'. While these differences can be considered a problem, they also do have an advantage, in that each source can serve to triangulate the other. Ravallion (2001) finds that the divergence between the national accounts and survey estimates of consumption is greater when surveys centre on measuring income, rather than consumption. The general practice in African surveys to rely mainly on measuring consumption would reduce the divergence between the two sources. Deaton (2005), for example, finds that the average ratio of household consumption (measured in 74 surveys in sub-Saharan Africa) and private consumption from the national accounts is unity.<sup>2</sup>

The household survey-based approach is in many ways more closely related to the analysis of poverty, indeed, that is the purpose for which they were designed. In Tanzania's case, there is a challenge caused by a change in survey methodology between the 2007 and 2011/12 surveys. While the approach taken to measuring consumption was better in 2011/12 than in 2007, this change creates the risk that comparing the average consumption estimates from these two surveys with each other may overestimate the growth in consumption.

So, the key question is why are estimates of real consumption growth from the national accounts so much greater than those of the HBS? To start to explore this, we first compare nominal estimates of per capita household consumption between the national accounts and the household survey in the years of the latest two household surveys, 2007 and 2011/12. The survey estimates of average nominal consumption per capita were 306,072 TZS (Tanzanian shilling) in 2007 and 611,691 TZS in 2011/12, while the national accounts estimates of private consumption per capita were 358,591 TZS in 2007 and 694,340 TZS in 2012. This implies annual growth rates of 14.9 per cent and 12.8 per cent, respectively. Both the nominal levels of per capita consumption and their growth rates over the period are quite close despite the very different sources.

For welfare analysis, it is necessary to track changes in *real* consumption over time, and it is here the two approaches part company. When the series are deflated (the national accounts using a consumption component of the GDP deflator and the survey using survey-based prices and weights, both employing a single country-wide inflation estimate), there are significant differences in estimated changes in real consumption. The national accounts report a real per capita private consumption growth of 3.9 per cent per annum between 2007 and 2012, while the survey gives a growth in per capita household consumption of just 1.0 per cent per annum. Whereas in nominal terms the two consumption measures correspond reasonably well, when expressed in real terms, there is little correspondence between them and they imply completely different growth and poverty scenarios.

So a major issue is the choice and reliability of the price deflators. In Tanzania, the implicit national accounts private consumption deflator indicates that prices rose by only 51 per cent between 2007–12. This is marginally lower than the deflator for GDP as a whole (54 per cent). In contrast,

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<sup>2</sup> Sub-Saharan Africa also exhibits a high variance in this ratio. Globally, the ratio of household-based to national accounts-based estimates is typically less than one.

according to the 2007 and 2011/12 HBS data, consumer prices faced by households on average rose by 90 per cent in the period. This makes a massive difference to the time trend in real household consumption.<sup>3</sup> A similar issue arises between 2001 and 2007, and is discussed in the studies of poverty by Mkenda et al. (2010) and Atkinson and Lugo (2010). That earlier period saw a bigger divergence between the private consumption deflator and the GDP deflator (Atkinson and Lugo 2010). But again, the key difference is that between the national accounts deflator (which implied that prices increased by around 60 per cent over this period) and the survey data deflator (which implied that prices increased by 93 per cent).

The reliability of price data in Tanzania has been reviewed and analysed in detail by Adam et al. (2012). Concerns that the Consumer Price Index (CPI) underestimates inflation in Tanzania have been a long-standing issue. A major revision of the CPI computation was made in the mid-2000s, after an IMF review found that procedures of handling seeming outliers and other technical errors were creating a large downward bias. A World Bank study (World Bank 2007) argued that there was still some downward bias in the series. The analysis conducted by Adam et al. (2012) showed a significantly higher level of food price inflation than the NBS series, and moreover their estimates were much closer to the pattern of world price changes converted into TZS values. A similar issue seems to arise for non-food. They take this as strongly suggestive evidence that the CPI was a downwardly biased measure of inflation in Tanzania, at least through 2007.

The inconsistency between the national accounts and survey consumption evidence is graphically illustrated by Sandefur (2013). Dealing with the period 2000-07, he contrasts the marginal decline in poverty based on HBS data (as seen above, 2.1 percentage points) with the significant decline in PPPUS\$1/day poverty (16.7 percentage points). Since both estimates are based on the same survey evidence, the difference has to be attributed to the price series used to obtain real values, the CPI being used for the PPPUS\$1/day estimate. He recalculated the PPPUS\$1/day measure using instead a price deflator derived from the HBS, and obtained a much less dramatic poverty decline (just 3.5 percentage points). This shows that the price series used to establish trends in well-being and poverty plays a critical role, and explains in large measure the inconsistency between the national accounts and survey-based narratives. Sandefur (2013) clearly favours the price series obtained from the surveys. These prices are obtained directly from the household questionnaires, and reflect the prices actually paid by Tanzanian households, and they are derived from the same data used to compute the poverty indicators. Official inflation estimates (such as the CPI) are based on surveys of local urban markets only, which may not reflect the prices actually paid by most rural households, and they face the problems already identified by Adam et al. (2012).

It is also important to recognize that the CPI is normally a macro-weighted index, which gives rich household consumption baskets a large weight. The index based on the household survey places more weight on the consumption patterns of poorer households, meaning that basic items have a higher weight. Consistent with world price increases over the period, one would expect more rapid inflation in the household survey-based index, which is more relevant for the measurement of the monetary poverty rate.

There are therefore several reasons for arguing that, for analysing the economic well-being of the population, the survey-based price data are to be preferred. A corollary question may be whether the price indices used for measuring growth (i.e. either the GDP deflators or CPI estimates) give

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<sup>3</sup> The CPI records price inflation of 75 per cent during this period—that is somewhere between the national accounts consumption deflator and the HBS data.

too favourable a view of recent economic growth. In other words, are official estimates of real GDP (and private consumption) open to question?

In sum, using the best available data to assess changes over 2001–12, the main issue is not so much why Tanzania’s reported fast growth led to so little poverty reduction—rather it is why real household consumption has grown so slowly.

#### **4 The pattern of poverty change in Tanzania and an evaluation of its robustness**

In assessing the monetary poverty results in greater detail for Tanzania, it is very important to review underlying measurement issues. There are two major challenges which must be taken account of in this assessment: the issue of the comparability of the latest two of the surveys used and the adequacy of price data. On survey comparability, the data for the four available years all come from HBSs conducted by the National Bureau of Statistics. The first three surveys are considered to be largely comparable with each other. As already noted, a set of improvements in survey design and methodological approach were introduced with the 2011/12 survey (World Bank 2015a) creating potential issues of comparability with earlier work. For the comparison between 2007 and 2011/12, the World Bank (2015a) for its recent *Poverty Assessment* recomputed the consumption aggregates for 2007 on a comparable basis to the 2011/12 estimate.<sup>4</sup> This revised 2007 estimate is then not directly comparable with the earlier series; that comparison needs to be made based on the original 2007 estimate. On prices, the data available from the surveys may give a better assessment of inflation over the period between the surveys, but they are still quite inadequate for adjusting for the differences in the prices faced by different households. These issues are revisited again later in this section; to begin with we discuss the available results at face value.

The analysis in this section relies on national poverty lines. Data for the poverty headcount by survey stratum (Dar es Salaam, Other Urban and Rural) in mainland Tanzania are presented in Table 3, with the two different figures for 2007 reflecting the above observation. It is clear that poverty is consistently lower in urban areas than rural areas, and that over the entire period much faster progress in poverty reduction has been experienced in Dar es Salaam compared with other strata. In particular, there were quite large poverty reductions in Dar between 1991/92 and 2000/01 and between 2007 and 2011/12. Over these periods, average real consumption in Dar grew by 4.5 per cent and 3.3 per cent per annum respectively, while the consumption growth rates were much slower elsewhere. In urban areas outside Dar, the poverty headcount fell very slowly between each survey. The same happened in rural areas between 1991/92 and 2007, while poverty seems to have fallen more in rural areas between 2007 and 2011/12. An analysis of extreme poverty, covering those households whose consumption lie below the food poverty line, shows very similar patterns and trends (not presented here).

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<sup>4</sup> Differences in sampling and survey methodology remain.

Table 3: Poverty headcounts and Gini coefficients for Tanzania

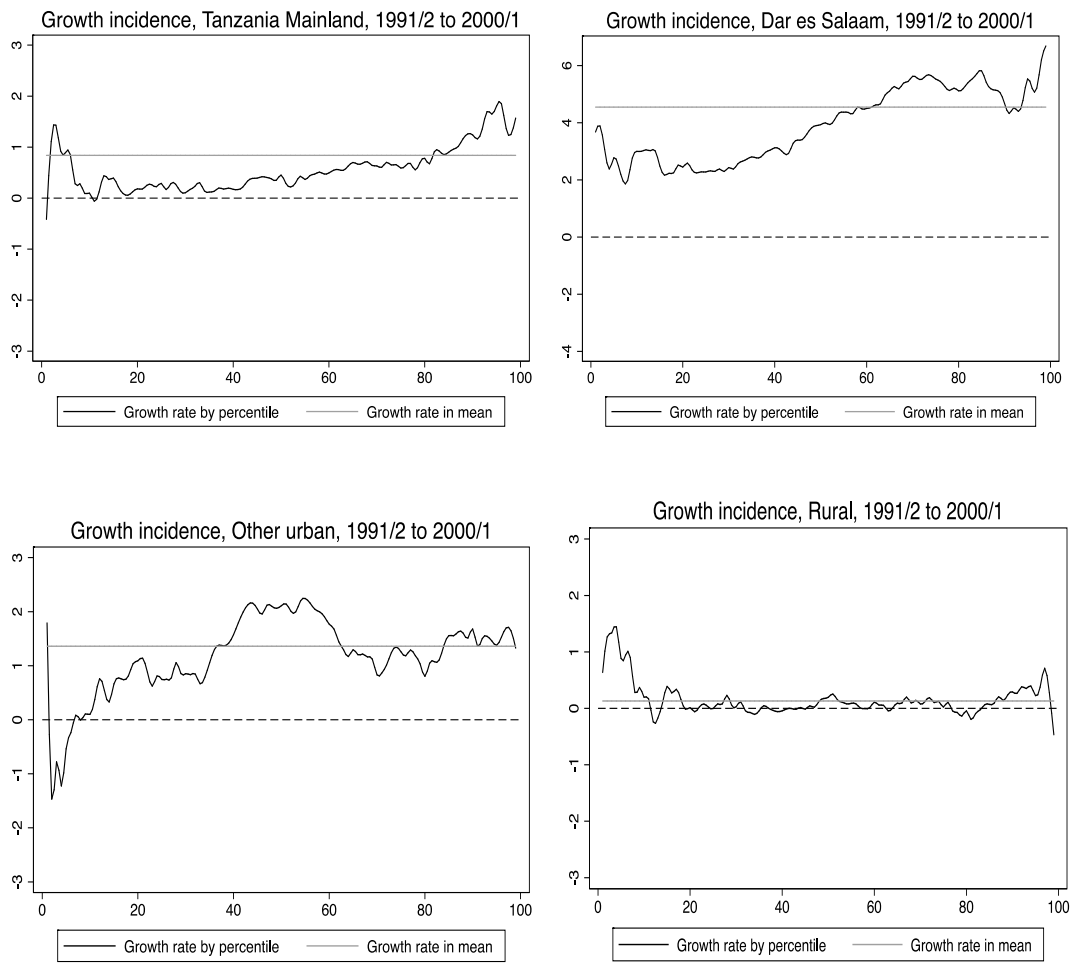
Location	1992/93	2000/01	2007	2007	2011/12
National headcount	38.6	35.7	33.6	34.4	28.2
<i>By stratum</i>					
Dar es Salaam	28.1	17.6	16.4	14.1	4.0
Other urban	28.7	25.8	24.1	22.7	21.5
Rural	40.8	38.7	37.6	39.4	33.4
Gini coefficient (national)	0.343	0.356	0.353	0.373	0.342

Source: Authors' computation from HBS datasets.

The same table also provides estimates of national level Gini coefficients. Here, the striking features seem to be its relatively low level (compared with neighbouring countries such as Kenya, Rwanda, and Uganda) and its relative constancy over time. The only change in the Gini coefficient happens with the recalculated 2007 consumption data, and even that change is relatively small. This finding of a moderate and stable level of inequality may seem surprising given, among other things, the faster progress shown by Dar es Salaam over this period relative to the rest of the country. We highlight that it is always a concern in household surveys that wealthier households are not adequately captured.

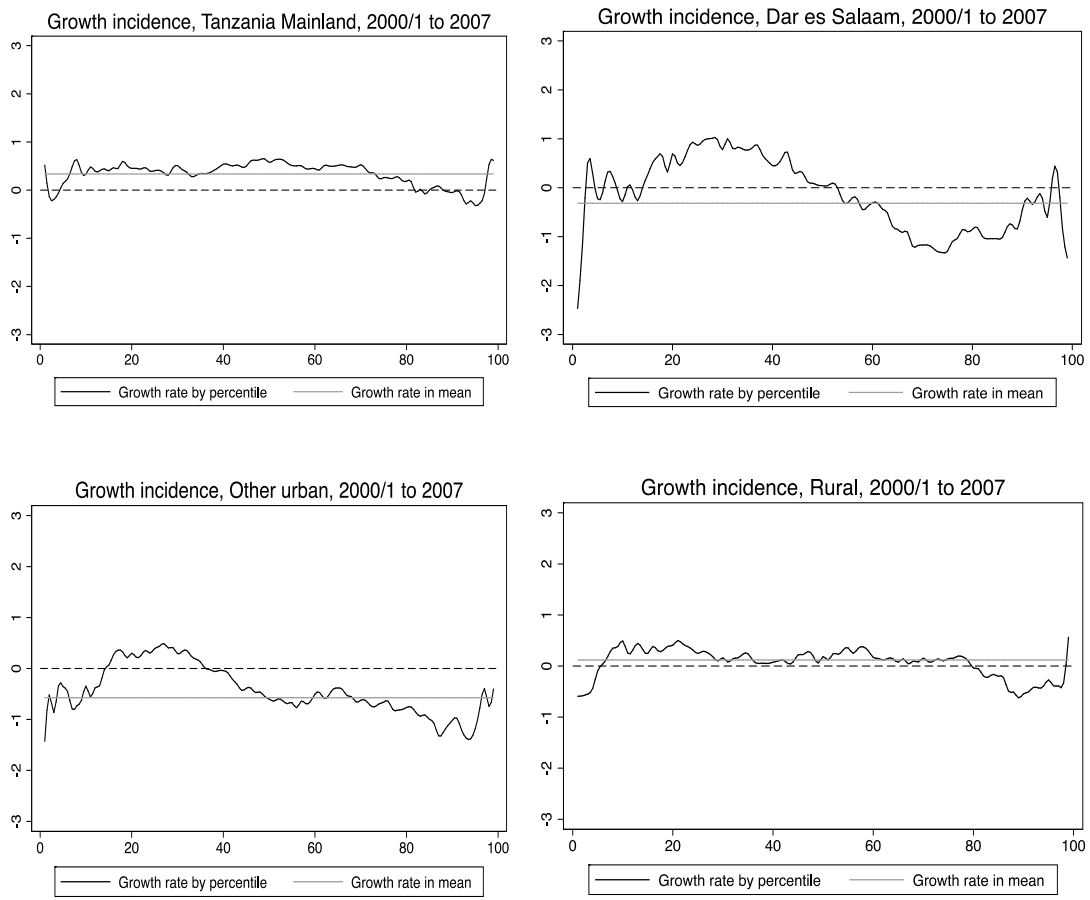
The nature of these changes over time can be further explored by considering growth incidence curves for the strata between each pair of years (Figure 2). Between 1991/92 and 2000/01 the national pattern shows slow growth throughout most of the distribution, except at the very bottom and at the top. The stratum level curves again show that growth over this period was much faster in Dar than elsewhere. While the growth rate in Dar generally increased with the consumption level over this period, there was positive growth also at the bottom of the distribution, consistent with the poverty reduction seen there over this period. There was slower growth in other urban areas, but generally not at the bottom of the distribution where the poor are concentrated. In rural areas, consumption growth was very slow over this period, even if according to available data it was slightly higher at the bottom of the distribution.

Figure 2a: Growth incidence curves by strata, 1991/92 to 2000/01



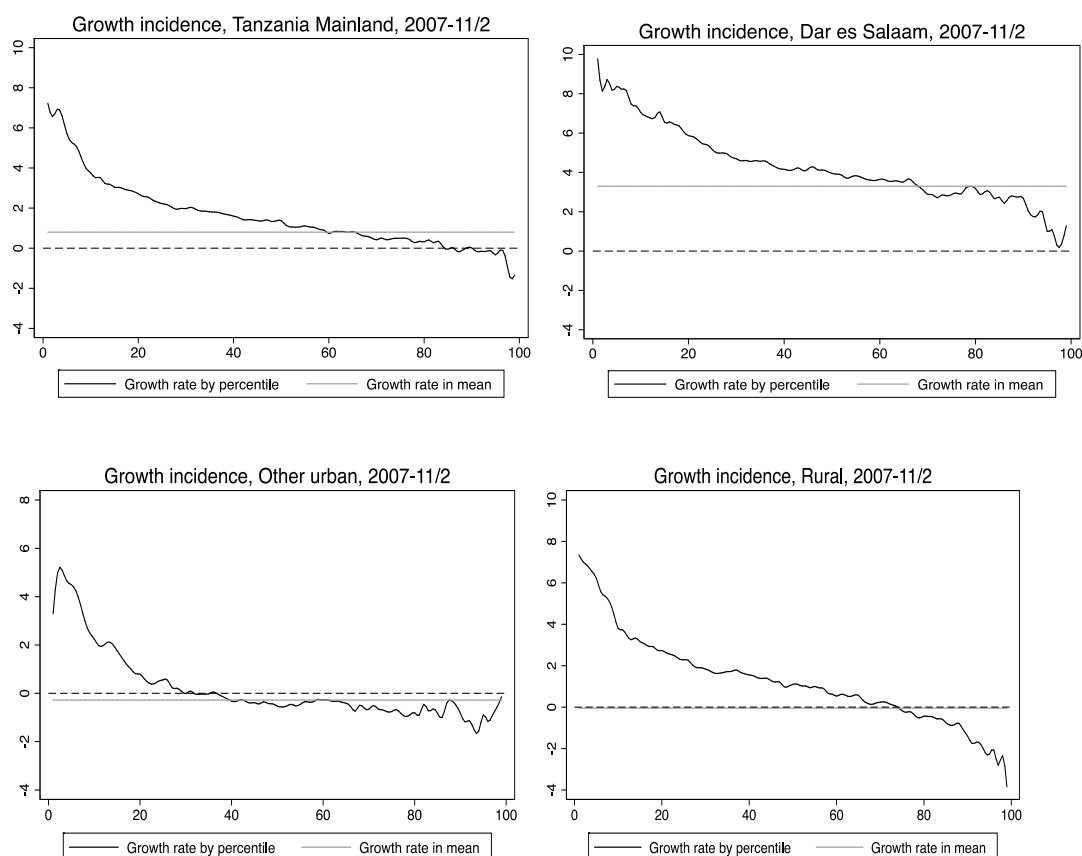
Source: Authors' computations from 1992/93 and 2000/01 survey data.

Figure 2b: Growth incidence curves by strata, 2001–07



Source: Authors' computations from 2000/01 and 2007 survey data.

Figure 2c: Growth incidence curves by strata, 2007–2011/12



Source: Authors' computations from 2007 and 2011/12 survey data.

Growth incidence curves for the 2000/01–2007 period show very little growth overall.<sup>5</sup> There appears to be no significant change in inequality over the period; if anything growth over this period was marginally faster at the bottom of the distribution. Rising food and fuel prices in this period may have had a substantial impact on the outcome.

The stratum level growth incidence curves (GICs) over the 2007 to 2011/12 period again show much faster growth in Dar es Salaam than the other strata, and in both other urban and rural areas, mean real consumption actually falls over this period. The distributional pattern of the curves is now one where the growth rate falls as households become better off. Reported growth is relatively faster at the bottom of the distribution, though the absolute magnitude of change is still quite small. The same pattern is seen in each of the strata.

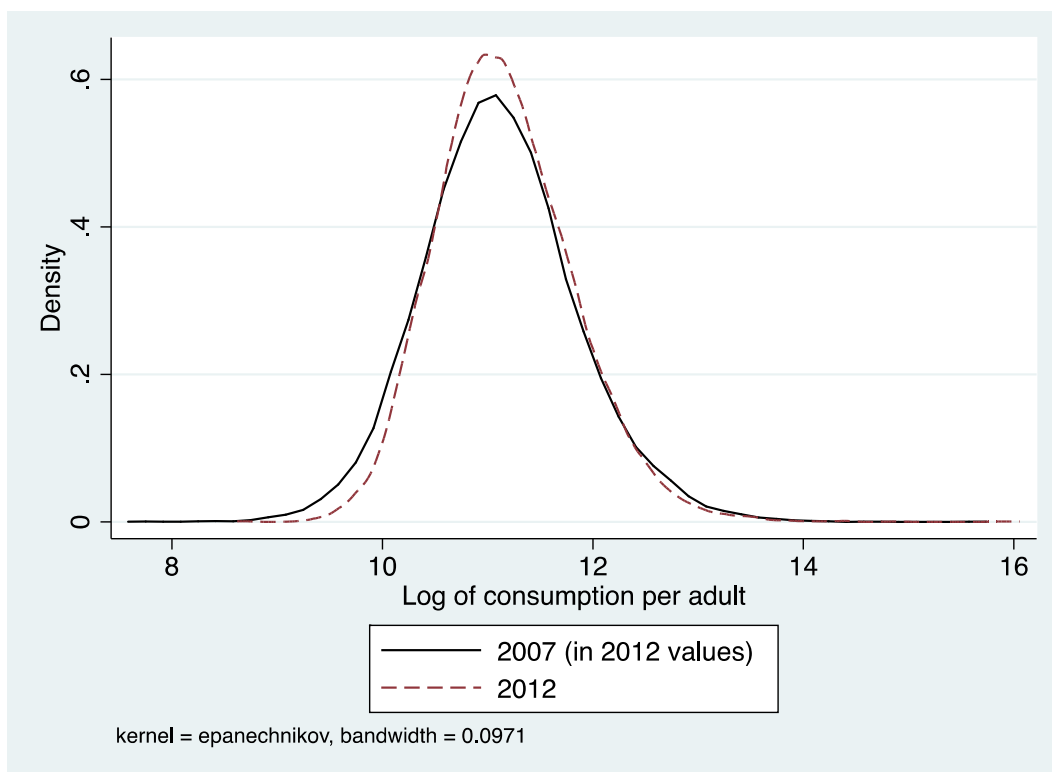
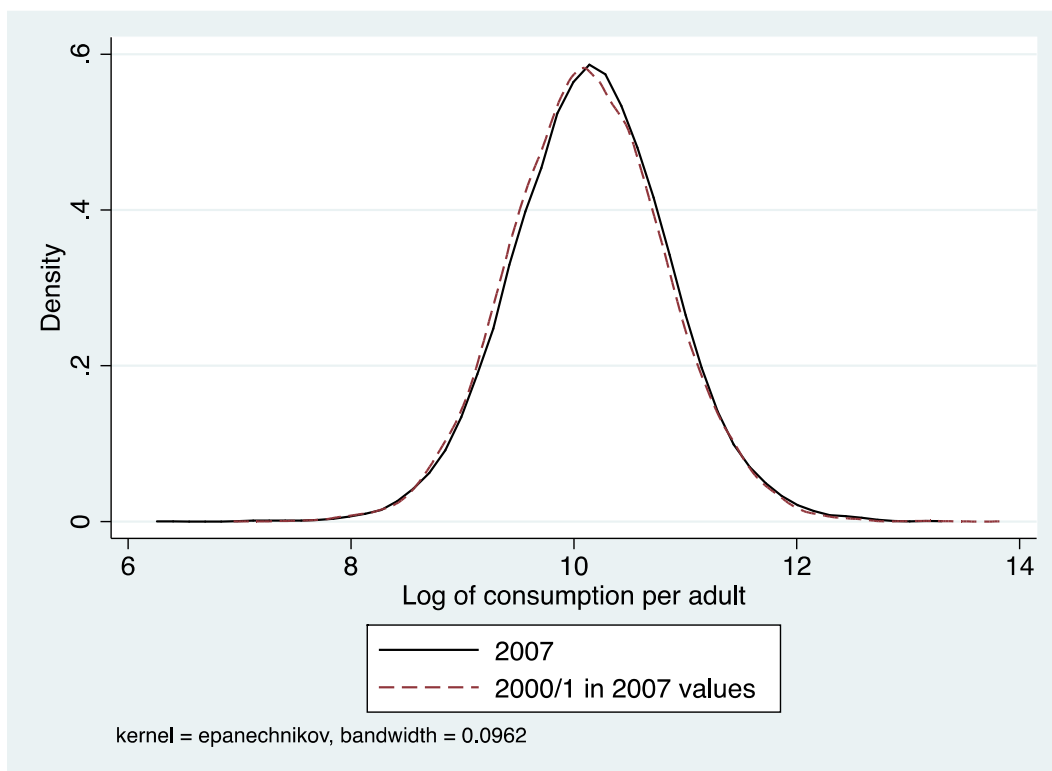
As another representation of this, kernel density plots comparing the logarithm of consumption per adult for 2007 and 2011/12 are presented in Figure 3, with a similar plot comparing 2000/01 and 2007. The 2000/01 and 2007 curves are very close to each other, with the 2007 curve very slightly to the right throughout much of the distribution. The difference between the 2007 and 2011/12 is observed at the bottom of the distribution only; there are fewer observations at lower values of per adult consumption in 2011/12 than was the case in 2007. This underlies the shape of the growth incidence curves seen above. This seeming change in the distributional pattern of

<sup>5</sup> The fact that the growth rate is higher in the national GIC than in any of the others is explained by significant population shifts over the period, with the population in the (poorer on average) rural areas falling from 80.4 per cent in 2000/01 to 74.8 per cent in 2007.



growth raises the question of whether this is picking up a real phenomenon or whether it could reflect more effective collection of the data at the bottom of the distribution in 2011/12.

Figure 3: Kernel density plots of the logarithm of consumption per adult, 2000/01–2007 and 2007–2011/2



Source: Authors' computation from HBS dataset.

While the 2007 and 2011/12 data used here were computed on as comparable a basis as possible, there are still differences in the way the data was collected. It is possible that improvements in the design and implementation of HBS 2011/12 resulted in better capture of consumption by poorer households.<sup>6</sup> In both rounds, food consumption was collected in a fairly similar way using a diary which the interviewers monitored on a daily basis; it is not possible though to verify whether this monitoring was more carefully done in the 2011/12 survey compared with the 2007 survey. There was potentially a bigger change in how the non-food data were collected, in that in 2011/12 respondents were asked about items individually one by one while in 2007 they were asked about broader categories of goods and asked to specify items from a list. This might create a risk of fewer non-food items being reported in 2007 compared with 2011/12. The food consumption data in principle ought to be more comparable.

However, this does not seem to explain the observed outcome, in that if growth incidence curves are generated for food consumption only (which may be more comparable) for the 2007 to 2011/12 period, a similar distributional pattern of change is observed at the national level and in each stratum. As a further check on whether consumption measurement issues are responsible for the shape of these GICs we use imputed estimates of consumption for 2007 (thus avoiding any use of measured consumption in 2007). For this, household consumption per capita in 2011/12 was regressed on ownership of assets and household characteristics, selecting only characteristics and assets available in the 2007 survey. These 2007 regressors were then used to predict consumption in 2007, allowing for the random error component. One hundred simulations were run for each household in 2007. The percentile points were identified for each one of these simulations, and in conjunction with the 2011/12 percentile points, were used to compute 100 estimates of the change in consumption for each percentile which were then averaged. The results based on these simulations show that the GICs are downward sloping through most of the range, and this also suggests relatively more rapid consumption growth among lower percentiles.

Another major concern is about the inadequate price data available for this analysis. The survey used a single deflator for inflation for all households in Tanzania between 2007 and 2011/12, whereas it is highly likely that inflation rates would have differed spatially or by income group. It is certainly plausible that poor households may have faced higher inflation overall in this period given the greater share of food in their consumption baskets combined with the fact that food price inflation was higher over this period. If so, this would affect estimates of both poverty and inequality (Arndt et al. 2015).<sup>7</sup> While there is not sufficient information to be able to assess this, it underlines the need for considerable caution in deriving strong conclusions from the data.

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<sup>6</sup> It is important first to note that in absolute terms the gains we measure among the poorer groups are not particularly large. For the poorest five deciles, increases in consumption amount to only around TZS 4,000 (in 2011/12 prices) per month, and appear significant in relative terms only because of the low levels of consumption that characterizes the bottom half of the consumption distribution in Tanzania.

<sup>7</sup> What is less clear is whether poorer households would also have faced higher food price inflation as well; this would need to be the case to conclude that the food consumption GICs were also misrepresenting the pattern of change.

Table 4: Food shares in Tanzania, 2007 and 2011/12

Location	2007	2011/2
National	0.575	0.63
<i>By stratum</i>		
Dar es Salaam	0.597	0.662
Other urban	0.528	0.581
Rural	0.481	0.516
<i>By quintile</i>		
Lowest	0.630	0.708
Second	0.607	0.677
Third	0.600	0.661
Fourth	0.563	0.614
Highest	0.477	0.498

Source: Authors' computation from HBS datasets.

Alternatively, the GICs may be representing a real pattern of change. One possible explanation might be that it captures a genuine reduction in consumption by the poorest in 2007. Comparing food shares across the four HBS surveys, it is the 2007 food share which stands out as being most different. If poorer households did reduce their level of food consumption in response to, for example, sharply rising food prices in 2007 then the shape of the GIC between 2007 and 2011/12 may represent catch up by the poorest households.

Another possible interpretation of the pattern of the GICs could be positive changes made by households over the period. The national accounts data suggest that growth in agriculture was not faster in the 2007–12 period compared with the 2001–07 period, so this is unlikely to be a major part of the story. The survey data does suggest some movement out of agriculture in rural areas over this period into wage work (potentially with a higher return), and, within agriculture, some increase in the number of households cultivating cash crops (who tend to be better off). There was evidence of an increase in asset ownership among the poorest 40 per cent (livestock and especially cell phones), and also evidence of an increase in access to community infrastructure (electricity, roads). It is, however, not obvious why this should affect poorer households more; one might argue that better off households are restraining consumption levels and increasing their saving and investment in both rural and urban areas. But, these explanations are speculative and remain to be rigorously assessed.

Overall, the change in the survey methodology creates a serious question about the comparability of the 2007 and 2011/12 data despite the best efforts made to correct for this. If there are concerns about consumption having been more accurately captured at the bottom end of the distribution in 2011/12 compared with 2007, then this would affect both the shape of the GICs, and the estimates of reduction in poverty which would turn out to be overestimates. Clearly, it will be important that the consumption data is collected in a fully comparable way in future surveys.

The absence of adequate data to adjust for price changes compounds this. The survey-based deflators give a better indication of the pattern of change over this period than do national accounts or CPI-based deflators when focus is on measuring poverty. At the same time, the survey-based deflator remains unsatisfactory because a single number for inflation or food price inflation is assumed for the entire country, which is implausible.

What we have attempted here is to make the best possible overview of the change in poverty given the available data. The clear result from the analysis and the common thread to all the discussion above is the slow growth in real per capita consumption, which translates into relatively small poverty reduction outside of Dar es Salaam. This is one result from the consumption poverty analysis of which we can be reasonably confident.

## **5 The non-monetary poverty story**

We now complement the monetary poverty review by a brief analysis of trends in various non-monetary measures of deprivation. The data used are taken from the Tanzania Demographic and Health Survey (TDHS) conducted in the years 1991/92, 1996, 2004/05, and 2010 (Government of Tanzania) and Macro International (1993, 1997, 2005, and 2011). A nationally representative sample for the whole country, including Zanzibar, was taken in each case; the sample sizes were respectively 8,327; 7,969; 10,312; and 10,300 households.

From these micro data we capture the non-monetary multidimensional nature of poverty by identifying five binary welfare indicators at the household level based on the Bristol Indicators (Gordon et al. 2003), taken as water, sanitation, shelter, education, and information. A household is water-deprived if the main source of drinking water is not from a pipe, tap, or well. For sanitation, the household is deprived if it has no flush toilet or ventilated improved pit toilet. A household is shelter-deprived if the main floor material is dirt, sand, dung, or planks. A household is education-deprived if the household head has not completed at least primary school. The household is information-deprived if it does not have a functioning radio or television.

Table 5 presents the percentage of households not deprived in each dimension, comparing the first and last year of the DHS surveys and comparing by region of the country. To start, the results show significant heterogeneity between urban and rural areas and across regions. Yet, almost all indicators demonstrate substantial improvements between 1992 and 2010, with the exception of water in several locations. Sanitation facilities improved from a very low starting value of 3 per cent in 1992 to reach 12 per cent in 2010. Water, sanitation, shelter, education, and information all show improvements at national level by respectively 7, 8, 12, 24, and 27 percentage points.

Table 5: Households not deprived by welfare indicator, %

	Water		Sanitation		Shelter		Education		Information	
	1992	2010	1992	2010	1992	2010	1992	2010	1992	2010
Nation	64.5	71.2	2.9	11.7	18.6	30.5	31.8	56.2	36.7	64.3
Rural	56.3	67.0	1.3	3.1	9.0	16.6	27.1	49.4	29.6	59.5
Urban	92.3	85.3	8.2	40.3	51.6	76.7	47.7	78.5	60.8	80.4
Western	56.6	77.1	3.2	6.5	9.6	15.0	23.4	45.6	30.5	64.5
Northern	57.8	62.8	3.9	11.0	26.3	36.8	38.3	62.5	48.0	64.2
Central	73.5	63.3	2.5	4.9	12.3	13.0	29.4	51.4	27.9	50.9
S. Highlands	60.0	66.5	1.2	9.8	13.9	32.0	33.2	59.4	32.5	65.7
Lake	51.2	70.7	2.7	12.7	12.0	25.7	30.4	51.1	32.9	64.1
Eastern	84.9	79.0	4.5	23.8	38.9	59.1	40.3	69.0	50.4	77.3
Southern	72.4	69.2	1.0	6.7	12.5	19.1	25.2	58.8	24.6	52.1
Zanzibar	90.3	98.4	3.3	27.6	34.0	66.5	33.3	50.1	55.1	75.5

Source: Authors' compilation based on 1992 and 2010 TDHS (National Bureau of Statistics and Macro 1993, 2011).

Setting aside water for a moment, changes in these indicators were more pronounced in urban areas compared with rural areas, and increases are observed in every region of the country. There is significant heterogeneity by zone in the extent of change; in sanitation and shelter, for example, large improvements are seen over this period in the Eastern zone and in Zanzibar, while changes are small in the Central zone. In relation to water, the pattern is more diverse; some zones such as Western, Northern, Southern Highlands, Lake, and Zanzibar see improvements, while others such as the Central, Eastern, and Southern zones have deterioration in water access.

The national level figure on water access is sensitive to constraints on the time it takes to retrieve water. When we restrict not deprived in water to households within 30 minutes of the water source, water access only improves from 53 to 55 per cent. When being not deprived in water is restricted to sources within 15 minutes, the situation shows progress is limited to a change from 39 per cent in 1992 to 35 per cent in 2010. The situation is even more pronounced in urban areas.

Table 6: Children under five (0–4 years) not deprived by welfare indicator, %

	Water		Sanitation		Nutrition		Education		Delivery	
	1992	2010	1992	2010	1992	2010	1992	2010	1992	2010
Nation	64.0	70.6	2.5	8.6	45.5	59.0	46.9	59.6	55.0	49.6
Rural	56.9	67.5	1.1	2.0	44.1	56.7	42.7	55.1	46.7	41.8
Urban	91.4	83.7	8.0	36.4	50.9	68.8	63.3	78.3	86.5	82.6
Western	57.0	76.4	2.4	4.6	50.7	61.8	33.0	48.3	50.8	35.2
Northern	58.6	59.0	5.5	7.7	47.3	57.1	60.5	66.2	63.9	51.2
Central	72.2	59.9	1.7	2.9	41.3	49.3	51.3	58.1	57.5	46.9
S. Highlands	61.5	65.6	1.2	9.5	40.7	52.7	50.2	66.4	53.1	50.0
Lake	53.4	71.8	1.9	9.1	51.0	63.5	39.2	57.5	40.6	44.4
Eastern	80.8	79.9	3.2	18.4	45.7	66.0	53.7	67.0	65.4	74.4
Southern	73.3	71.1	0.7	6.0	34.2	55.6	47.7	65.6	70.0	69.0
Zanzibar	88.9	98.3	2.7	26.3	39.1	60.8	42.8	57.2	32.5	48.8

Source: See Table 5.

Different measures of deprivation are defined for under-five-year-old children, where the focus is on water, sanitation, nutrition, mothers' education, and location of delivery as the main welfare indicators. Children under five are education-deprived if their mothers have not completed at least primary school. Children under five are nutrition-deprived if the child is more than two standard deviations below the median of the reference population in at least one of the following anthropometric measures: weight for age, height for age, weight for height. Children under five are delivery-deprived if the child was delivered in a home rather than a health facility. Sanitation is as defined before.

Table 6 shows that the percentage of the under-fives not deprived in each dimension has improved significantly for all indicators. Between 1992 and 2010, water, sanitation, nutrition, and education improved by 7, 6, 13, and 13 percentage points respectively, while delivery improved by 5 percentage points from 55 to 50 per cent, suggesting the share of women delivering at home has decreased. Examination of zones reveals that sanitation, nutrition, and education improved everywhere, though by varying extents, while there was substantial heterogeneity in the performance of the delivery indicators ranging from significant improvements to a few deteriorations.

The overall story over this 18-year period in Tanzania is one of overall improvements in most key non-monetary indicators, with the exception of water in urban areas. A more detailed analysis of these non-monetary indicators, including considering multiple deprivations, is undertaken by Arndt et al. (2014).

## **6 Conclusions**

While the process has been long, Tanzania has registered more impressive economic progress over the past 15 years compared with the 1980s and 1990s. Economic growth has favoured urban zones, especially Dar es Salaam, with rural areas in general and the agricultural sector in particular lagging behind. Consequently, monetary poverty remains high in rural areas, where the large majority of poor people reside, and progress in poverty reduction has been slow outside of Dar es Salaam. In addition to the pattern of growth, the impact of the world food and fuel price shocks may also have been an important factor over the period considered here.

Except for Dar, survey-based estimates of growth in real household consumption have fallen far below the reported economic growth rates, and what poverty reduction there has been has mostly taken place in the capital too. The question is not why poverty reduction is slow given the fast overall growth rate; it is rather why household consumption has grown so slowly.

The patterns of change in monetary poverty presented in this chapter remain subject to uncertainty, both in relation to the comparability of the consumption data between the latest two rounds and in relation to the price adjustment which it has been possible to make. The best assessment we are able to make with the existing data shows slow poverty reduction from 1992/93 to 2007, which seems to have increased a little in more recent years, including in rural areas. The rate of decline remains slow and the slightly more rapid poverty reduction experienced recently still needs to be verified and adequately explained, particularly the observation that poorer households appear to have experienced better relative consumption growth than less poor households. In addition, it is too early to judge how sustainable the recently observed (still modest) rural poverty reduction may be, unless policy focus is put squarely on rural sector advance. A much stronger focus on agriculture must play a key role in accelerating rural poverty reduction.

Tanzania's historical record in relation to non-monetary poverty is one of progress, one positive legacy of the Nyerere era. These indicators also confirm a pattern of general improvement between 1992 and 2010 for households as a whole and in relation to young children, though not all indicators improve. These changes are less directly related to growth and more to public service provision. We do note as well that these improvements remain relatively slow. Tanzania's record on non-monetary indicators is not particularly impressive compared with neighbouring countries, and is disappointing in some regions of the country. In other words, it would appear that the extent and efficiency of public service provision still needs to improve significantly.

On a parallel note, we wish to conclude by stressing that the present state of lack of clarity and consistency as regards basic data should be a matter of concern to both policy makers and those who wish a sound evidence base for supporting future progress.

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