



TANZANIA MAINLAND POVERTY ASSESSMENT

EXECUTIVE SUMMARY



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Executive Summary

Since the early 2000s, Tanzania has seen remarkable economic growth and strong resilience to external shocks. Yet these achievements were overshadowed by the slow response of poverty to the growing economy. Until 2007, the poverty rate in Tanzania remained stagnant at around 34 percent despite a robust growth at an annualized rate of approximately 7 percent. This apparent disconnect between growth and poverty reduction has raised concerns among policy makers and researchers, leading to a consensus that this mismatch needed to be addressed with a sense of urgency.

Over the past few years, the National Strategy for Growth and Reduction of Poverty (MKUKUTA) in Tanzania has given high priority to eradicating extreme poverty and promoting broad-based growth. Achieving pro-poor growth has also been widely recognized by the World Bank as a critical strategy for accelerating progress toward its twin goals of eliminating extreme poverty at the global level by 2030 and boosting shared prosperity by fostering income growth among the bottom 40 percent in every country.

The official poverty figures announced by the government in November 2013 have revealed that the national strategy against poverty has begun to facilitate reductions. The *basic needs* poverty rate has declined from around 34 percent to 28.2 percent between 2007 and 2012—the first significant decline in the last 20 years. Identifying the policy mechanisms that have helped to increase the participation of the poor in the growth process and to speed pro-poor growth is therefore important for present and future decision-making in Tanzania on how best to eradicate poverty. Such task requires a rigorous analysis of the evolution of poverty and of the linkages between poverty, inequality, and economic growth. This report uses the availability of the new Tanzanian Household Budget Survey (HBS) for 2011/12, as well as the new rebased GDP figures released in December 2014, as an opportunity to address these issues. More specifically, the report examines the recent trends in poverty and inequality and their determinants and explores how responsive poverty reduction was to economic growth and the obstacles to achieving it.

This is an executive summary of the Poverty Assessment. The full report will be available on request and on the World Bank website starting from May 2015. The report can also be accessed from the website of the Danish Embassy in Dar es Salaam.

Poverty and Extreme Poverty Have Declined since 2007

Basic needs poverty declined from 34.4 percent to 28.2 percent between 2007 and 2011/12 and extreme poverty declined from 11.7 percent to 9.7 percent. The figures come from the HBS's consumption-based headcount index, which measures the proportion of the population with a consumption level below the poverty line—28.2 percent of Tanzanians could not meet their basic consumption needs. The 9.7 percent of the population that is extremely poor cannot afford to buy basic foodstuffs to meet their minimum nutritional requirements of 2,200 kilocalories (Kcal) per adult per day.



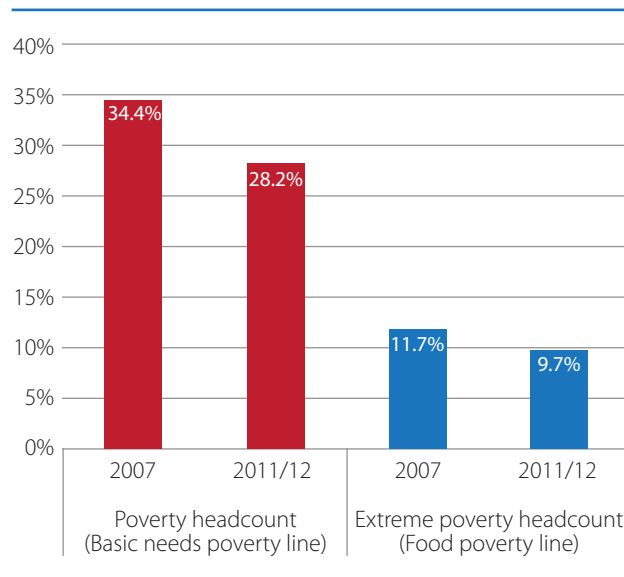
These poverty figures are estimated using, respectively, the national basic needs poverty line of T Sh 36,482 per adult per month and the national food poverty line of T Sh 26,085 per adult per month.

The depth and severity of poverty declined even more strongly. *Depth* and *severity* capture the gaps between poor households' consumption level and the poverty line. They declined by 35 and 48 percent, respectively. In other words, in addition to a decline in the share of the population living in poverty, Tanzania also witnessed a reduction in the level of deprivation of those who remained in

poverty. This suggests that poor households were able to reduce their consumption shortfall relative to the poverty line and that gains were larger amongst the poorest groups.

The analysis of the poverty trend is challenged by changes in the HBS design, but the adjustments made to counter the change in design support the decline of poverty. Assessing the changes in poverty levels over time is subject to issues of comparability stemming from changes in the survey design and methodological improvements implemented during the 2011/12 HBS. These issues were addressed using different methods, including the reevaluation of the consumption aggregates for HBS 2007 using the same approach as in 2011/12, as well as nonparametric and parametric imputation procedures. The different adjustment methods support the decline of poverty and extreme poverty and show that poverty has dropped by approximately 1 percentage point per year between 2007 and 2011/12.

Figure ES.1 Poverty and Extreme Poverty Incidence



Source: HBS 2007 and 2011/12.

Household Living Conditions and Human Development Outcomes Have Improved from Low Levels

The reduction in poverty was coupled with improvements in living conditions, though from low levels. All households saw large improvements, between 2007 and 2011/12 in their housing conditions and modern amenities such as television sets and mobile phones (Figure ES.2). Ownership of agricultural land improved as well, but possession of productive assets such as mechanized equipment and big livestock is still limited. While these improvements were experienced mainly by less well-off households, members of those

households continue to suffer from different forms of deprivations. More than half of the poor and rural dwellers still live in pitiable housing conditions and lack important assets. Access to basic infrastructure (electricity, piped water) also remains limited.



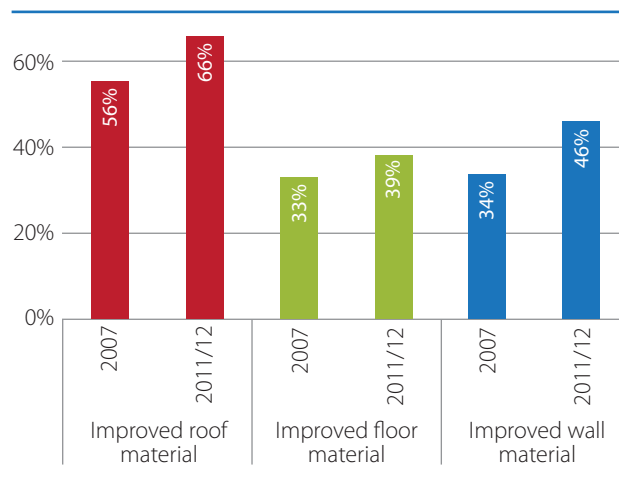
Human development outcomes such as education, health, and nutrition improved as well, but overall levels remain low. Enrolments in primary education increased markedly in 2001–7 but declined slightly in 2007–11/12 (Figure ES.3). However, there has been a remarkable expansion in lower second-

ary education, albeit from very low levels. There are also growing quality concerns since education outcomes remain weak across all levels.

Infant mortality (per 1,000 live births) declined from 68 in 2004/05 to 51 in 2010, and mortality of children less than five years old declined from 112 to 81 during the same period. Improvements in maternal mortality have not been as significant, reflecting to some extent the lack of efficacy of the (public) health system and financial constraints of the poorest households.

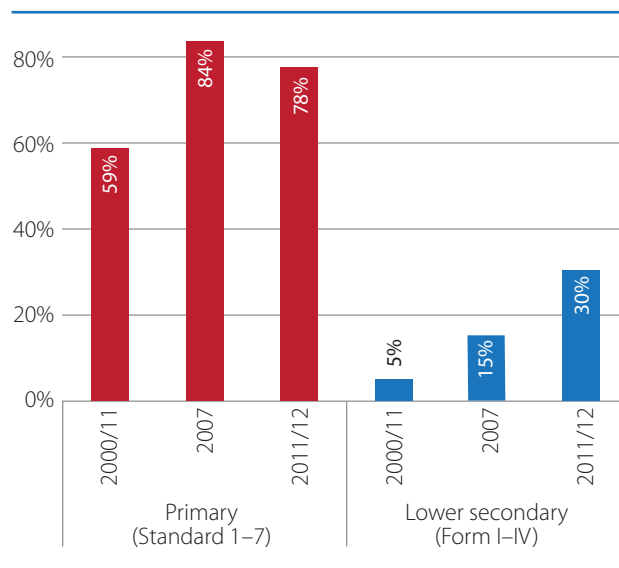
The welfare improvements did not hold across all household groups. Despite the decline of poverty and general improvements observed in households' living conditions, only 30 percent of the population has been able to significantly improve their economic status and move to higher welfare classes. Around 12 percent of those at the bottom of the consumption distribution remained trapped in chronic poverty. Around 13 percent of the population has moved down to the lowest quartile (bottom 25 percent) of the consumption distribution. The movement across the welfare classes occurred mainly among the households in the middle economic classes, with those lacking assets experiencing a worsening of their welfare and moving to lower economic status.

Figure ES.2 Share of Households with Improved Housing Conditions



Source: HBS 2007 and 2011/12.

Figure ES.3 Net Education Enrolment Rates



Source: HBS 2001, 2007, and 2011/12.

Poverty Has Become more Responsive to Growth

The poverty headcount appears to have declined just as economic growth has continued to expand since 2007. In December 2014, Tanzania released revised gross domestic product (GDP) figures with a base year of 2007 (Figure ES.4). GDP growth averaged 6.3 percent from 2008 to 2013, with a marked increase in volatility compared to the previous series of numbers. The new figures suggest a stronger impact of economic growth on poverty reduction than previously observed.



The magnitude of the poverty reduction response to economic growth, however, depends on how economic growth is defined. When growth is measured by changes in GDP per capita, the *growth elasticity* of poverty is -1.02 during 2007–2011/12—in other words, a 10 percent increase in GDP growth per capita can be expected to produce a 10.2 percent decrease in the proportion of the poor. When economic growth is defined using changes in mean household consumption calculated from HBS, however, the growth elasticity of poverty is -4.0 during the same period, indicating that an increase in household mean consumption would have a higher

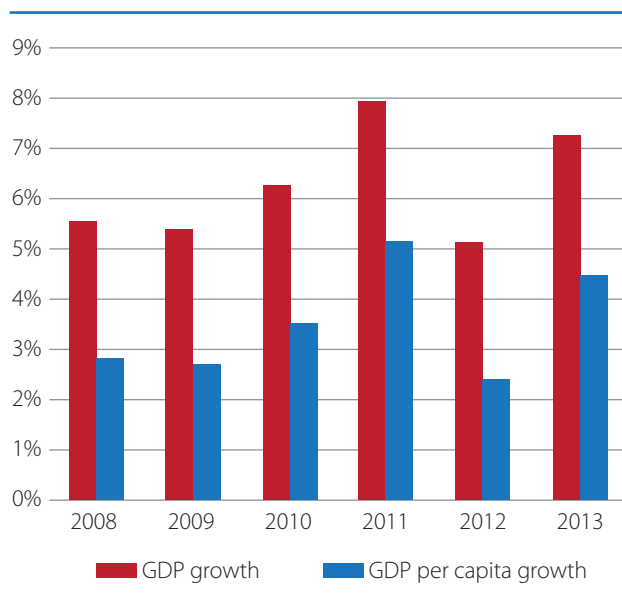
impact on poverty reduction than would changes in GDP per capita. The Tanzania growth elasticity of poverty is higher than the available estimates of about -3.0 suggested by previous studies (using survey mean figures) on developing countries.

The difference between the estimates of the growth elasticity of poverty found with the different measures of economic growth is quite common in developing countries, but it seems to be larger in Tanzania. This is due to the discrepancy between the price deflators used to convert nominal GDP and household consumption values into real terms. The first measure uses the GDP deflator, which implies a much slower rate of inflation than price indices based on survey unit values and consequently a higher growth rate of real GDP per capita than of survey real mean household consumption. While there is no clear consensus on which of these measures of economic growth is more accurate, it seems that survey based data better reflect the spending behavior of the poor and regional differences in the cost of living.

There are emerging signs of pro-poor growth in Tanzania. The poor are found to have benefitted disproportionately from economic growth during the period 2007–2011/12, in sharp contrast to the period 2001–07, during which growth benefitted mainly the country's richer groups.

The relationship between growth and poverty involves changes both in mean consumption and in the distribution of consumption across households. The decline of poverty at the national level is due to an increase in mean household consumption as well as a reduction of inequality in the distribution of consumption between households, with the effect of inequality reduction being marginally more important than the effect of consumption growth. Household consumption growth contributes by 40 percent to poverty reduction, while the reduction of inequality contributes by 60 percent.

Figure ES.4 Annual Growth in GDP and GDP per Capita (base year 2007)



Source: NBS, World Bank 2014.

The emerging signs of pro-poor growth contrast with the nature of Tanzania’s economic growth. The latter was driven mainly by fast-growing and relatively capital-intensive sectors (for example, finance, transport, and communications) that have limited capacity to create jobs. Agriculture, which represents the main source of livelihood for the vast majority of the poor, grew by only 4.2 percent per year in 2008–13, a lower rate than the overall economy of 6.3 percent. With growth mainly centered in national sectors where poorer Tanzanians are not particularly involved, the pro-poor growth would not be expected.

Pro-poor growth is actually the result of improvements in *endowments* and *returns* for poor households.

Changes in peoples income and consumption over time can be broken down into changes in their personal characteristics or *endowments* (for example, increased education levels, ownership of land and other assets, and access to employment opportunities and basic services) and the *returns* that they get for those endowments (for example, the returns to education, land productivity, and so forth). Households in the 30 percent poorest groups experienced marked improvements in their endowments in assets, mainly transportation and communication means, and in education. The improvements in endowments were coupled with an increase of the returns to their economic activity—essentially non-agricultural businesses—as well as to community infrastructure, mainly local markets and roads, which have had a positive influence on needy households’ living standards in recent years.



Consumption Inequality Remains Moderate and Fairly Stable

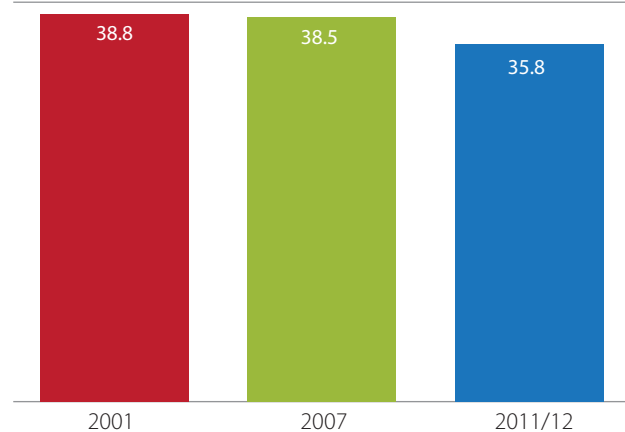
The Gini coefficient measures inequality in income or consumption expenditures across a nation's population; based on consumption per capita, it declined modestly in Tanzania during the last decade. The Gini coefficient of real per capita monthly consumption indicates that the level of inequality for Tanzania is approximately 36 in 2011/12, declining from around 39 in 2001–07 (Figure ES.5). The improvements in the distribution of consumption seem to be driven by an increase of the consumption share accruing to the 20 percent poorest segment of the population; this share grew by more than 16 percent between 2007

and 2011/12. The population groups in the second income quintile of the population experienced an increase in their consumption share by 5 percent, while those in top quintiles experienced a loss of around 4 percent.



Tanzania's inequality level compares favorably with Sub-Saharan Africa and less developed countries. Tanzania's Gini coefficient is below the Sub-Saharan Africa average of 45.1 (Figure ES.6) and the low-income countries average of 40. It is on par with levels of inequality in South and East Asia, which range around 38.4, and significantly lower than inequality levels in South America.

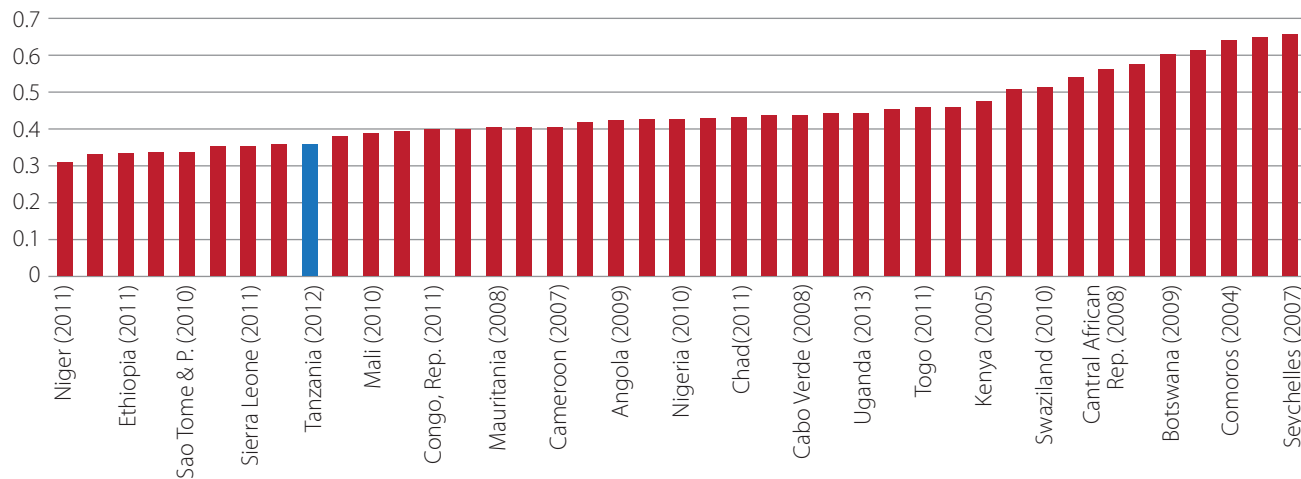
Figure ES.5 Income Inequity in Tanzania by Gini Coefficient, 2001–2011/12



Source: HBS 2001, 2007, and 2011/12.



Figure ES.6 Gini Coefficients in Sub-Saharan Africa



Source: HBS 2011/12 and WDI 2015.

There are Still too Many Poor and too Many People Clustered around the Poverty Line

Around 12 million Tanzanian people are still below the poverty line. While the poverty headcount declined by around 18 percent, the absolute number of poor people only declined by 10 percent from 13.2 million to 11.9 million from 2007 to 2011/12, due to population growth. Likewise, the absolute number of extreme poor decreased by only 7 percent, declining from 4.5 million to 4.2 million.



Poverty is particularly pervasive in the rural areas, where around 70 percent of the Tanzanian population lives. About 10 million people in the rural population live in poverty, and 3.4 million live in extreme poverty, compared to less than 1.9 million living in poverty and 750,000 people in extreme poverty in the urban sector (Figure ES.7).

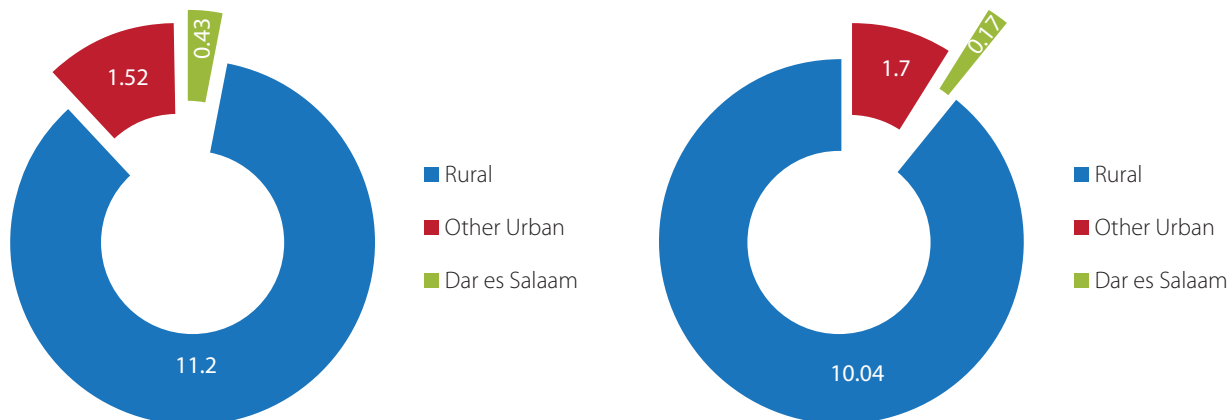
A large share of the population hovers around the poverty line, likely to escape poverty but also prone to fall into it. Small changes in the national poverty line yield significant differences in estimated poverty levels, indicating a

high concentration of individuals around the basic needs threshold. For instance, a variation of the poverty line by 10 percent (T Sh 120 per adult per day) would lead to a change of poverty rate by more than 20 percent. The significant number of people clustering around the poverty line suggests that an important proportion of moderately poor people are positioned to move out of poverty, but also that an important proportion of nonpoor people are vulnerable to falling into poverty. This fact is quite common in SSA countries with poverty levels around 30 percent and requires a combination of policies to alleviate poverty and prevent people from falling into it.

The incidence of poverty in Tanzania is about 15 percentage points higher when using the international poverty line of \$1.25 per person per day. The national poverty line reflects the country's specific costs of basic consumption needs but does not allow comparisons across countries. The international poverty line of \$1.25 per person per day in 2005 purchasing power parity (PPP) exchange rates is often used to evaluate a country's poverty record vis-à-vis other low income countries or developing regions.

Tanzania's national poverty line is slightly lower than the international poverty line. Using the international poverty line shows that around 43.5 percent of the population lives in poverty in 2011/12. This increase of around 15 percentage points, compared to the national poverty rate of 28.2 percent, is explained by the clustering of the population around the poverty line—the international standard includes people considered just above the line using the national standard.

Figure ES.7 Distribution of the Poor Population by Geographic Area (millions)



Source: HBS 2007 and 2011/12.

Poverty Is Associated with Rural Status, Larger Families, Lower Education, and Low Access to Infrastructure

Over 80 percent of the poor and the extreme poor in Tanzania live in the rural areas. More than half of the rural poor depend on subsistence agriculture for their livelihoods.

Poor households are larger in size and have more dependents than nonpoor households. Households with five children and more have the highest poverty rates, followed by elderly families whose head is 65 years old or



older. The interaction between family size and poverty is bidirectional. On the one hand, the large number of children and dependents affects the ability of the poor to cover their basic food needs and to move out of poverty. On the other hand, poor households tend to have more children to compensate for their inability to rise from poverty by investing in the human capital of their children and having many as an insurance strategy against infant mortality, trapping them in a vicious circle of poverty.

Poverty is negatively correlated with higher levels of education of the household head. Higher education levels of the household's head, particularly secondary and upper education, seem to be associated with better income-generating opportunities and significantly lower poverty levels. Education positively affects living standards and poverty reduction both directly and indirectly through its impact on health gains, productivity, social integration, and so forth.

Although primary education continues to be of crucial importance for fighting poverty, it alone seems no longer sufficient to increase poor people's opportunities for economic mobility and for moving out of poverty. Moreover, the returns to education that have increased meaningfully in conjunction with higher levels of the head's schooling appear to have declined in recent years. The expansion of education and the increase of the general population's education level might have induced changes in the requirements of the labor market and generated a decline of the rewards for years of schooling under a certain level.

Wage employment and nonfarm businesses are associated with lower poverty. Poverty rates are lowest among households headed by government employees or employees in the private sector and NGOs. Interestingly, households relying on nonagricultural businesses as a main source of income appear to be experiencing a remarkable decline in poverty, suggesting that the development of nonfarm employment can offer a pathway out of poverty. This effect remains strong and very statistically significant even after controlling for—or holding constant—various other factors related to household well-being.



There has been a movement out of agriculture during the recent years, as the proportion of Tanzanian households whose main source of income is agricultural activity declined from around 53 percent in 2007 to 39 percent in 2011/12. This seems to have reduced the negative influence of working in agriculture on living standards and poverty, probably due the fact that part of those who remained in the sector are more productive and engaged more in cash crop production.

Access to public infrastructure is also linked with lower poverty. Poor households tend to have much lower access to private piped water, electricity, and tarmac roads. Obstacles to infrastructure and services, particularly electricity and roads, seriously limit the possibilities of the poor to improve their living standards. Likewise, the presence in the household's community of a daily market and mobile phone signal have a positive impact on consumption levels and reduce the probability of poverty. Access to these services is still quite limited in rural areas, hampering local opportunities to reduce poverty.

Internal migration is related to lower poverty. Poverty levels appear to be much lower among migrant households. Migration is found to have a positive impact on welfare not only for migrants but also for their family left behind, improving their living standards as well as the school attendance of their children.

Migrants are generally more educated, younger, and more prosperous than others. They tend to move towards big urban cities such as Dar es Salaam, Mwanza, and Zanzibar to seek better employment opportunities and living conditions. The superiority of the characteristics of the migrants (for example, better education, higher living standards, and so forth) may partly explain the improvement of their economic situation, but the positive effects of migration can easily be generalized to less well-endowed people. While migration seems to be associated with lower poverty, it may prove to be less beneficial in the long run as excessive migration might cause a displacement of poverty to the destination areas.



The Decline in Poverty is Uneven Geographically

Most of the improvements in the poverty indicators occurred in Dar es Salaam. Poverty declined by over 70 percent in Dar es Salaam but only by around 15 percent in the rural sector, while it remained almost unchanged in the secondary cities and towns, declining by only 5 percent (Figure ES.8). Although Dar es Salaam experienced the greatest proportionate decline in poverty, the absolute number of poor people declined more in the rural areas, as 1.2 million rural people moved out of poverty as opposed to fewer than 300,000 in the metropolitan city.



The uneven spatial decline of poverty is related to the pattern of economic growth, which was almost entirely centered in Dar es Salaam, where most of the expanding and flourishing sectors are concentrated. These include telecommunications, finance, and to a lesser extent construction and manufacturing.

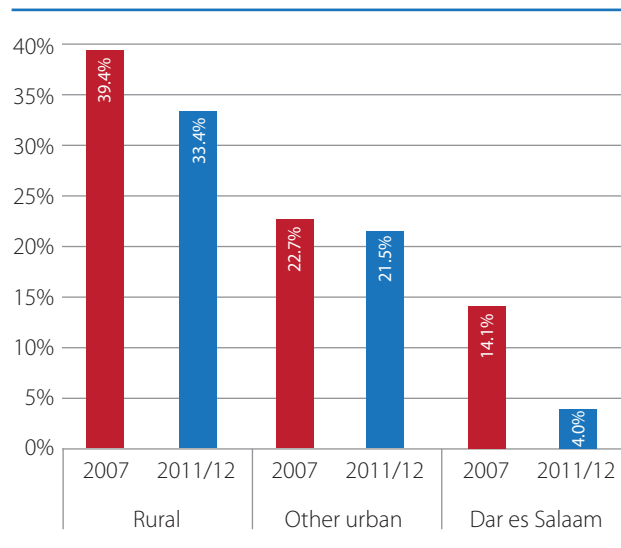
Poorer households outside Dar es Salaam seem to have experienced an increase of their consumption, despite the limited growth in these regions. There were consumption gains among households in the poorest quintiles not only in Dar es Salaam but also in

regions where there was almost no growth (rural areas and secondary cities).

Poverty reduction outside Dar es Salaam is driven mainly by a reduction in inequality. The decline of poverty in Dar es Salaam was driven by both an increase in mean consumption and an improvement in consumption distribution, while poverty reductions in rural and other urban areas are due entirely to improvements in consumption distribution (reduction of inequality). In these areas, the better-off experienced declines in their consumption levels whereas the poorest quintiles appear to have experienced an increase in their consumption levels, albeit from low levels.

The increase of the consumption of the poorest groups is driven essentially by the improvement of households' endowments in rural areas and secondary cities, while the increase in Dar es Salaam is explained mainly by the improvement of returns. Rural households in the 30 percent of poorest groups experienced an increase of their consumption by around 20 percent between 2007 and 2011/12. This increase was driven mainly by the improvement of their endowments in assets (for example, increased ownership of communication and transportation means and higher land ownership) as well as the improved access to community infrastructure (mainly roads). The returns to their endowments also increased, but to a lesser extent. In particular, there has been an expansion of returns to both nonfarm and household agricultural businesses followed by a slight increase of returns to land. Poor households in the secondary cities also experienced an increase of their consumption levels, by about 15 percent. This increase was driven mainly by the increase of their endowments in assets and the improvement of the returns to nonfarm activities and wage employment. Likewise, consumption of poor households in Dar es Salaam increased by over 40 percent, due mainly to the expansion of the returns to employment in public and private sectors followed by a slight increase of the returns to nonfarm businesses.

Figure ES.8 Poverty Headcount by Geographic Domain



Source: HBS 2007 and 2011/12.

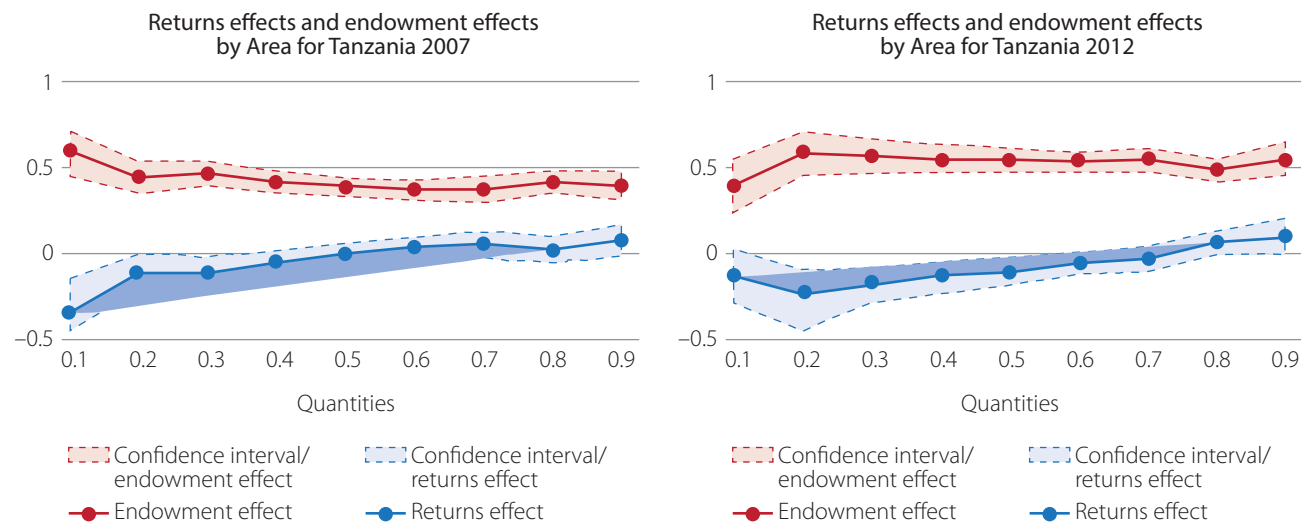
Increasing inequality between geographic domains

Inequality is increasing between urban and rural areas, as well as between Dar es Salaam and the other regions. Economic growth has benefitted most Tanzanians and started trickling down to the neediest, but the nature and composition of this growth induced an uneven increase of welfare at the regional level. Household consumption grew faster in the metropolitan and urban zones than in rural areas, inducing an increase of inequality between the geographic regions. The increase of interregional inequality was observed for all welfare groups but was much more pronounced among the richest groups.



Better off households in Dar es Salaam and urban zones have become richer due to expanding employment opportunities and improving returns. Interregional inequality among better-off households is much higher (approximately two times larger) and increasing faster than among poorer households. This is mainly driven by the expanding employment opportunities and the increase of returns to wage work in the public and private sectors in Dar es Salaam and some urban zones.

Figure ES.9 Sources of Urban-Rural Inequality: The Contribution of the Differences in Endowments and Returns to the Consumption Gap



Source: HBS 2007 and 2011/12.

Despite the increasing disparities in returns, urban-rural inequality remains mostly due to large differences in households' endowments. Urban households have higher living standards essentially because they have superior endowments in terms of family size and composition, education, assets, and access to services and employment opportunities (Figure ES.9). Rural households have been able to catch up somewhat with their urban counterparts in education levels and asset ownership, but this has been partly offset by increasing differences in family structure and access to services and job opportunities.

Inequality Can Be Explained Partly by Family Background

The disparities of households' endowments and living standards are, to a large extent, the results of intergenerational transmission of family background. Around one-fourth of total inequality in consumption in Tanzania is due to circumstances that are outside individuals' control, such as age, gender, parents' education, orphan status, and region of birth. This is a quite sizeable share compared to other SSA countries, where the contribution of an individual's circumstances to inequality is less than one-fifth. The most important circumstance variables in accounting for overall inequality is parental education, the partial effect of which is around 20

percent, indicating a quite high persistence between parents' and children's socioeconomic attainments.

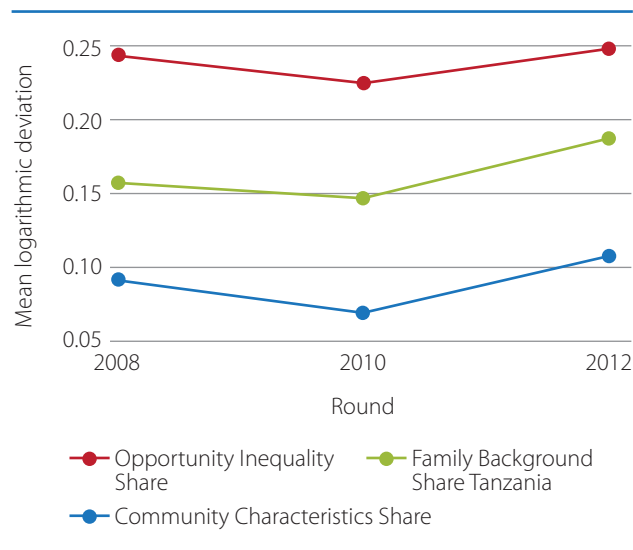


Family background contributes more to inequality than community characteristics. Family background seems to have a greater influence on the disparity of living standards than the characteristics of the local community, such as access to basic services and infrastructure, connection to markets and population centers, and so forth (Figure ES.10). This indicates significant problems of intergenerational poverty and inequality persistence. Addressing the influence of parental education and background

on children's opportunities is a long-term mission that is often complex. But without additional policy actions, there are limited chances for the generations disadvantaged by circumstances to spring out of the poverty and inequality also endured by their parents.

Policy actions need to focus on developing endowments, especially those inherited from parents or related to community characteristics. Strategies for promoting access to basic infrastructure and services need to be coupled with policy interventions to reduce disparities in the distribution of circumstances and equalize opportunities. Education and labor market policies as well as fiscal system reforms could contribute to reducing inequality of opportunity. Also, better targeted policies to expand the access to basic goods and services for people in vulnerable circumstance groups may be instrumental for reducing the disparity of opportunities and breaking the cycle of inter-generational persistence of poverty.

Figure ES.10 Contribution of Circumstance Variables to Consumption Inequality



Source: NPS 2008, 2010, and 2012.

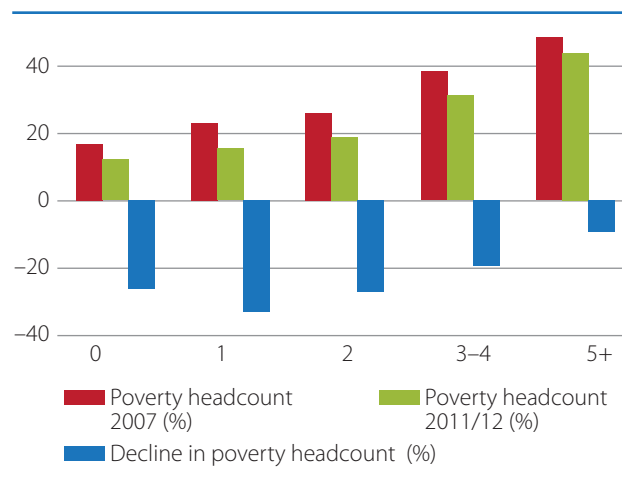
Demographic Pressures Pose a Challenge to Poverty Reduction

Tanzania is in the early stages of the demographic transition. With high fertility of around five births per women and the decline of mortality, the momentum of high population growth is expected to continue in the coming years. The country could gain from a demographic dividend—meaning a large working-age population—starting in 2020–30, but the dependency ratio (the proportion of children below 14 years old and elderly above 65 years in the household) will remain much higher than the levels achieved in East Asia 30 years ago.

High fertility may slow poverty reduction and undermine pro-poor growth prospects. The rapid population growth will continue to weigh heavily on the country's future growth and its capacity to reduce poverty. At the household level, families with large number of children have limited capacity to reduce poverty (Figure ES.11).

At the national level, demographic pressures pose challenges for public service provision, labor markets, land and resources, and so forth and can put a break on growth in per capita incomes. The best way to reduce population growth and accelerate demographic change is by slowing down fertility. Empowering women through education and employment support, as well as with family planning services, would help to reduce fertility and stimulate per capita economic growth.

Figure ES.11 Poverty Reduction by Number of Children (0–14 years), 2007–2011/12



Source: HBS 2007 and 2011/12.



Implications for Research and Policy

The focus of this report has been on the two recent waves of HBS data and the information they provide on living standards and poverty in Tanzania. It reveals improvements in the poverty and inequality indicators and shows emerging signs of pro-poor economic growth since 2007. The report identifies significant changes in the way economic growth has been distributed across households in Tanzania and has found these to be associated with quite different experiences across the country. Urban households have experienced quite significant consumption gains, mainly in Dar es Salaam, where most of the growth has taken place. There have also been



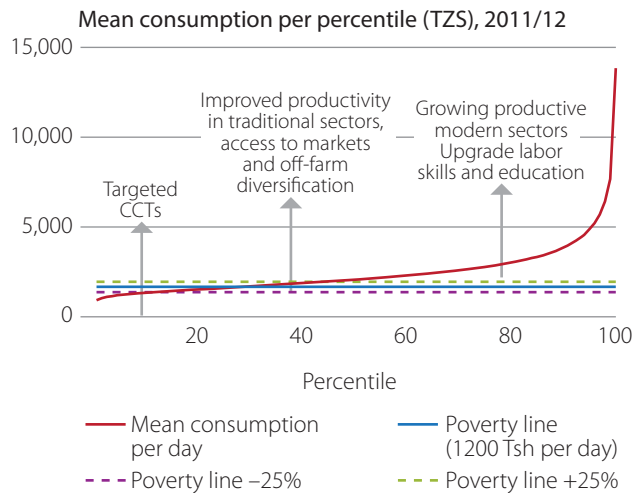
gains among the rural poorer groups, partly due to a reduction in inequality. Urban households in the three poorest deciles have benefitted from better access to employment opportunities, reflecting what has happened in Dar es Salaam. Those in rural areas, while also benefiting from an increase of the returns to their agricultural and non-farm activities, have seen much higher improvements of their assets ownership. There seems to be a move away from agriculture, whilst at the same time those who remain in the sector are likely to have benefitted from an increase of their cultivation areas and improvements of their returns. There is also evidence that

farming households have a greater commercial orientation in 2011/12 than they did in 2007.

The report shows that despite the positive changes, the number of poor, particularly in rural areas, is still disconcertingly high and the welfare disparity between the geographic regions is widening. Households with a large number of children, whose heads have less education than counterparts, who are engaged in subsistence agriculture and living in communities lacking infrastructure are likely to be the most poor. Many of them will pass on their poverty to their offspring. Even though the results point to the positive effects of economic growth on the poorest segments of the population outside Dar es Salaam, an important proportion of the population has not been able to fully benefit from the economic prosperity of the country and remains vulnerable to poverty. Households that are located outside Dar es Salaam have not been able to reach the levels of access to basic services and employment opportunities prevailing in the city. The levels of endowment in education and assets remain lower outside Dar es Salaam and other urban zones. Even households who could improve their endowment base have not been able to find the returns in the local markets corresponding to those offered in the city.

The analysis in this report provides policy pointers for poverty reduction. While poverty cannot be effectively tackled through stand-alone policy approaches and requires a cohesive multisectorial strategy, the findings may help prioritize policy interventions tailored to enhance poverty reduction. The basic tenets of conventional poverty reduction strategies such as investment in human capital and infrastructure, income and employment generation, and control over fertility and family sizes largely remain, but the design of priority interventions should take into account the diverse nature of poverty.

For the extreme poor who lack basic necessities and assets, priority could be given to safety nets and cash transfer programs to help them enhance their livelihoods and productivity. Such programs increase the levels and quality of consumption of the poor, offer some security against unforeseen shocks, facilitate access to basic goods and services, and advance the inclusiveness of the most vulnerable population groups in the growth process.



Moderate poor and vulnerable nonpoor households should benefit from a combination of prevention and promotion strategies that enable them to diversify their activity into higher-return and more productive businesses. The following could be particularly beneficial in this effort:

- **The development of rural economy and agriculture will be instrumental for an effective poverty-reduction strategy.** The disadvantage of being engaged in agriculture seems to have diminished during recent years, but what seems to matter to farmers is access to cash crops and to markets, indicating the importance of encouraging a more commercial agriculture. Connectivity of farmers and rural poor people to infrastructure using modern communication and transport means is also vital for expanding their living standards. Although, there is little evidence of the increase of access to local markets in the rural communities, the increase of their returns suggest that they play a positive role in influencing households' welfare.
- **There are significant returns to undertaking business activities in rural areas but also in some secondary urban towns, strongly supporting the case for diversification.** Nonfarm business seems more rewarding than agricultural activities, and households engaged in such businesses appear to have been more successful than others in reducing their poverty. While agriculture will remain the largest source of employment in Tanzania and there is no escaping the need to galvanize this sector, the role of nonfarm diversification in absorbing the underemployed workforce, improving poor households' living standards and reinvigorating the local economy needs to be recognized and promoted. Efforts by the government to accelerate the process of diversification could yield important returns in terms of reducing poverty and increased income mobility. But more work is needed to better understand how diversification to nonfarm activities can be enhanced in secondary cities and rural areas.

The road to inclusive growth is yet to be paved and the work is challenged by the widening urban-rural gap in living standards. Policy actions should focus on developing the endowments of rural households, with special attention to improving the opportunities of new generations. There have been commendable efforts to promote basic education and access to assets. These efforts need to spread more widely and more evenly and need to be oriented toward the provision of secondary and higher education, particularly in less favored regions. The report points to *secondary* schooling as being particularly important for escaping poverty, even among the rural, farming population. One way in which this effect could be channeled would be in enabling farmers to use improved inputs and technology. The promotion of education would help as well to equalize opportunities and contribute to breaking the cycle of intergenerational persistence of poverty. More efforts should be made to achieve broader coverage and better targeting of access to basic goods and services. Policies to reduce spatial disparities in endowments need to be coupled with strategies to enable households to

find the appropriate returns to their improved attributes in the local markets by supporting increased labor and land productivity.

On the basis of the analysis in the report, the following key issues call for further investigation:

- The report reveals emerging signs of “pro-poor” growth with a changing structure of the economy and declining contribution of agriculture. In recent years this sector’s growth has lagged other sectors in the economy, but agriculture continues to be the most important sector in rural areas and the main source of livelihoods for the poor. Stimulating agriculture through improving farmers’ access to modern assets, enhancing their connectivity to infrastructure and markets and encouraging a more commercial agriculture will be instrumental for an effective poverty-reduction strategy. However, with the economic transformation, agriculture might not be able to absorb the expanding rural labor force and generate jobs commensurate with the aspirations and education of youthful workforce; and agricultural advances alone will not meet the rural poverty challenge. Higher diversification towards nonfarm activities can play an important role in boosting the local economy, promoting job creation and alleviating poverty. As it seems to be indicated by the results, efforts to accelerate the process of diversification could yield quite significant benefits in terms of increased employment opportunities and reduced poverty not only in the rural sector but also in secondary cities in urban areas. These effects can be further investigated using the upcoming



Integrated Labor Force Survey (ILFS) and the National Panel Surveys (NPS) to examine the incentives for agricultural productivity and nonfarm diversification and to better understand their growth and poverty alleviation potentials in order to better inform the growth and poverty reduction strategy. The factors driving the changes in distribution pattern between 2007 and 2011/12 also call for further investigation in the subsequent studies.

- The relative decline of rural poverty appears to be driven by improvements of the endowments of poor households in assets and an expansion of their cultivation areas. These improvements seem to be coupled with a slight increase in the returns to land denoting potential increase of land productivity, particularly for the poor. As most poor farmers are smallholders with low productivity and yields, there is need to further investigate the underlying causes of the observed improvements in land endowments and returns and whether these latter are resulting from increased yields, more productive use of resources, or higher diversification and complementarities between households' activities. There is also need to explore whether there are real increased efforts towards cash crops or food crops will remain the largest source of cash income to rural households. HBS and NPS with agricultural surveys provide an invaluable opportunity to examine these issues and to investigate the constraints poor farmers face in raising productivity, accessing markets, and diversifying (both within farming and into nonfarm activity). This would help a better understanding of the patterns of poverty dynamics and the underlying causes of poverty persistence.
- The exercise of linking observed poverty outcomes to data in economic growth identified the choice of price deflator as critical. This issue needs to be explored in more depth in future work.
- The 2011/12 HBS provides an excellent basis for small area poverty mapping, since it was concurrent with the 2012 Population and Housing Census. This would provide a significant data base for geographically disaggregated policy advice and development planning and for a better understanding of the characteristics of the poor.



