Government Expenditure on Growth Strategies and Poverty Reduction in Tanzania. What Have we learned?

Khatibu G.M.Kazungu[7] and Mudith B.Cheyo[8]

Abstract
This paper explores the relationship between the reduction in income-poverty and government expenditure on growth strategies that have been implemented in Tanzania since the mid 2000s. The paper shows that despite impressive economic growth of about 6 percent per annum that the country has enjoyed in the course of implementing growth strategies over the past few years, poverty has declined marginally and remains pervasive in the rural sector. This paper argues that growth strategies in Tanzania have not helped to reduce income poverty significantly because government expenditures to finance such strategies have been allocated to investment in social services which reduce income poverty indirectly and as such, effects take time to be realized. This paper argues that rural income diversification coupled with substantial investment in agricultural sector remain paramount as a panacea to reducing income poverty; and improvement in the quality of life and social wellbeing.

Keywords: Economic Growth, Government expenditure, Income Poverty, Tanzania

[7] Department of Economics, The Open University of Tanzania, P.O.Box 23409, Dar es salaam, Tanzania. Email: Khatibu.kazungu@out.ac.tz
[8] Assistant Director of Poverty Eradication and Economic Empowerment (Poverty Research and Analysis), Ministry of Finance, P.O.Box 9111, Dar es salaam, Tanzania, Email: mcbuzenja@gmail.com

1.0 Introduction

The government of Tanzania has been implementing the National Strategy for Growth and Poverty Reduction (NSGRP) since the year 2005. The first strategy ended in 2010 but was quickly succeeded by the second strategy which is envisaged to end in 2015 (URT, 2010). Both strategies share commonalities in that they encompass three clusters; namely, economic growth for poverty reduction, quality of life and social wellbeing; and good governance and accountability. The NSGRP has also been reinforced by the introduction of the Five Year Development Plan (FYDP) since June 2011. The underlying aims of FYDP are geared towards unleashing latent growth potential through sustaining macroeconomic stability, enhancement of productivity and growth; investment in transport, energy, information and communication technology; human capital development; and maintenance of good governance and rule of law (URT, 2011). The contents of both NSGRP and FYDP are not contradictory since they complement each other. These strategies have been very instrumental in shaping the Medium Term Expenditure Framework (MTEF).

The formulation of the above mentioned strategies took onboard development challenges and opportunities as enshrined in the Tanzania Development Vision (TDV 2025) which aspires to drive the economy towards the middle income country status by the year 2025, based on sustainable and inclusive growth, URT (1999). The TDV 2025 places poverty issues on top of development agenda in an effort to build a society that is free from abject poverty. Moreover, these strategies to a large extent are well informed of the Millennium Development Goals (MDGs) which have a clearer and sharper focus on income poverty reduction among other targets. The inclusion of MDGs elements in the National Strategies for Growth has attracted the attention of development partners, and international financial institutions such as World Bank in leveraging the government budget.

In the course of implementing the above mentioned strategies, the Tanzanian economy has enjoyed impressive economic growth of about 6 percent annually since the mid 2000s. However, income poverty has declined marginally in rural areas (see table 1). Whereas the headcount poverty has fallen by 6.8 percent between 2008/09 and 2011/12 in rural areas, it rose by 3.6 percent in other urban areas. We note, however, that the incidence of poverty in Dar es salaam has sharply fallen from 15.9% in 2008/09 to 4.0 percent in 2011/12. It is important to underscore that less than 5% of Dar es salaam residents are engaged in agricultural activities (see table 2).

Table 1: Poverty Levels by Headcount Ratio (%)

	Dar es salaam	Other urban areas	Rural areas	Tanzania
1991/92	28.1	28.7	40.8	38.6
2000/01	17.6	25.8	38.7	35.7
2006/07	16.4	24.1	37.6	33.6
2008/09	15.9	18.1	40.1	34.0
2011/12	4.2	21.7	33.3	28.2

Source: URT, 2010, HBS 2011/12, NBS 2013

The Household Budget Survey 2011/12 shows that majority of Tanzanians, about 74 percent, depend on agriculture as their main occupation and source of livelihood, of which 89 percent are in rural areas (see table 2). Nonetheless, as will be shown later in this paper, the performance of agricultural sector is not satisfactory in terms of growth and productivity. Consequently, rural urban migration remains a serious problem which exerts considerable pressure on urban planning and human settlement, creation of decent employment opportunities and availability of public amenities. The rural urban migration also brings with it problems related with pollution, hygiene and sanitation, social tension and crimes.

Table 2.0: Percentage Distribution of Employed Population by Main Occupation, 2011/12

	Geographical Area			
Occupation	Dar es salaam	Other Urban	Rural	Tanzania Mainland
Legislators, administrators and managers	1.7	0.8	0.1	0.4
Professionals	5	2.1	0.3	1
Technicians and associate professionals	4.6	3.3	0.9	1.6
Clerks	2.6	0.7	0.1	0.4
Service workers and shop sales workers	15.7	5.6	0.9	3
Skilled agricultural and fishery workers	0.7	0.6	0.7	0.7
Craft and related workers	8.1	2.8	0.5	1.6
Plant and machine operators	8.8	2.8	0.3	1.4
Elementary occupations	5.1	2.7	0.7	1.5
Household farming	4	43.9	88.5	73.6
Self employer or employee non agriculture	37.8	28.3	5.7	12.3
Unpaid household helper	5.7	6.4	1.3	2.5
Total	100	100	100	100

Source: HBS 2011/12, NBS 2013

This paper seeks to explore the nexus between expenditure on growth strategies and reduction of income poverty in Tanzania. And more specifically, this paper intends to respond to the following question: why has income poverty fallen marginally in the rural areas despite impressive growth that Tanzania has enjoyed over the last decade under the aegis of growth strategies? This paper attempts inasmuch as possible to bring out some pertinent issues on agricultural performance vis-à-vis poverty reduction for further dialogues, prioritization and interventions.

The remainder of this paper is divided into four sections. Section two reviews the literature on growth and poverty. Section three reviews the performance of agricultural sector over the last few years. Section four examines the magnitude of government spending on the agricultural sector and discusses why poverty has plummeted marginally over the last few years. That last section offers concluding remarks.

2.0 Literature on Growth and Poverty

There are competing theoretical strands on the effects of growth on poverty. At one side, it is argued that rapid economic growth is bad for poverty reduction since majority of poor people are likely to be marginalized by structural changes of growth (Todaro and Smith, 2011). Further to that, there has been a considerable concern that public expenditures on poverty programs are likely to reduce domestic saving and ultimately economic growth. According to these views, any program that favors growth per se is generally considered to be unhealthier in as far as poverty reduction is concerned.

On the other side, economic growth is considered to be good for poverty reduction, and indeed, this is the emerging consensus. Low incomes and standard of living which are manifested in poor health, nutrition, and education can lower economic productivity and thereby lead directly and indirectly to a slower growth. Thus, strategies to raise incomes and standard of living of the poor are likely to contribute not only to materials well being but also to the productivity and income of the economy as a whole, Dasgupta and Ray (1987), Mick Moor and Howard (2003).

A rise in the income of the poor is envisaged to stimulate overall increase in demand for locally produced goods. This has a catalytic effect on domestic production, employment and investments. This, in turn, creates the conditions for rapid economic growth and participation of poor people in growth process, (Hicks, 1979; Marshall, 1988). Therefore, any strategy geared towards poverty reduction stimulates health economic expansion by acting as a powerful material and psychological incentive to widespread public participation in the development process; absolute poverty can act as powerful materials and disincentives to economic progress. Increased poverty may even create conditions for an ultimate rejection of progress by masses, impatient at the pace of progress or its failure to alter material circumstances, Alesina and Perotti (1994), Alesina and Rodrik (1994). The promotion of rapid economic and poverty reduction are not mutually conflicting objectives, (World Bank, 1990; Fishlow, 1995)

Empirical studies that have attempted to examine the relationship between expenditure on growth strategies and poverty reduction in Tanzania are relatively scarce. Ellis and Mdoe (2003) examined the impact of Poverty Reduction Strategic Papers (PSRP) on rural livelihoods in Morogoro region. The findings show that rural poverty is strongly associated with lack of land and livestock, as well as inability to secure nonfarm alternatives to diminishing farm opportunities. Ellis and Mdoe (ibid) argue that rural poor encounter a public sector institutional context that is neutral or blocking rather than enabling for them to construct their own pathways out of poverty. Furthermore, they argue that PRSP process needs to address disjunctures between its macro-level goals and debilitating local-level institutional contexts, if real gains in rural poverty reduction are to be realized. This paper differs from Ellis and Mdoe's paper in that it considers the NSGRP and FYDP, which has not been examined hitherto. Within the remits of NSGRP and FYDP, the paper explores the performance of the agricultural sector as a key sector which employs majority of the poor population (HBS 2012). The paper acknowledges the arguments advanced by Karshenas (2001) who posit that, in a economy characterized by a generalized poverty, reduction of mass poverty is achieved through raising the per capita incomes of the poor by increasing labour productivity in activities where the poor are engaged or through re-location of the poor to the more productive activities.

3.0 Performance of Agricultural Sector

3.1 Agricultural Growth Rate.

The growth of agricultural sector has averaged around 3.9 percent over the last five years, and has not been generally stable. This growth rate is far below the NSGRP I growth target of 10 percent by 2010 and NSGPR II growth target of 6.0 percent by 2015. The growth rate in the agricultural sector is nearly a half of growth rate in service sector which employs less than 30 percent of population. The central message that emerges from table 3 is that growth is not pro-poor since more than 70 percent of the population resides in rural areas where change in output is far below compared to industry and service sectors which are located in urban areas, having little forward and backward linkages with the former. In other words, economic growth in Tanzania is largely driven by growth in service and construction sectors which employ less than 30 percent of the total population

Table 3: Annual Growth Rates in Economic Activities at 2001 prices (%)

	2005	2006	2007	2008	2009	2010	2011	2012
Gross Domestic Product	7.4	6.7	7.1	7.4	6.0	7.0	6.4	6.9
Agriculture, hunting and forest	4.3	3.8	4.0	4.6	3.2	4.2	3.6	4.3
Construction	10.1	9.5	9.7	10.5	7.5	10.2	9.0	7.8
Transport and communications	9.4	8.6	10.1	10.8	13.1	12.2	11.3	12.5
Manufacturing	9.6	8.5	9.7	10.5	7.5	10.2	9.0	7.8
Mining and Quarrying	16.1	15.6	10.7	2.5	1.2	2.7	2.2	7.8

Source: National Bureau of Statistics, 2013

As a matter of fact, agricultural growth has on the average never surpassed 4.5 percent even during the 1980s, 1990s and the early 2000s (Skarstein, 2005). The sector is haunted by many challenges which inhibit sustained growth. Agricultural mechanization in rural areas is very small—about 64 percent of rural dwellers use hand hoe to till the land. Access to the markets is also limited and usage of agricultural inputs such fertilizers is abysmally low, (URT, 2012). Inadequate extension services combined with low capacity for planning, budgeting, and project execution at Local Government Authorities continue to plague the performance of agriculture, (URT, 2012). Because of poor technology, it is estimated that 30 percent and 70 percent of cereals, and fruits and vegetable respectively, are lost post-harvest due to inadequacy of agro-processing facilities. Given this context, it is hardly surprising that poverty remains a rural phenomenon where agriculture is the predominant activity.

3.2 Share of Agriculture in the GDP.

The contribution of agricultural sector in the GDP has generally declined while the population growth has invariably stood at 2.7 percent annually. The fall of agriculture to GDP ratio is a health signal in the economy if other sectors are capable of absorbing the labor force exiting from the agricultural sector.

Table 4: Share of Gross Domestic Product at Current Prices

	2005	2006	2007	2008	2009	2010	2011	2012
Agriculture, hunting and forest[9]	26.1	25.4	24.6	24.0	23.3	24.9	24.6	24.7
Industry and construction[10]	20.2	20.5	20.9	21.2	21.4	21.5	21.9	22.1
Services[11]	46.4	46.9	47.3	47.9	48.3	43.9	44.0	43.9
Others	5.7	5.6	5.6	5.4	5.5	9.7	9.5	9.3
Total	**100**	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: National Bureau of Statistics, 2013

[9] Includes crops and livestock subsector
[10] Includes mining, quarrying, manufacturing, electricity, gas, water supply and construction.
[11] Includes trade and repairs, hotels and restaurants, transport, communications, financial intermediation, real estate and business services, public administration, education and health sectors.

However, the available statistics indicate that unemployment remains on the high side, meaning that the absorptive capacity in the service and industry sectors is very limited. Indeed, many young people leaving rural areas lack formal qualification as a pre-condition for entry in the industry and service labour markets. As a result, poverty in the "other urban areas" has generally increased from 18.1% during 2008/09 to 21.7% in 2011/12 (see table 1).

4.0 Growth Strategies, Government spending and Income Poverty.

The NSGRP together with FYDP constitute the guiding framework for financing government's expenditure. This paper first, looks at public expenditure on NSGRP and then on FYDP. The NSGRP is a result based strategy and does not have cost projection. That being the case, we look at the share of government budget in GDP, for each priority sector—education, health, water, agriculture, roads and energy. Unlike NSGRP, FYDP contains the expenditure estimates and projection over the duration of the plan. Therefore, under the FYDP, this paper first scrutinizes development budget and then considers the share of development expenditure on the total budget. This is complemented with an analysis on subsidy allocated to specific crops under the National Agricultural Input Voucher Scheme (NAVIS).

4.1 Public Expenditure on NSGRP

Available evidence indicates that the government expenditure on NSGRP priorities rose slightly from 71.2 per cent during the financial year 2009/10 to 73.2 per cent in 2010/11 and then to 75.4 per cent during 2011/12. Over the last four years, more than 13 per cent of the share of expenditure to GDP has been invariably allocated to six sectors (Education, Health, Water, Agriculture, Roads and Energy) It is clear from table 5 the agricultural budget to GDP ratio is less than 2.0 percent for the period between 2009/10 and 2012/13.

Table 5:Priority Sector Spending (as % of GDP)

Sector	2009/10	2010/11	2011/12	2012/13	2012/13*
	Actual	Actual	Pre-actual	Budget	Budget
Education	4.6%	5.3%	4.8%	6.1%	6.1%
Health	2.4%	2.5%	2.1%	2.5%	2.5%
Water	0.7%	0.6%	0.5%	1.3%	1.3%
Agriculture	1.5%	1.4%	1.3%	2.0%	2.0%
Roads	3.6%	3.8%	3.9%	3.4%	3.4%
Energy	0.4%	0.8%	1.3%	1.5%	4.3%
Total	**13.2%**	**14.5%**	**13.9%**	**16.7%**	**19.6%**

Source: Ministry of Finance
* Including the gas pipeline

4.2 Public Expenditure on FYDP

The expenditure estimates for executing the FYDP are taken form a summary of expenditure projection for priority areas presented in Table 3.2 in FYDP, 2011/12-2015/16. Data on expenditure allocations given in table 2 are taken from Budget Background and MTEF 2012/13-2014/15.

It is clear from table 7 that allocations to implement the FYDP in the agricultural sector over the last two years are not only below the estimates but also have declined from shillings 523,500 million to 425,300 million. This is an indication that the implementation of FYDP in the agricultural sector is not followed. This suggests further that there is no realistic connection between FYDP plan and availability of domestic resources. This shortcoming is further compounded by reliance on donor funds to finance budget which often times are characterized by delays in disbursements and unpredictability.

Table 6: Development Budget Estimates versus Allocation on FYDP (TZS million)

	2011/12 (Development Budget)			2012/13 (Development Budget)		
	Estimates	Allocation	Difference	Estimates	Allocation	Difference
Agriculture	922,685	523,500	-399,185	912,378	425,300	-487,078
Education	70,076	332,000	+261,924)	369,546	185,500	-184,046
Health	933,033	530,900	-402,133	721,435	473,500	-247,935
Water	392,985	577,100	+184,115)	540,090	569,000	+28,910)
Transport (Road)	1,781,924	1,941,500	+159,576)	2,137,284	1,388,600	-748,684
Energy	2,474,127	462,000	-2,012,127	5,010,213	621,700	-4,388,513

Source: FYDP & Budget Background and MTEF 2012/13-2014/15

The share of agricultural development budget in total budget has declined to 39 percent during the 2012/13 from 56 percent recorded in the preceding fiscal year. A cursory glance at table 7 reveals that agricultural sector was ranked fourth in priority during 2011/12 and 2012/13 fiscal years. However, the caveat remains as these statistics should be interpreted with great care. The underlying reason is that it is difficult to disentangle the contribution of other sectors such as roads, education, water and health on the performance of agricultural sector. What this section suggests is that the pace of investment in the agricultural sector should be accelerated and in terms of priority--should be placed at the top of development agenda since this sector employs majority of the poorer population.

Table 7: Recurrent versus Development Budget (TZS million)

	2011/12				2012/13			
	Recurrent	Dev	Total	% Dev/Total	Recurrent	Dev	Total	% Dev/Total
Agriculture	403,500	523,500	927,000	56	678,300	425,300	1,103,600	39
Education	2,010,100	332,000	2,342,100	14	2,779,000	185,500	2,964,500	6
Health	678,200	530,900	1,209,100	44	815,300	473,500	1,288,800	37
Water	44,400	577,100	621,500	93	47,000	569,000	616,000	92
Transport (road)	432,200	1,941,500	2,373,700	82	551,400	1,388,600	1,940,000	72
Energy	77,000	462,000	539,000	86	110,100	621,700	731,800	85

Source: Budget Background and MTEF 2012/13-2014/15

Over the last eight years, the government in collaboration with development partners has invested over TZS 350 billion in input subsidies, accounting for as much as 34% of the budget of the Ministry of Agriculture Food Security and Cooperatives (MAFC) and 4% of the budget of the Ministry of Livestock and Fisheries Development (MLFD). About 85 percent of this investment has been in the National Agricultural Input Voucher Scheme (NAVIS). The remainder supports a series of smaller commitments to subsidize seed of cotton, sun flower, sorghum, tea, coffee seedlings, agrochemicals for cashew, cotton and veterinary medicines. Table 8 shows productivity (yield) of the crops under the subsidy programme.

Table 8: Table Yield (Tons/hectare)

	2005/06	2006/07	2007/08	2008/09	2009/10
Cashew nut	0.84	1.14	-	0.99	0.63
Coffee	0.27	0.33	-	0.37	0.38
Cotton	1.67	0.36	0.82	0.34	1.68
Maize	1.61	1.34	1.28	1.25	2.12
Paddy	2.08	2.46	1.48	1.84	3.02
Sorghum	1.32	1.04	0.96	1.14	1.51
Sunflower	1.85	1.33	0.67	0.69	0.78
Tea	1.12	2.13	1.72	2.43	2.79
National Yield average	1.35	1.27	1.16	1.13	1.61

Source: Ministry of Agriculture and Cooperatives

It is clear from table 8 that agricultural productivity has not changed much over the last few years. In some crops, diminishing return is evident; that is, additional subsidized input brings with it less than one unit of output per hectare. This, to a great extent is attributed to abuses of input distribution procedures; the input subsidy delivery system is inefficient (Policy Forum, 2011). Indeed, the Controller and Auditor General (CAG) annual reports note numerous irregularities in the management of the voucher scheme (URT, 2013).

5.0 Concluding remarks.

This paper has examined the relationship between growth strategies, government spending and poverty reduction since the mid 2000s. It is shown that economic growth has not been translated into poverty reduction; poverty remains pervasive in the rural sector. Public expenditure on agricultural sector is relatively low compared to other sectors. As a result, the performance of agricultural sector in terms of growth and productivity is comparatively lower compared with other sectors. In order to accelerate the pace of poverty reduction, this paper calls for new strategies aimed at diversifying rural income coupled with substantial investment in agriculture.

REFERENCES

Alesina, A and Rodrik, D (1994) "Distributive Policies and Economic Growth", *Quarterly Journal of Economics*, 109, pp 465-490

Alesina, A and Perotti (1994) "The Political Economy of Growth: A Critical Survey of Recent Literature", *World Bank Economic Review*, 8, pp 351-371

Dasgupta, P and Ray, D (1987) "Inequality as a Determinant of Malnutrition and Unemployment Policy", *Economic Journal*, 97, pp 177-188

Fishlow, A (1995) "Inequality, Poverty and Growth: Where do we stand?" in *Proceedings of the World Bank Annual Conference on Development Economics*, ed. Michael Bruno and Boris Pleskovic, Washington DC.

Frank Ellis and Ntengua Mdoe (2003) Livelihoods and Rural Poverty Reduction in Tanzania, *World Development*, Volume 31, Issue 8, pp 1367–1384

Hicks, N.L (1979) "Growth versus Basic Needs: Is there a Tradeoff?" *World Development*, 7, pp 985-994

Karshenas M (2001) "Agriculture and Economic Development in Sub-saharan Africa and Asia" *Cambridge Journal of Economics*, Volume 25, 2001, Oxford University Press

Marshall, A (1988) "Income Distribution, the Domestic Market and Growth in Argentina", *Labour and Society*, 13, pp 79-103

Policy Forum (2011) *Tanzania Governance Review 2008-2009*, Dar es Salaam

Skarstein, R (2005) "Economic Liberalization and Smallholder Productivity in Tanzania. From Promised Success to Real Failure, 1985-1998," *Journal of Agrarian Change*, Vol.5, No.3, pp 334-352

Todaro, M and Smith, S (2011) Economic Development, Prentice Hall; 11th Edition

URT (1999) Tanzania Development Vision 2025, Dar es salaam

URT (2010) The National Strategy for Growth and Poverty Reduction, Dar es salaam

URT (2011) Five Year Development Plan: 2011/12-2015/16, Dar es salaam

URT (2012) MKUKUTA Annual Implementation Report 2011/12, Dar es salaam

URT (2013) Annual General Report of the Controller and Auditor General on the Financial Statements of Local Government Authorities for Financial Year, ended 30th June 2012.

URT (2013) Household Budget Survey Tanzania Mainland 2011/12 Key Findings, Dar es salaam

World Bank (1990) *World Development Report*, New York: Oxford University Press