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7

Economic reforms and poverty alleviation in Tanzania

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Foreword

In this paper Prof. Wangwe reviews the evidence available on the socio economic effects of the economic reforms which Tanzania has been undertaking over at least the last decade. Not surprisingly he finds the picture is very mixed, not least because of problems in reconciling and interpreting the results of household surveys carried out in 1976/77 and in 1991. Furthermore, the latter is only compatible with the national income accounts data if the latter's undercounting of Tanzania's GDP fell to less than two thirds of the total. However, a few points are more clear. Liberalization of domestic food trade probably both created jobs and put welcome pressure on food prices. Private sector activities have expanded, jobs have been created but income disparities have widened. Well situated land to grow export crops, even if officially state owned, has effectively become valuable and new income disparities in rural areas are opening up. Private secondary education has become a worthwhile investment. Tanzania is not the socialist model that it was.

Meanwhile, the reforms have not become self-financing. External support for budgetary and balance of payments purposes is as necessary as ever. Nor have all the political bullets been bitten. Many loss making parastatals still exist and safeguard some formal sector employment. However, Prof. Wangwe is optimistic that lessons have been learnt and that the government's capacity to mitigate the negative effects of economic reform is increasing. In particuar he welcomes the creation of a ministry for poverty and environmental issues.

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Contents

LIST OF ABBREVIATIONS

ACWA	Pan African Christian Women's Association
CBO	Community Based Organizations
CDTF	Community Development Trust Fund
DANIDA	Danish International Development Authority
DPP	Data Production Programme
ERB	Economic Research Bureau
ERP	Economic Recovery Programmes
ESAP	Economic and Social Action Programme
ESRF	Economic Social Research Foundation
FAO	Food and Agricultural Organization
FDI	Foreign Direct Investment
HBS	Household Budget Surveys
HESAWA	Health Sanitation and Water
HRDS	Human Resources Development Survey
IBRD	International Bank for Reconstruction and Development.
IFI	International Financial Institutions
ILO	International Labour Organization.
LFS	Labour Force Survey
NGO	Non Governmental Organization
NIGP	National Income Generating Programme
NISS	National Informal Sector Survey
NMC	National Milling Corporation
NORAD	Norway Agency for Development Cooperation
NTE	Non Traditional Exports
O & M	Operations and Management
OTTU	Organisation of Tanzanian Trade Unions
PRIDE	Promotion of Rural Initiatives and Development Enterprises Ltd. (T)
PTF	Presidential Trust Fund
REPOA	Research on Poverty Alleviation
ROAPE	Review of African Political Economy
RPED	Regional Programme for Enterprise Development
RPSP	Research and Policy Studies Programme
SAP	Structural Adjustment Programmes
SDA	Social Dimensions of Adjustment
SIDA	Swedish International Development Agency
SIDO	Small Industries Development Organization
SPCB	Socio-Economic Planning Capacity Building
TANEXA	Tanzania Exporters Association
TCCIA	Tanzania Chamber of Commerce, Industries and Agriculture
TGNP	Tanzania Gender Networking Project
TNC	Transnational Corporation
TYDEF	Tanzania Youth Development and Employment Fund
U5MR	Under 5 Mortality Rates
UNDP	United Nations Development Programme
UNICEF	United Nations Children Fund
UNRISD	United Nations Research Institute for Social Development
URT	United Republic of Tanzania

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Any errors and omissions are my personal responsibility.

Economic reforms and poverty alleviation in Tanzania

1.0 Introduction

Tanzania has an area of 945,090 sq.km and a population of 27.5 million, of whom 26.7 million live on the mainland and 0.76 million live in Zanzibar. A large part of Tanzania is covered by woodlands, bushlands and wooded grassland. Arable land occupies some 40 million hectares of which 6 million is under cultivation.

Tanzania is a least developed country with a low gross domestic product (GDP) per capita of some $100 per annum and an estimated purchasing power parity GDP per capita of $620 per annum in 1992. Tanzania has a human development index of 0.364, ranking 147th out of 173 countries (HDR, 1995).[1]

The socio-economic situation in Tanzania is characterized by a large subsistence sector (agriculture, fishing and livestock) in rural areas where the majority of the population live, with some industry (mainly import-substitution) largely based in urban areas. Agriculture contributes 49 per cent to GDP (1992-94) and employs about 85 per cent of the labour force (90 per cent of women and 78 per cent of men). The main export crops (coffee, cotton, tea, sugar, cashew nuts, tobacco and sisal) contribute over 60 per cent of foreign exchange earnings. The industrial sector contributes (manufacturing, mining, construction, water and electricity) 18 percent to GDP of which 7.6 per cent is manufacturing (Economic Survey, 1995). The rest of GDP (33 percent) is accounted for by the services sector.

With the promulgation of the Arusha Declaration in 1967 Tanzania adopted a philosophy of socialism and self-reliance. One form which the implementation of this philosophy took was nationalization of what were regarded then as "commanding heights" of the economy. Villagization followed in 1974 and in 1976 agricultural cooperatives were abolished and state run crop authorities established. Until the 1980s the public sector played a leading role in the economy. Following the economic crisis of the 1980s, economic reforms were introduced which represented a shift from a public sector-led economy and administrative control towards economic liberalization and the encouragement of private sector development. This transition is not yet completed, debates continue on particular adjustment policies (e.g. cost-sharing in social services, the speed and pattern of privatization and civil service reform, especially retrenchment).

Starting from a very low initial level in the 1960s Tanzania made steady progress in economic growth and in meeting the basic needs of the population. However, gains in the initial period were put under serious threat towards the end of the 1970s by basic macroeconomic imbalances. These were manifested by budgetary and balance of payments deficits, a growing debt burden, increasing inflation and weakening productive sectors. The capacity of the economy to support the delivery of basic social services came under strain. Some of the achievements in the delivery of basic social services (education, health and water supply) in the past two decades began to be reversed and their quality fell.

By the end of the 1970s Tanzania was living beyond its means. In the early 1980s various initiatives were taken to solve the crisis. From the mid-1980s economic reforms brought about fundamental changes in the approach to economic management.

[1] UNDP Human Development Report. New York. 1995.

In some respects economic performance has responded favourably to the reform effort. The rate of economic growth recovered from an average of 2 per cent during 1980-85 to an average of 4 per cent during 1986-94. However, this growth recovery has not benefited everyone equally. The effectiveness of the growth performance on poverty alleviation has been questioned and it is queried whether living conditions have improved generally. As shown in section 4, about half of the population still lives in poverty, the majority in the rural areas. Since Independence, the government has been committed to reducing poverty and improving equity and the basic goal of the Economic Recovery Programme (1986-89) was to reduce poverty through more rapid growth. Although better growth was achieved anxiety about the social dimensions of adjustment increased and the subsequent Economic and Social Action Programme (1989-1992) took on board some concerns about the social dimensions of adjustment.

The literature on the subject of poverty and the process of adjustment indicates little basis for any generalization about losers and winners. The impact of economic reforms on the poor is not generalizable on the basis of available evidence. A literature survey suggests that the impact of reforms on poverty is not as simple as was earlier thought. While some suggest that economic reform policies have benefitted the poor (e.g. World Bank, 1993), others say the opposite (e.g. Kigoda: 1994). This suggests that the relationship between economic reforms and poverty alleviation is complex and deserves cautious analysis. This study attempts to contribute to a better understanding of this relationship.

Economic reform policies can impact on poverty in two ways; first, through the redistribution of real income by market forces: second, by influencing the pattern of provision of public goods. A clearer understanding of these effects would raise the likelihood of maximizing the positive aspects of the reform programmes while minimizing the negative aspects.

This study examines the direct and indirect impact of economic reforms on poverty alleviation in rural and urban Tanzania, to the extent data allow. The direct effects are associated with changes in the profitability of the activities undertaken by the poor while the indirect impacts are associated with shifting the poor into new activities. The reform policies that are reviewed include trade liberalization, price reforms, financial sector reform, public sector reform and fiscal reform. Economic reform policies impact on poverty at several levels: that of individuals, households, firms and other micro level agents, particular sectors or groups in society and overall (e.g. Streeten, 1994).[2] This study refers to these levels to the extent that the availability of data permits.

This study reviews the reform steps that have been taken in Tanzania and assesses them in the light of their own objectives in section 2. In section 3 it constructs a poverty profile identifying the economic sectors in which the poor are active and describing their socio-economic characteristics. The extent to which reform policies may have influenced factors that have a direct and indirect impact on poverty levels is addressed in section 4. Section 5 provides conclusions and recommendations.

2.0 Economic reforms: Objectives and assessment

Economic reforms in Tanzania date back to 1981 and cover four main programmes: the National Economic Survival Programme (NESP 1981/82); the Structural Adjustment

[2] Streeten, P. Strategies for Human Development: Global Poverty and Employment. Studies in International Economics and Management, No. 21. Handelhojskolens Forlag. Copenhagen, 1994.

Programme (SAP 1982/83-1984/85); the Economic Recovery Programme (ERP 1986/87-1988/89); and the Economic and Social Action Programme (ESAP 1989/90-1991/92). Since 1993/94 the three-year Rolling Plan and Forward Budget (RPFB) has replaced Five-Year Plans of the 1960s and 1970s and three-year economic recovery programmes as the principal programming instrument of the government. Since the RPFB was introduced some initiatives have been taken towards articulating sectoral objectives, policies, strategies and priorities within the overall macroeconomic policy framework.

The National Economic Survival Programme of 1981 and 1982 was a national initiative. Although it appealed to patriotism following the breakdown of negotiations between the government and the IMF, it failed to achieve its targets, largely because it was based more on exhortations and the wish for self reliance than on the articulation of policy reforms to realize its ambitious targets.

With the hope of gaining support from the International Financial Institutions (IFIs) a World Bank financed Tanzania Advisory Group (TAG) was commissioned in 1981/82 to formulate a structural adjustment programme (1982-85). The TAG prepared a much more comprehensive programme than the NESP and many policy options were suggested. However, the government was not then ready for drastic policy reforms and the document was considerably diluted. In particular, the revisions weakened proposals which made reference to price reforms, trade liberalization and public sector reform. The diluted version was presented to the IFIs but these considered the proposed programme insufficient in articulating economic reform, especially in terms of reducing distortions in goods and factor markets. Failure to reach an agreement with the IFIs also meant that many donors withheld their aid flows. The programme could therefore not be fully implemented because the external resource inflow which it had assumed did not materialize.

Local production capacity was reduced as the import of intermediate inputs was curtailed. The response of the government was to tighten administrative controls and the administrative allocation of scarce resources. In this context in 1983 the government and the ruling party launched campaigns against traders, who were perceived to be saboteurs of the economy and the main cause of the shortage of goods (by hoarding). However, by early 1984 the campaign had lost steam as shortages increased and the economic crisis continued to worsen. Presumably it became apparent that traders were not the source of the shortages of goods.

The 1984/85 budget represented a moderate response to some of the demands of the IFIs although it was presented as a spontaneous national initiative. This budget was the first significant step towards economic reforms and economic liberalization in particular. The budget included the devaluation of the Tanzania shilling by 26 per cent, it removed subsidies on maize meal and fertilizer, introduced partial import liberalization, allowing those with their own funds (foreign exchange not obtained from the Bank of Tanzania) to import goods without restrictions; cost sharing was introduced in the financing of basic social services and parents were supposed to contribute to secondary education, and a development levy was re-introduced for all those 18 years old and above.

Measures towards economic liberalization and economic reform continued during 1985 and culminated in 1986 in the Economic Recovery Programme (1986-89) which represented agreement between the government and the IFIs.

These structural adjustment policies contained at least four components. First, there was a concern to "get prices right" whereby prices of foreign exchange, capital and domestic goods and services were to reflect their relative scarcities. Second, the perceived over-extension of the state in production and finance led to a programme to reduce its role in the economy. Emphasis on public sector reforms and financial liberalization is part of that programme.

Third, echoing the concern of "growth with equity" of the 1970s the structural adjustment programmes (but this time founded on a new theory of political economy) adopted the hypothesis of urban bias and hoped that by eroding this equity would be improved. Fourth, the assumption of a malevolent state buttressed by entrenched interest groups favoured a shock-treatment approach to adjustment in order to minimize the chances of organized resistance from the groups who perceived a substantial erosion of their economic interests.

The main objective of the economic reforms, however, was to restore internal and external balance in the economy.

More specifically the objectives of ERP as stated in 1986 were as follows:

i. to increase food and cash crop output by: a) providing appropriate incentives for production; b) improving marketing structures; and by c) increasing the resources available to agriculture.
ii. to support directly productive activities by rehabilitating the badly eroded physical infrastructure.
iii. to increase capacity utilization of industries from 20-30 percent to 60-70 percent by allocating foreign exchange to priority sectors and firms.
iv. to restore internal and external balance by pursuing prudent fiscal, monetary and trade policies.

It was expected that all these efforts would raise the rate of economic growth from an average of 2 per cent during 1980-85 to 5 per cent and reduce inflation from 30 to 10 per cent. ESAP (1989-92) maintained basically the same objectives as ERP but with explicit recognition of the social dimensions of adjustment. It included measures to reverse the erosion of social services and to pay attention to the vulnerable groups.

Since 1986 economic reforms have been carried out in various areas. In the area of price reform the guiding principle has been towards reducing distortions in the factor and goods markets. Action has been taken on the exchange rate, interest rates and on price decontrol. The shilling has been devalued from Tshs.17 to the US dollar in March 1986 to about Tshs.570-600 to the dollar in December 1995. In June 1994 the interbank foreign exchange market was introduced with a view to establishing a more realistic exchange rate. The premium in the parallel market has been reduced to insignificant levels (less than 5 per cent). The price of capital has been raised with real interest rates, which were negative in the 1980s, becoming positive in the 1990s. Prices of other goods and services have been decontrolled and distribution has been liberalized. The former practice of distributing certain goods only to stipulated institutions has been replaced by a liberalized marketing and distribution system.

Tanzania has made major progress in recent years towards putting in place a general policy environment which is more favourable to private sector expansion and growth. Most restrictive regulations and controls have been removed. The country is moving from its previous reliance on control mechanisms toward a predominantly market-oriented environment. There has been an attempt to reduce government involvement in directly productive activities. A major challenge is that these changes are taking place in the context of both an embryonic private sector and a reduced and weakened state capacity to formulate and manage major economic policy change.

The rate of investment was high, at about 20 per cent of GDP, even during the crisis years of 1980-85. It increased to an average of 34.6 per cent during 1986-92 (World Bank, 1995).[3] The high import content of investment may have exaggerated the increase in the investment rate after 1986 at a time when the exchange rate was being actively adjusted. A notable feature of investment behaviour is the shift in favour of the private sector. The share of private investment in the total increased from about 50 per cent in the mid-1970s to 60 per cent in 1986 and further to 70 per cent in the early 1990s. This reflects partly the slow down of investment in the parastatal sector and partly the private sector response to economic liberalization and an improved official attitude towards it. However, the structure of investment has shifted towards quick-yielding, especially trading activities, suggesting that the private sector still considers the investment climate uncertain. In addition, infrastructure such as telecommunications, power and water and the legal framework supportive of private sector development are not quite in place although many initiatives are being taken in that direction. For similar reason, there has been little success in attracting foreign direct investment.

Consistent with a higher rate of investment the rate of growth of the economy recovered after 1986. Growth of GDP increased from an average of 2 per cent during 1980-85 to an average of 4 per cent during 1986-94. The productivity of investment increased although it remains significantly below what typical adjusting African countries have achieved (Bigsten et al, 1994).[4] Growth performance in the key sectors has been encouraging. Annual growth in agriculture increased from 0.6 per cent during 1980-85 to about 5 per cent during 1986-94. Industrial sector growth increased from -4.5 per cent per annum during 1980-85 (i.e. it was declining) to about 4-5 per cent per annum during 1986-94 (Economic Surveys).

While there has been an improvement in macroeconomic stability and in growth performance, further improvements, or even the sustainability of current achievements, is threatened by institutional and structural constraints. These include the persistent budget and balance of payments deficit, with declared exports meeting just over one-third of the import bill, the low level of domestic savings and continuing inflation. On-going institutional reforms include those in the financial sector, the civil service, parastatals and in planning and budgeting. These reforms are complicated both by the constituent interests they touch upon and by the administrative capacity of the state that they simultaneously require.

During the period of socio-economic crisis the administrative and managerial capacity of the state deteriorated. However, demands for just that capacity to manage economic reform and formulate the development programmes which can lead to sustainable human development are greater than ever. Thus a major constraint on the effective coordination and implementation of the intended reforms is the weak capacity of the state itself and its related institutions. Consequently, a series of institutional changes are being introduced without effective and long-term strategic priorities and without effective coordination among their different components. One consequence is that the coordinating role has often come from outside the country and the influence of the IFIs and leading donors has been allowed to grow to very high proportions. These actors have also played a leading role in policy making. The challenge to be faced is how to build a strong local capacity to manage concurrently all the current and future social, political and economic reforms.

One way of restoring the internal balance was by respecting ceilings on government expenditure and reducing the budget deficit. However, the budget deficit was reduced only temporarily as shown in table 1. Between mid-1986 and mid-1993, total expenditure as a share

[3] World Bank: African Development Indicators 1994-95. Washington DC 1995.

[4] Bigsten, A.; C. Adam; P. Collier; E. Julin and S. O'Connell. Evaluation of Swedish Development Cooperation in Tanzania. A Report for SASDA Stockholm, 1994.

of GDP increased by about three-quarters. Revenue increased as well but not by as much. Foreign grants have been a constant budget item and have risen substantially as a share of GDP. They have frequently been equivalent to around 20 per cent of expenditure.

The extent to which the budget deficit has been financed from domestic sources has varied. However, when the growth of revenue and foreign financing of the deficit weakened after July 1992, substantial bank borrowing emerged. This reflects partly the failure to control government expenditure and partly the narrow tax base and weak revenue collection. Tougher tax policies and prudent expenditure are issues which deserve urgent attention.

The budget deficit has been financed through bank borrowing, auctioning treasury bills and foreign aid. Bank borrowing has been inflationary through its effect on money supply. Auctioning treasury bills has tended to deny credit to the productive sectors and the upward push given to interest rates has diverted resources to speculative activities and quick-yielding investments such as trade. Financing the budget deficit through foreign aid reflects dependence, which puts into question the attainment of a sustainable budget. Foreign aid is given on the basis of conditionality and releases are contingent on many factors, which introduces an element of fragility and uncertainty.

Table 1. Trends in government finance, as per cent GDP

	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94[1]
Revenue	16.8	13.8	12.9	12.9	12.4	13.3	21.9	22.7	17.1	19.2
Grants received	1.2	0.6	1.4	4.3	3.7	3.8	3.7	4.3	6.1	8.5
Expenditure	23.6	19.9	21.1	20.5	18.7	19.1	33.1	34.1	34.9	38.5
Deficit (minus)	5.6	5.5	6.8	3.3	2.6	2.0	7.5	7.1	11.7	10.8
Foreign financing	0.3	na	na	4.0	-1.1	0.4	2.8	5.9	3.1	1.9
Domestic financing	5.3	na	na	-0.7	3.7	1.6	4.7	1.2	8.6	8.9

Source: IMF, International Financial Statistics

1 Estimated.

The growth of money supply has not been effectively controlled. Between June 1986 and June 1993, overall annual credit growth averaged 30.5 per cent. While net claims on government increased at an average annual rate of 21.3 per cent, credit to other sectors averaged 44.2 per cent (Doriye, 1995). The magnitude of credit to government varied with the external financial inflows. Recourse to bank borrowing every time there is a shortfall in external financial support indicates that internal balance has not been achieved, and the budget deficit would have been greater if the degree of dependence on foreign financing had been lower.

The growth in credit is in fact higher because much was given indirectly. For instance, under commodity import support a large number of recipients are believed not to have paid the cash cover. Estimates suggest that up to about Tshs. 60 billion of these payments are still in arrears (Doriye, 1995). The government has attempted to collect this but so far with little success.

The requirement under the financial sector reform programme to withhold credit from many parastatals meant a drop in credit to the state sector and an increase to the private sector. Between June 1991 and June 1994 commercial bank credit to the state sector declined from Tshs.106.9 billion to 97.1 billion while credit to the private sector increased from shs.41.0 billion to shs.158.9 billion (Bank of Tanzania Reports).[5] As a consequence public enterprises in manufacturing faced a shortage of working capital. However, most of the credit to the private sector has gone to finance trade and other commercial activities rather than to direct production. Credit contraction went hand in hand with other reform policies to reduce employment in the public sector and the share of parastatal employment in total wage employment declined from 28 per cent in 1984 to 23 per cent in 1993.

Parastatal reforms have been implemented through the Parastatal Sector Reform Commission (1993) and the Loans Advances and Realization Trust (1991). A number of public enterprises have been restructured through commercialization, privatization, divestiture or liquidation. Many parastatals which have not yet been restructured continue to have capacity underutilisation, illiquidity and a shortage of working capital as well as management problems.

Efforts to limit parastatal borrowing have generally succeeded but there has been very little progress in restructuring the parastatals and increasing productivity. Reform here has experienced some problems such as an inability to pay terminal benefits to deserving employees and at times failing to contribute to pension funds. By December 1994 the government had earned shs.4.4 billion and $29.2 million from privatization. Some of this revenue is being utilized to pay terminal benefits and the commercial debts that these parastatals had incurred (Budget speech, 1995).[6]

Inflation has been reduced from 30 per cent in 1985 to 24 per cent in 1993. This is an improvement although still rather far from the target of 10 per cent. However, the problems of power supply which necessitated country-wide power rationing in the last quarter of 1994 resulted in not only a deceleration of growth but also in higher inflation in 1994. There are indications that the economy grew at 3 per cent during 1994, down from 4.2 per cent in 1993 while the rate of inflation increased to 35.3 per cent in 1994, up from 24 per cent in 1993 (Economic Survey, 1995).[7] The rate of inflation has also been fuelled by budgetary over expenditure leading to government bank borrowing to the tune of shs.38.1 billion (i.e. about 12 per cent of recurrent revenue). Total internal public debt is estimated at shs.181.7 billion in June 1995, about 55 per cent of recurrent revenue (Economic Survey, 1995).

Trade liberalization measures have included the removal of quantitative restrictions, permitting holders of own funds to import goods which are not on a negative list. There has also been a reduction of tariff levels and a rationalization of the tariff system. Import liberalization has threatened the survival of domestic industry although it improved access to intermediate inputs and capital goods. Liberalization of domestic trade has promoted trading activities and reduced the prices of manufactured goods. This was a result of the stiff competition accompanying these policies. Real devaluation has increased prices of exports, which has increased returns to producers in shilling terms.

[5] Bank of Tanzania: Economic and Operations Reports (Various years). Cited in Doriye (1995).

[6] United Republic of Tanzania. Speech by the Minister of Finance, Lt. Col. Jakaya M. Kikwete (MP) introducing the estimates of public revenue and expenditure for financial year 1995/96. Dar es Salaam, June 1995.

[7] United Republic of Tanzania. Economic Survey for 1994. Planning Commission, June 1995. However, subsequent estimates have revised the inflation rate for 1994 down to around 27 per cent.

In agriculture both the distribution of inputs and marketing have been liberalized. Road blocks restricting trade between different regions were removed. After March 1987 private traders could transport more than 500 kg between regions and they were allowed to trade in food freely. The trend towards eliminating consumer subsidies on maize flour, reducing transport subsidies and eliminating the fertilizer subsidy and to reducing the role of the National Milling Corporation (NMC) to that of buyer of last resort continued while legalizing the already important role of private traders (1991/92). These measures effectively ended the monopoly position of the NMC. At the same time the monopoly of marketing boards in agricultural marketing dating from 1985/86 was reduced considerably and the boards were restructured to suit the new competitive environment. However, the objective of raising producer prices of export crops to 60-70 per cent of the export price or realizing a real increase of 5 per cent per year could not be achieved, although considerable improvements have been made. Experience suggests that the improvement in the efficiency of marketing has at best been modest. Domestic crop prices have not increased to the same extent as export prices but they have generally remained reasonable. The rise in the price of foodstuffs has been checked somewhat by the liberalization of food markets.

The poor state of roads, especially in the rural areas, has inhibited the movement of agricultural products from some surplus areas to the markets. This, coupled with the failure of private traders to move in fast and fill gaps left by the retreating marketing boards, has led to marketing difficulties in some areas.

External balance has not been reached as envisaged. The trade deficit has not been eliminated and recorded export earnings finance only about 40 per cent of the import bill. Real depreciation of the exchange rate notwithstanding, imports have continued to grow. Nevertheless, the composition of imports has changed in favour of consumer goods. Even within the category of capital goods imports there has been a shift towards transport equipment, mostly light commercial vehicles. The pattern of imports and the implicit pattern of investment suggest that there are doubts whether structural adjustment measures have resulted in a switch to activities which will sustain growth in the long term.

Total foreign debt increased from $4.3 billion in 1986 to US$7.5 billion in 1993. By 1995 it had been reduced to US$6.8 billion. As a share of GDP foreign debt increased from 103 per cent in 1986 to 285 per cent in 1992. The debt service ratio fell in the early 1990s largely due to rescheduling arrangements made through the Paris Club but was still 25 per cent of exports in 1993. Nonetheless, limits to rescheduling could soon be reached.

The major components of financial sector reform as proposed by the Presidential Banking Commission (1990) are: new legislation on banking and financial institutions; enhancing the autonomy of banks; and enhancing competition and free entry into the financial sector. Major institutional changes have included the establishment of the Capital Markets and Securities Authority (CMSA) in 1994 and of private sector banks and other financial institutions. The institutional developments of the capital markets are still in their infancy. The securities market is still confined to government securities. Free entry into the financial sector has resulted in the establishment of several new foreign and local banks. The high minimum deposits required by these new banks and their exclusive location in Dar es Salaam suggests that they have so far only targeted corporations and the urban rich.

The present size of the civil service is 330,000, of whom 39 per cent work in central government; 8 per cent in regional government; and 53 per cent in local government.[8] The

[8] These figures exclude 50,000 people working in national institutions such as Muhimbili medical centre; the universities; training institutions; etc.

Civil Service Reform Programme seeks to reorganize ministries to fit a redefined role of government; to introduce performance based pay; to introduce new personnel management to provide better control and information; to introduce training programmes to enhance work capacity; to retrench 50,000 civil servants; and to reform local government in order to strengthen its capacity and reorient its functions. It is too early to make any firm assessment of this programme. So far some 50,000 have been removed form the payroll, including 14,600 "ghost workers". However, the wage bill has increased over the period of retrenchment due to high compensation rates (Therkildsen, 1995).[9]

Looking at the civil service reforms from a gender perspective it appears that women have been disproportionately retrenched largely because of the last-in-first-out (LIFO) formula used. Strengthening the civil service does not seem to have been scrutinized this way.

Civil service reform seems to have been ad hoc. It is also reliant on foreign financing and for that reason may not be sustainable.

For industry, foreign exchange allocation has been relaxed and investment incentives improved. However, improvements in efficiency and higher capacity utilization have been slow in coming and some sub-sectors have faced new constraints largely arising from devaluation, financial reforms and import liberalization (see section 5).

Aid flows declined in the early 1980s after disagreement with the IFIs. When this changed in 1986 many donors unlocked aid resources and inflows resumed. This was accompanied by a shift from project-aid to import support mainly for maintenance and rehabilitation with a view to increasing the overall level of capacity utilization. This was no doubt successful. However, increased aid conditionality coupled with the shift from project to programme aid has been associated with greater demands for aid coordination both among donors and between them and the government.

According to the Ministry of Labour and Youth Development, there are about 700,000 new job seekers each year (Monji, 1994).[10] This is probably an overestimate. Given the size of the labour force and population growth the number of new job seekers each year is more likely to be in the region of 450,000. This compares unfavourably to the 30,000 jobs usually created annually in the formal wage sector in the mid-1980s. Fewer new jobs may have been created in the early 1990s (ILO, 1991).[11]

The formal labour market has always been dominated by the public sector, but its share has been declining since 1984, although its absolute number of workers still increased during 1984-91. The share of public sector employment in wage employment declined from 76 per cent in 1984 to 67 per cent in 1992 (the civil service 41 per cent and parastatal sector 26 per cent) (Bol, 1995).[12]

Private sector employment has been growing at around 10 per cent annually, helped by increased investment, much of which has been labour intensive and employment creating (Bol, 1995). Private sector employment has increased from 150,000 in 1984 to 300,000 in 1991.

[9] Therkildsen, O. Civil service reform under extreme resource scarcity. Paper presented at the ERB workshop on "Beyond SAPs in Tanzania", held in Dar es Salaam, 2-4 August 1995.

[10] Monji, R.G., et.al. "The National Employment Policy", (unpublished). Dar es Salaam, 1994.

[11] ILO. The dilemma of the informal sector. Report to the Director General. Geneva, 1991.

[12] Bol, D. Employment and equity issues in Tanzania. Paper presented at the ERB workshop on "Beyond SAPs in Tanzania" held in Dar es Salaam. 2-4 August 1995.

According to the 1991 labour force survey, the share of the private sector in formal employment was 35 per cent.

Real wages and salaries, especially in government and the public sector, have fallen over time and have remained low. In 1986 the real minimum wage and the real value of the average top bracket civil service wage were only 46 per cent and 28 per cent respectively of their 1980 level. Between 1980 and 1990 real wages on average fell more rapidly than per capita income, suggesting that the recent economic crisis has been an especial burden for wage earners.

There have been small increases in allowances and fringe benefits for all wage earners from time to time. Benefits include a rent allowance for officials living in their own quarters and in privately rented accommodation, and a transport allowance is given to some government employees working in Dar es Salaam. However, these fringe benefits are unevenly distributed and government housing and other benefits are only available to a minority of (mainly higher level) civil servants.

More importantly, the effectiveness of growth in alleviating poverty is being put to question. Concern is raised about both the level and the quality of growth, which may not be sufficiently broad-based. Issues of the social dimensions of adjustment have increasingly become a subject of policy debate. The debate is not conclusive although it has led to the design of policies aimed at countering the negative consequences of adjustment. While living conditions have generally improved, the incidence of poverty and the nature of the poverty profile need to be understood better if poverty is to be adequately addressed. The next section presents the poverty profile for Tanzania.

3.0 Poverty profile and poverty alleviation

3.1 Poverty in Tanzania

This section addresses the extent of poverty in Tanzania, throws some light on where the poor are located and examines the household characteristics which are associated with poverty. Furthermore, trends in income distribution are examined and the status and role of social services and access to these services are addressed.

Poverty is understood as a condition of life that is insufficient in meeting such minimal necessities as nutrition, housing, safe water, health and education. It is both a material condition and a power relationship. Here, the concept of poverty not only refers to the influence of market forces on the redistribution of real income wealth, prestige and power but also to the changing pattern of provision of public goods, notably, education, housing and health.

The debate on the extent of poverty and its incidence in Tanzania is elusive and not yet exhausted (Cooksey, 1994). Attempts to define poverty have used various indicators, the most common of which have been income, nutrition and land ownership. A standard definition of poverty has adopted specific requirements for food and non-food items and has calculated the income needed to purchase them (the poverty line).

There are at least two problems associated with the definition of poverty based on poverty lines. First, the definition of the poverty line itself varies from one study to another reflecting varying views as to the minimum amenities of life. Second, the poor, who are considered to be below the poverty line, or the non-poor, who are above the poverty line, are not homogenous groups. In both groups there is likely to be social differentiation. Members of these groups are likely to differ in their socio-economic characteristics, the economic activities in which they are engaged and in the way they are affected by policies.

Studies on poverty in Tanzania have not linked it with any single dimension. They posit the poverty problem as multidimensional, although the availability of data has limited the identification of poverty largely to incomes and to the use of basic social services. Access to employment, in the formal or informal sector as employees or self-employed, and access to credit and land have been used in this respect on the basis of rather scattered information.

Extent of Poverty

Tanzania is one of the poorest countries in the world according to the World Bank. The 1995 World Development Report puts Tanzania's GDP per capita in 1993 at US$90, the lowest in the world, tying only with Mozambique. Income per capita in dollar terms, however, should be interpreted with caution as estimates vary considerably. In 1982 income per capita for Tanzania was $280 (World Bank, 1984)[13] and increased to $290 in 1985 (World Bank 1985). Following a large devaluation, dollar income per capita declined to $160 in 1988 (World Bank 1990) and further down to $100 in 1991 (World Bank, 1993). In 1993 as noted it fell further to $90 (World Bank, 1995). The same document, however, indicates that real income per capita for Tanzania had been growing at an annual rate of 0.1 per cent during 1980-1993 (World Development Report, 1995). Average GDP growth was around 4 per cent in real terms between 1986 and 1994, implying income per capita growth of above 1 per cent in real terms over the period when income per capita in dollars is supposed to have been declining. Dollar estimates of the GDP are always likely to be problematical after a large devaluation. In addition, the size of the second economy not picked up in the GDP data is large with estimates ranging from 30 to 66 per cent of measured GDP (Maliyamkono and Bagachwa, 1990 and Bagachwa and Naho, 1994).[14] Alternative estimates by the United Nations international comparison project gave Tanzania's per capita purchasing-power-parity equivalent GDP for 1990 as $540. Estimates of the World Bank poverty profile study have put per capita GDP at $280 (World Bank 1993b). The variations in these dollar estimates indicate their unreliability. However, in spite of all these cautions it is generally agreed that Tanzania is a poor country even if it may not necessarily be the world's poorest.

With the resumption of aid flows domestic absorption has been commonly over 30 per cent higher than GDP. In terms of shares in domestic absorption government consumption, which was over 14 per cent in 1985, fell to a fairly steady 8 per cent. Private consumption was over 72 per cent in 1985 but was 64 per cent in 1992. Correspondingly investment, which was only 13 per cent in 1985, moved up to around 30 per cent in the early 1990s.[15] As noted the investment share may be overestimated.

Information on household socio-economic conditions can be found in a series of household surveys. The first large scale household budget survey (HBS) was carried out by the Bureau of Statistics in 1969 followed by another in 1976/77. Two smaller sample based surveys were carried out in 1980 by the ILO (Collier et al, 1986) and in 1983 by Bevan et al. (1988). Finally in 1990-93, no less than four studies were produced, one based on a new sample by a team from Cornell University and the Economic Research Bureau, University of Dar es Salaam (Tinios et al., 1993; Ferreira, 1993; Sarris and Tinios, 1994) and three by different Tanzania government departments. The Bureau of Statistics produced a further round of a large-scale household budget survey (URT Bureau of Statistics, 1994), while other

[13] World Bank. World development report, 1984. IBRD/World Bank, 1984.

[14] Bagachwa, M.S.D and Naho, A. A review of recent developments in the second economy in Tanzania. AERC Special Paper 16. Nairobi, May 1994.

[15] United Republic of Tanzania, Statistical abstract: 1992, Bureau of Statistics, Planning Commission, February 1994.

departments produced a labour force survey (LFS) (URT 1993) and a human resource development survey (HRDS) URT (1994) respectively (Gibbon and Raikes, 1995).[16]

A poverty profile can be constructed from these sample surveys. The most recent household survey to specifically address poverty is the Cornell-ERB study of 1991. Data from that study have not yet been fully analysed, but preliminary results have been presented in Tinios et al. (1993a) and World Bank (1993b). Both of these findings have been referred to by Cooksey (1994) and the poverty profile in this study largely draws from those results. The Cornell-ERB study was based on a household budget survey sample of 1,046 households (out of 4.3 million) in rural and urban areas of Tanzania drawn from the national master sample of the Bureau of Statistics.

Both a relative and an absolute poverty line were constructed. The relative poverty line classifies households with less than 50 per cent of mean adult equivalent expenditure as poor. The poverty line was drawn at T.shs.46,173 per adult equivalent (per year). On the basis of this measure, 50 per cent of all Tanzanians were found to be living in households classified as poor (World Bank 1993b). Per capita household expenditure in 1991 was T.shs.61,564, ranging from shs.10,937 for very poor households to shs.103,454 for better off households. Per capita household expenditure is higher in urban areas (shs.78,542) than in rural areas (shs.49,620) as shown in table 2.

Table 2. Yearly expenditure by type of household in 1991

	Per capita household expenditure (in Tshs).	Adult Equivalent Household Expenditure (in Tshs).
All Tanzania	61 564	91 509
Rural	49 620	77 246
Urban	78 542	108 989
Better Off	103 454	152 449
Poor	15 223	24 093
Very Poor	10 937	17 173

Source: World Bank (1993b).

Alternative absolute, calorifically defined, poverty lines have been constructed by Tinios, et al. (1993) with cut-off points at 1,900, 2,000, and 2,100 calories per day (table 3). Data from the ERB/Cornell survey show that the daily calorific intake of 1900 calories needed to sustain the average person in a minimally healthy state would require annual per capita expenditure of Tsh.50,866 in Dar es Salaam, Tsh.28,969 in urban areas other than Dar es Salaam, and Tsh.25,613 in rural areas. On this basis 43.6 per cent of households and as much as 50.5 per cent of the population are not self-sustaining (i.e. they consume less than 1,900 calories per person per day) while 12 per cent would be severely under-nourished (i.e. consuming less than 1,200 calories per person per day). If the cut-off point is raised to 2,100 calories/person the proportion of households who could not sustain themselves increases

[16] Gibbon, P. and P. Raikes. Structural Adjustment Programmes in Tanzania 1986-1994. Centre for Development Research, Copenhagen. April 1995.

to 51.4 per cent. (Note that the rural per capita expenditure associated with an intake of 1,900 calories is very slightly above half of the average rural per capita expenditure.)

Tinios et al. (1993) preferred the use of calory consumption as a measure because of price differences. As suggested by table 3, prices (i.e. the cost of calories) in Dar es Salaam are double those of the rural areas. This observation is also supported by other sources such as World Bank, (1993) and Ferreira, (1995). Generally, in income terms, Tinios et al. (1993) suggest that the poverty line in Dar es Salaam (DSM) should be twice that of the rural sector and that calories seem to cost over twice as much in Dar es Salaam as in rural areas. From table 3, the proportion of poor households in rural areas seems to be some three times as high as in DSM.

Table 3. Calorifically defined poverty lines

	All Tanzania	Rural	Urban non-DSM	DSM
a. 1900 Calories (Tshs/capita)	...	25 613	28 969	50 866
- Poor as				
- % of population	50.5	55.6	28.9	23.0
- % of households	43.6	50.1	21.2	16.2
b. 2000 Calories (Tshs/capita)	...	27 721	33 186	54 950
- Poor as				
- % of population	54.4	59.3	34.6	26.5
- % of households	47.6	54.1	26.4	18.3
c. 2100 Calories (Tshs/capita)	...	29 831	37 777	59 139
- Poor as				
- % of population	58.1	63.2	37.1	29.7
- % of households	51.4	58.2	29.2	20.4

Source: Tinios, P., Sarris, A., Amani, H. and Maro, W. Households, Consuption and Poverty in Tanzania: Results from the 1991 National Cornell-ERB Survey. Seminar on Policy and Poverty in Tanzania, Dar es Salaam 1993.

About 80 per cent of Tanzanians live in villages, 15 per cent in urban non DSM, and about 6 per cent in DSM (this breakdown is no doubt changing). Urban people (in and outside DSM) have about 60 per cent more personal expenditure than their rural counterparts, even when differences in family composition have been taken into account. Per capita expenditure in DSM has been estimated to be 1.5 times higher than in other urban areas and 2.3 times higher than in rural areas. One finding of Tinios et al. (1993) is that income inequality in Tanzania is largely inter- rather than intra-regional. Implicitly a description of poverty incidence based on household differences within each region may not be as important as one based on regional differences.

Location of the poor

Poverty in Tanzania is mainly a rural phenomenon. Using the 1,900 calory cut off point, 56 per cent of the rural population is poor compared to 29 per cent in the urban areas excluding Dar es Salaam and 23 per cent in Dar es Salaam. Given the population distribution this puts 50 per cent of the population below the cut off. Of these 88 per cent are in rural areas.

The incidence of poverty in the regions is associated with low productivity in agriculture. The regions with a high incidence of poverty are characterized by low rainfall, poor soils, long distance from markets and minimal infrastructure. This introduces another dimension of poverty in Tanzania, that is, environmental degradation. The majority of the rural poor are clustered in ecologically fragile lands (URT, National Report, 1995). The degradation of the environment is often accentuated by population pressure on the land and other natural resources since there is no other means of making a living. The phenomena of poverty, environmental degradation and population pressure are closely related. Poverty eradication may thus have to be coordinated with environmental and demographic concerns.

Socio-economic surveys investigating rural poverty indicate a strong link between poverty and limited access to such resources as good land, modern farming equipment, agricultural inputs and extension services. Because of this, to assume a direct correlation between farm size and income may be arguable. For example, a study of basic needs conducted by the ILO in Kilimanjaro observed that the difference between the "very high" and "very low" farmers in terms of acreage was less than 3 times, but incomes varied by a factor of nearly 9 (ILO: 1981). Accessibility to productive land is not the best way to identify the rural poor. What is grown, and more particularly the extent of export crops, must be considered.

In any event good and productive land is not easily available to the majority of the rural poor. An FAO/IBRD sample survey carried out in 1975 showed that there was a small group of distinctly richer farmers in each region with larger areas of productive land. On the other hand the 1971/72 agricultural census showed that over 82 per cent of farmers had a land holding of less than 2 ha. (Kahama, (et al.) 1986: 62). A recent study revealed that the situation had not changed significantly (Lugalla, 1992), especially in the Arusha, Dodoma and Mbeya regions.

Within the rural areas the poor are either farmers with no land at all or with a little land using basic technologies (like the hand hoe) which cannot raise agricultural productivity substantially. The rural poor are much concentrated in underdeveloped or vulnerable regions like Dodoma, Kigoma, Rukwa, Lindi and Mtwara where few export crops are grown. Rural poverty is pervasive in non-export crop producing areas. However, in addition to rural poverty self-employed households in urban areas are also prone to poverty, as are some non-farm rural households.

Poverty and Household Characteristics

There is a relationship between poverty and household size or dependency ratio. The poor tend to have big households. Tinios (1993) shows that the "very poor" had an average household size of 7.2 compared with 6.97 for the "poor" and 5.32 for the "non-poor". The average size of households in rural areas is larger than those in urban areas, except Dar es Salaam where the poor tend to have bigger households. The poor also tend to be associated with higher dependency ratios. The number of children under 13 is 2.97 for the very poor, 2.93 for the poor and 1.9 for the non-poor. However, the phenomenon of family size increasing with lower incomes relates to adult equivalents and not just to all household members. In terms of Tinios' groups of very poor, poor and non-poor, average number of

Table 4. Composition of expenditure (per cent of total expenditure) in 1991

	All Tanzania			Rural			Non-Dar es Salaam			Dar es Salaam		
	Very poor	Poor	Non-poor	Very poor	Rural poor	Non- poor	Very poor	Urban poor	Non-poor	Very poor	Urban poor	Non-poor
Total purchases	66.5	63	75.7	54.1	59.1	67.5	79	76.2	83.1	94.1	92.7	91.8
Own production	31.0	35.2	22.1	43	39.3	31.9	19.8	22.4	12.7	3.1	3.2	3.5
Total food: of which	74.8	75.5	65.7	78.8	76.4	71.5	73.4	73.5	56.3	63.1	68.2	59.2
Cereal grains	28.9	24.4	9.4	36.7	26.3	12.8	25.1	21.9	5.7	6.5	5.9	3.3
Cereal products	7.8	6	8	4.1	4.6	5.1	8.7	8.2	9.7	19.8	19.5	14.9
Other staples	10.9	13	9.8	12.3	13.8	12.8	9.4	11.8	6.1	8	6.1	4.9
Other food grains	6.2	4	4.2	5	3.6	3.4	8.7	6.8	4.5	7.2	6.1	6.2
Livestock	7.9	10.3	12.8	8.6	10.5	14.6	6.5	10.1	10.3	7.2	8.4	10.3
Manufacturing food	5.4	6.3	6.2	4.5	6.1	6.3	7.2	7.0	6.8	6.2	6.6	5.1
Beer	1.8	1.9	3.2	2.7	2.3	3.3	0.5	0.4	3.4	0.1	0.2	2.7
Unclassified food	5.9	9.5	12.2	4.8	9.3	13.2	7.2	7.3	9.8	8.2	15.6	11.8
Other: of which	25.2	24.5	34.3	21.2	23.6	28.5	26.6	26.5	43.7	36.9	31.8	40.8
Housing	6.5	4.7	6.1	4.4	3.8	3.4	6.8	6.6	10.8	13.2	13.4	9.4
Clothing	6.1	6.7	6.2	7.1	7	6.8	4.7	6.3	5.9	4.4	3	4.5
Personal	5.6	5.2	6.5	4.7	5.1	6.3	7.2	7	7.2	6.4	4.5	6.5
Education	0.9	0.8	1.7	0.6	0.7	0.9	1.6	1	2.8	1.3	1.4	2.7
Transport	2.3	2	3.5	1	1.9	3.5	2.1	1.9	3.3	7.1	4.6	3.9
Durables	0.9	1.6	2.6	0.8	1.8	2.6	1.4	1	2.2	0.8	0.9	2.9
Smoking	1.4	1.3	1.4	1.4	1.4	1.5	0.7	0.6	1.1	2	1.6	1.5
Other non-food	1.5	2	6.4	1.2	2	3.5	2.2	2.2	10.4	1.4	2.3	9.4

Source: Tinios (1993)

equivalent adults was 28 per cent higher for the very poor than the non-poor (and the number of all family members 35 per cent higher).[17]

The poor tend to have a higher proportion of own production and consumption in their total income. While this accounts for 31 per cent among the very poor, it accounts for 22.1 per cent for the non-poor. These proportions are higher in the rural areas (43 per cent for the very poor, 39.3 per cent for the poor and 31.9 per cent for the non-poor) as shown in table 4. The major component of own consumption is cereals and other staples.

Other studies have found that the poor have a higher share of their income originating from crops and that 71.2 per cent of crop income of the poor was for their own consumption compared with 35.3 per cent for the non-poor (Collier et al., 1986). However, own production clearly supplies a very large share of basic food consumption for all rural groups. It has been suggested that this is an indication that rural poverty stems from lack of integration into marketing processes (e.g. by Collier et al., 1986). However, after liberalization, marketing has improved quite considerably except in the very remote areas. It seems that the major cause of poverty in rural Tanzania is not so much a lack of markets for agricultural products but the nature of social organization of the production process itself. Poverty is directly attributable to the lack of extension services, use of low and rudimentary technology, limited access to credit and poor infrastructure.

The very poor also seem to have fewer off-farm income earning opportunities, probably because of their lower level of education. The share of off-farm income in total income is lower among the poor. In 1993 it was 44 per cent for all Tanzania, 46.8 per cent for the non-poor, 28.3 per cent for the poor and 25.6 per cent and 19.1 per cent for the very poor and rural poor respectively. The share is 70.7 per cent for the urban non DSM and 99.1 per cent for DSM.[18]

Housing conditions for the majority are still poor. The 1991/92 Household Budget Survey showed that 84 per cent of households in rural areas and 10 per cent in Dar es Salaam have earth floors. About 34 per cent of households in Dar es Salaam have no electricity and 40 per cent of the urban population live in overcrowded houses. Only 41 per cent of population in Dar es Salaam has piped water indoors and 83.1 per cent of the whole population uses pit-latrines (Lugalla 1995:45).

Sarris and Tinios (1994) make a comparison with the 1976/77 HBS data in which they show impressive increases in real consumption expenditure ranging from 35 per cent per person in rural areas to 125 per cent per person in urban areas. They suggest that stabilization and adjustment programmes have had a positive effect on the poor. However, when a Laspeyres-type base weight deflator is used instead of the national consumer price index, the data show that average household per capita monetary consumption in rural areas actually fell slightly (leaving total consumption almost unchanged) while that in urban areas increased by 67.3 per cent. Moreover, it is unclear whether poorer households sank further into poverty (Gibbon and Raikes, 1995). If correct, Sarris and Tinios' data suggest considerable undercounting by the national income accounts.

[17] Tinios' three groups include 24 per cent of the population as very poor, and 54 per cent (including the latter 24 per cent) as poor. 46 per cent are non-poor.

[18] These figures are computed from the World Bank (1993).

Comparing the same 1991 data with Bevan et al.'s 1983 study, using the implicit GNP deflator on the income side, it has been found that the number of households below the poverty line declined from 65 per cent to 51 per cent (Ferreira, 1993). However, it is not clear whether the poorest get poorer or less poor.

One feature of both Sarris and Tinios' and Ferreira's use of the ERB/Cornell data is that they have neglected questions of individual incomes and changing levels of contributions by individuals within households. There are indications that in response to falling real incomes in the formal sector more household members (especially women and children) are working in the informal sector. The returns to labour in these activities may also have fallen as a result of overcrowding and intense competition. The social costs of higher participation should also be taken into account (Gibbon and Raikes, 1995).

Income Distribution

Income inequality increased between 1969 and 1991 with the Gini coefficient increasing from 0.39 in 1969 to 0.44 in 1976/77 and 0.57 in 1991. Rural inequality increased quite substantially, especially after 1976/77, while urban inequality declined somewhat during 1969-91. The decline in urban inequality was more than offset statistically by the increase in rural inequality and, in fact, the urban-rural income ratio declined from 11.3:1 in 1969 to 3.5:1 in 1976/77 and to 2.8:1 in 1991. All the studies point to a considerable polarisation of expenditure and incomes. Despite finding an overall reduction in the proportion of the population who are poor, both Sarris and Tinios and Ferreira conclude that the gap between the better off and the poor widened considerably during the adjustment period. Ferreira, for example, has found that while the average real per capita income of the "better off" increased by 2.6 times between 1983 and 1991, the average real per capita income of the bottom half of the population fell by 3 per cent and that of the lowest forty per cent by 28 per cent.

These findings suggest that the "very poor" indeed got poorer. While this opens another area of investigation, a few explanatory facts can be mentioned. The impact of the economic reforms on rural incomes has included a diversification of income sources. As noted by Ferreira (1995) it is likely that following the decline in the real formal sector incomes, more household members are contributing to the household budget. This could lead to a fall in returns to labour , especially among the very poor, because of increased competition. The "hard core" poor are affected considerably more by changes in income inequality than by changes in mean income. Growth needs to be substantial to compensate for fast rising inequality.

The position of female headed households is of interest in the analysis of poverty. Ferreira (1993) notes that female headed households are disproportionately poor. While this may be a general observation, they constituted 11.2 per cent of all very poor households, 9.5 per cent of all poor households and 10.3 per cent of the non-poor households in 1991. Female headed households are more likely to be found in urban than in rural areas. In the urban areas the proportion of non-poor female headed households was 14.5 per cent in Dar es Salaam and 24.1 per cent in other urban areas. The relatively high share may reflect the fact that some females are household heads by their own choice and this choice is likely to be made when they are non-poor.

All those working with the ERB/Cornell data also note an apparent increase in differentiation in rural areas. Both Ferreira and the Presidential Commission of Inquiry into

Land Matters have noted a polarisation in land ownership. The Commission found evidence of very extensive commercialization of land (farm, range, and peri-urban) following liberalization policies. This has resulted in land alienation in Morogoro, Arusha, Tanga, Coast, Lindi, Mtwara, Kilimanjaro and Dar es Salaam regions, often to small numbers of highly-placed officials. At the village level income inequality has been associated with land ownership,[19] cattle ownership, use of hired rather than family labour, the kind of technology used (e.g. hoe, plough or tractor), marketing opportunities and off-farm income generating opportunities.

Social Services:

Tanzania has put a high priority on the social sectors to meet basic needs. However, progress in this regard came under stress by the end of the 1970s. Nonetheless, the provision of basic social services is quite considerable, given Tanzania's low level of development.

Even for basic services like primary education and health care, cost sharing has been introduced to complement government funds. User charges on these services are supposed to apply to those who can afford to pay without denying access for those who are unable to pay. In practice, however, those who are too poor to pay have been excluded.

Some observers have suggested that government expenditure on social services has been reduced while others state to the contrary. A comprehensive analysis of both central and local government expenditures has shown that over time the share of public expenditure on basic social services has remained quite stable (Semboja, 1995). That study examined social services financing (by central and local government) and delivery and suggested that over the past two decades the government has had a pattern of expenditure on social services determined mainly by economic performance, the government's ability to mobilize domestic resources and the size of government (Semboja, 1995). This suggests that the expenditure effects of policy changes on social services are basically temporary.

(a) Education

A recent sample survey found the literacy rate in Tanzania to be 68 per cent on average (World Bank 1993b). The percentage of illiteracy is higher among the very poor (43.5 per cent), than among the poor (38.1 per cent) and the non-poor (18 per cent). These rates are worse in rural areas at 46.4 per cent, 39.3 per cent, and 20.6 per cent respectively (Tinios, 1993). Heads of the household among the very poor had less schooling (2.51 years) compared to 3.01 for the poor and 5.37 for the non-poor (Cooksey, 1994).

Official policy is universal primary education for all school age children. In practice, however, the enrolment rate has declined from 90 per cent in the 1980s to 70 per cent in 1994 (URT, National Report, 1995). The same report suggested that the quality of education had declined and might have contributed to increasing drop-outs as children lost interest. It is also likely that the increased demand for children's labour in the hard hit families contributed to the decline in enrolment.

[19] In particular, good quality arable land which is highly valuable in the face of population growth and environmental degradation.

In primary school enrolment, there seems to be a one to one ratio between boys and girls. However, girls tend to lose ground at successively higher levels. The male-female gap at higher levels is greater in the science subjects and science-based professions. Such a gap is a cause for alarm, especially with regard to the development of skills and knowledge.

The pattern of government expenditure on education has remained broadly constant, with primary, secondary and university and other tertiary education accounting for about 50, 13 and 19 per cent respectively. Within the recurrent budget at the primary level teacher remuneration accounts for 81 per cent and O & M and Materials together account for only 5 per cent, indicating no significant improvement in educational facilities under adjustment. The problem of falling real wages has not spared the social sectors. According to a 1991 World Bank study, at least three quarters of all teachers had other occupations. Teachers regularly undertake private paid tuition to supplement their salaries on the one hand and on the other to help pupils make up for what they could not learn in overcrowded classrooms with limited facilities. In this process, however, pupils from poor households are at a disadvantage because they cannot afford such tuition.

Fees were introduced for public sector schools in the 1984-85 budget. They are low, but they are only a small part of what parents have to pay in practice in the form of uniforms, books, stationery and even desks and other school facilities. However, the private secondary school sector has increased fast and now enrols more pupils, paying the full cost of education, than do public secondary schools.

(b) **Health**

The adjustment period has seen a considerable rise in the importance of non-governmental providers of hospital facilities, health centres and dispensaries to the tune of 44 per cent, 96 per cent and 74 per cent respectively in 1990 (Gibbon and Raikes, 1995). More recent work gives proportions of 57 per cent, 76 per cent and 63 per cent respectively in 1993 in nine regions and reports major growth in non-governmental provision (both NGO and commercial) in Dar es Salaam (Kiondo, 1995). Official figures meanwhile also show an increase in government-provided medical facilities during the adjustment period. The number of health centres rose from 183 in 1979 to 267 in 1992 and dispensaries rose from 2,282 to 2,392.

Mortality rates per 1,000 decreased from 137 in 1978 to 115 in 1988 and further to 99 in 1991-92 while under five mortality rates declined from 231 in 1978 to 177 in 1988 and further to 154 in 1991-92 (Cooksey, 1994).

There are differences in the distribution of health facilities by region. Tanga, Morogoro, Iringa, Kilimanjaro, Arusha, Mwanza, Kagera and Dar es Salaam have more than 10 health centres each. While the number of people per health centre can be low in some of the regions with less than 10 health centres (Lindi, Coast and Ruvuma) people in the highly rural regions still walk long distances to the nearest hospital. Over 82 per cent of the rural population lives over 6 km from the nearest hospital and almost 50 per cent lives over 4 km from the nearest health centre. Moreover, the shortage of drugs and other essential supplies obliges some people to go further in search of better medical services.

A central problem is the inadequate quality of the health service caused by shortages of qualified staff, run down facilities and an inadequate supply of medicines. Gibbon and Raikes (1995) have quoted Munishi (1995) on the sorry state of the public health sector in Kagera region, the epicentre of the AIDS epidemic, where only 12 per cent of rural dispensaries surveyed were headed at the recommended level by a rural medical aid, only 32 per cent had an employee qualified to use a microscope and only 20 per cent of all diagnostic instruments at all the dispensaries surveyed were in working order.

(c) Water and sanitation

The lack of financial resources has had a very negative impact on urban sanitation. In 1985 and 1986 Dar es Salaam generated 1,200 tons of solid waste daily but had the capacity to collect only 10 per cent. In order to be able to remove all waste water, the city needed 150 emptiers but until early 1988 had to make do with only 23. Uncollected garbage is widespread in urban areas, and overflowing pit latrines are a common feature in squatter areas and settlements occupied by the poor. The situation has been made worse by the weak capacity of local administration and community organizations in the cities.

3.2 Economic Sectors in which the Poor are Active

Households in Tanzania derive their livelihood mainly from self-employment. In 1991 there were 8.4 million self employed people (of whom 7.7 million were in rural areas) and 1.3 million people in wage employment (of whom 0.8 million were employed in the formal sector) as shown in table 5.

Among rural households 54 per cent derive their principal income from agriculture, 20 per cent from non-agriculture, 8 per cent from wage employment and 18 per cent from other sources (URT National Report 1995).[20] About 28 per cent of urban households earn their income from agriculture, 28 per cent from self-employment in non-agriculture activities, 18 per cent from wage employment, 2 per cent from rent and 24 per cent from other sources (URT, National Report, 1995).

Table 5. Types of employment in Tanzania (1978 - 1991) (millions)

	1978	1988	1991
Wage employment	0.8	1.1	1.3
Formal urban	0.3	0.5	0.6
Informal urban	0.1	0.2	0.2
Formal rural	0.2	0.2	0.2
Informal rural	0.2	0.2	0.2
Self employed	6.9	8.6	8.4
Urban	0.5	0.8	0.7
Rural	6.4	7.8	7.7

Source: Population Census 1978 & 1988; Labour Force Survey 1990/91 (Adopted from Bol,(1995).

[20] United Republic of Tanzania: National report for World Summit for Social Development. Copenhagen, Denmark 6-12 March 1995.

On average 55.2 per cent of household income comes from agriculture (see table 6), nearly all from crop production (about 90 per cent). Business income accounts for 34.7 per cent while wage labour accounts for 7.8 per cent. For the poor and the very poor agricultural income accounts for 71.6 per cent and 74.4 per cent of their average total income respectively. While the better off earn 37.3 per cent of their income from business the poor and the very poor earn only 14.3 per cent and 12.4 per cent of their incomes from that source. Urban incomes are largely derived from business (83.2 per cent in Dar es Salaam and 47.5 per cent in other urban centres) followed by income from wage employment (13.5 per cent in Dar es Salaam and 18.4 per cent in other urban centres). As much as 92.5 per cent of rural income originates from agriculture.

The World Bank (1993) found that 83 per cent of the poor are primarily engaged in agriculture. Conversely of the households primarily engaged in agriculture, 59 per cent are poor. In the urban areas, 34 per cent of all self-employed households are poor.

The 1991 national informal sector survey revealed that there were some 1.8 million informal enterprises (outside agriculture) employing some 2.4 million persons (about 25 per cent of the total labour force) (URT, Labour Force Survey 1990/91).[21] Out of the total establishments, some 1,150,000 (about 64 per cent) were in rural areas where they employed some 1,400,000 persons (about 60 per cent). The survey also showed that about 65 per cent of those employed in the informal employment were males and 35 per cent female. If these data are reliable the informal sector provides at least partial employment to about 66 per cent of the urban labour force and 17 per cent of the rural labour force (URT, labour force survey, 1993). However, the extent of full time engagement is limited in that only about 53 per cent of the 2.4 million derive their main employment from the informal sector. In the urban areas the informal sector is the main source of employment for 81.2 per cent of all those who are employed in this sector (URT, Labour Force Survey, 1993). This implies that under six per cent of the rural labour force works full-time in the rural informal sector.

The bulk of informal sector employment consists of rural migrants, those with a low level of formal education or training, women, the landless, children; formal sector employees forced to supplement their incomes; retrenched public servants; or those dismissed from private employment. Informal sector employment is found mainly in trade, restaurants and hotels (51.2 per cent) and manufacturing (22 per cent). Informal sector employment is usually regarded as a survival strategy to cope with failures elsewhere. However, recently even highly skilled and educated persons have left formal sector jobs and started an informal business (Bagachwa, 1995[22] citing Tripp, 1988 and ILO, 1993).

The volume of informal sector activities has certainly grown. A 1989 survey by the Bureau of Statistics revealed that in Dar es Salaam, the number of micro-enterprises was at least three times the level of the mid-1980s. The number of licenses issued to establishments in the informal sector had doubled since 1986. Results from the 1990/1991 informal sector

[21] United Republic of Tanzania. The labour force survey 1990/91. Central Statistical Bureau and the Ministry of Labour and Youth Development, Dar. June 1993.

[22] Bagachwa, M.S.D. The informal sector under adjustment in Tanzania. Paper presented in an ERB Workshop on "Beyond SAPs in Tanzania: Successes, failures and new perspectives". Dar es Salaam. 2-4 August, 1995.

surveys showed that most firms had been newly established. A provisional World Bank report on enterprise development has suggested that there is more potential for growth among small firms than large (RPED, 1994)[23] and employment growth is reported to be inversely related to firm size (Parker et al. (1995). Some small and micro-enterprises were found to have taken advantage of aspects of economic reform: better access to inputs following removal of import controls and liberalization of trade; devaluation, which favoured users of local inputs; and reduction of state monopolies and price decontrol which improved access to resources and markets (Parker, Riopelle and Steel, 1995).[24] Other small enterprises, however, had experienced greater competition from imports while overcrowding in informal sector activities had intensified and other inputs had become more expensive.

Table 6. Income sources by income group and percentages in brackets

Type of Income	All Tanzania	Income groups			
		Better off	Poor	Very poor	Rural poor
Agricultural income: of which	55.2	53.2	71.6	74.4	80.8
Crop production	49.9	49.2	55.5	56.9	62.1
Livestock	3.3	2.8	6.7	6.0	7.9
Other	2.0	1.2	9.4	11.5	10.8
Non agricultural income: of which	44.8	46.8	28.4	25.6	19.2
Wage labour	7.8	2.8	8.3	8.0	5.1
Business income	34.7	37.3	14.3	12.4	8.9
Other income	2.3	6.7	5.8	5.2	5.2
Total (Tshs.)	287 784	487 058	67 335	63 012	67 933

Source: World Bank (1993)

According to Bryceson (1993)[25] in 1971 a survey had shown that street trading was then a marginal economic activity. Young people took it up for a relatively short period and continued looking for another job. By 1988 it was less marginal and the traders showed greater commitment, specialization and competitiveness. The dismantling of restrictions on grain trade has given rise to a thriving open market (dominated by small traders) whose volume increased

[23] Centre for International Business Research. Regional Programme for Enterprise Development: Development and growth of industrial enterprises in Tanzania. Helsinki, 1994.

[24] Parker, R.L., R. Riopelle, and W.F. Steel. Small enterprises adjusting to liberalization policies in five African countries. Discussion Paper No.271. World Bank. Washington, D.C. 1995.

[25] Bryceson, D.F., Liberalizing Tanzania's food trade: Public and private faces of urban marketing policy. UNRISID in association with James Currey, London, **Mkuki na Nyota**, Dar and Heinemann,Portsmouth. 1993.

seven fold between 1981 and 1988 (Gordon, 1989).[26] Private trading was restricted in much of the 1970s and early 1980s and the shortage of incentive and investment goods inhibited an increase in agricultural output. A survey of 12 villages in 1992 (Booth et al., 1993) suggested that retail trade had expanded fastest in rural areas for second-hand clothing, bicycles and ploughs. In addition, liberalization has been associated with greater availability of consumer and other incentive goods.

The labour force survey indicated that the majority of those for whom work in the informal sector is their main activity are young with no previous experience. Older people look on it as a secondary activity and income supplement (URT, Labour Force Survey, 1993). However, some characteristics of the informal sector are changing. Many people working physically in the informal sector are employees and their employers are wage earners in the formal sector. Without understanding these dynamics of the informal sector, policies aimed at giving it support may end up reaching an unintended target. However, while some have designed legal and socially approved ways of generating extra income, others have resorted to illegal or illegitimate means. It is widely believed that corruption and drug trafficking have increased.

Wages and salaries have become insufficient to cover the necessities of life. A recent estimate by the labour union, OTTU, has suggested that the minimum wage needed to be raised five-fold to correspond to a living wage. The minimum wage in 1976 prices in fact declined from shs.236 per month in 1985/86 to sh.158 per month in 1988/89, recovered to sh.219 per month in 1992/93 and declined again to sh.180 in 1993/94. However, in 1995/96 it reached sh.391 after an upward revision.

For many wage earners wage employment is valued not so much for the income but for the regularity of pay and for the availability of other benefits (allowances and fringe benefits, use of employer property and contacts for other activities). This suggests that the higher urban living standards reported by budget surveys is probably caused by more household members working in other "business".

A study of small scale economic activities of the poor in Moshi Municipality made a distinction between registered and unregistered business activities (Chambo, 1994).[27] First, there are the business units which are licensed and pay tax, though with difficulty. These are largely retail trade and tailoring. Second, and where most of the poor are active, is a more general group unregistered and not paying tax. These activities include fishing and some grain sales as well as producing all kinds of marketable food. The poor are in fact active in all sectors although they need quick returns. Furthermore, nearly all their activities concern goods which they and their families can also consume. The range of activities is generally greater in the larger towns.

In rural areas off-farm income generation through trade, casual employment and mining generally reflect locational advantages.

[26] Gordon, H. An overview of grain marketing in Tanzania. Unpublished paper of the World Bank, Washington, D.C. 1989.

[27] Chambo,S.A. Economic reforms and poverty alleviation in Tanzania: Case of Dar es Salaam, Moshi urban and Hai district. Report submitted to ESRF, December 1994.

3.3 Targeting and direct interventions to alleviate poverty

Targeting implies the concentration of resources on the most needy. This could be either the reallocation of existing social expenditure to increase equity (e.g. shifting education funds from higher to primary education); or specific supplementary programmes.

During the period of economic reform, the most comprehensive initiative directed at overcoming poverty is the Social Dimensions of Adjustment (SDA) programme. Initially the SDA was supposed to enhance the government's capacity to formulate and implement policies which could mitigate adverse effects of the Economic Recovery Programme. Later the programme was reoriented in order to deal with poverty more comprehensively.

The SDA programme has four major components:

i. *The socio-economic planning capacity building programme (SPCB).* This aims to upgrade the ability of the central and local government, as well as of other development agencies and NGOs to initiate policies and programmes to alleviate poverty. It focuses on institution building, through short courses, training seminars, workshops, fellowships and study tours.

ii. *The data production programme (DPP).* This assists in producing the statistics required to monitor changes in welfare.

iii. *The research and policy studies programme (RPSP).* This aims at carrying out studies to review the socio-economic situation and provide rapid policy responses to the changing economic circumstances. It should enhance the planners' ability to advise policy makers.

iv. *The social action programme (SAP).* This provides technical support for project design and addresses the most urgent social problems arising from or worsened by the adjustment process.

While SDA programmes in other sub-Saharan African countries emphasized their SAP component, the Tanzanian SDA programme has been biased towards capacity building. This was seen to be a more useful approach because it was expected to increase the ability to formulate policies to improve the welfare situation of the poor and vulnerable.

The SPCB was the first component to be funded. It has concentrated on training in the Planning Commission, Planning Units of the key line Ministries, regional and district administration, managers and administrators as well as field level workers of NGOs and CBOs (community based organizations).

Under the SDA component on research and policy many studies have been produced. However, so far the results of research have had little input into policy making.

Other initiatives have targeted the poor more directly. These include a number of projects shown in table 7.[28]

Donors have frequently supported women's groups through assistance to compensate for the high cost of capital. However, the output side of the activities supported was to be dealt with by the women themselves. The women were to compete in a liberalised, competitive market.

The most comprehensive of the projects addressing poverty is probably the national income generating programme (NIGP) which relies on the private sector and NGOs for project

[28] A description of a selection of these projects appears in Appendix A.

formulation and implementation. The NIGP programme is under an office of programme management (OPM) funded by UNDP for two years; thereafter, it should become self-financing by charging management fees on individual projects. The OPM is independent of the government in order to attract donor resources intended for the private sector. Projects to be supported should be sustainable financially, a condition which some have failed to meet. One indicator of the effectiveness of NIGP will be whether it can help these projects to become sustainable and how well it can transform itself from foreign donor financing to domestic financing.

4.0 Direct and indirect impact of economic reforms on poverty alleviation

The period of economic reform has been associated with various developments to which individuals, households, families and firms have had to respond.

Table 7. Poverty alleviation projects

Project	Beneficiaries	Funding	Executing agencies	Remarks
1. National enterprises development fund	Small enterpreneurs	Treasury provided seed capital	SIDO	Passed by Parliament in 1993/94 and funding started in 1994/95
2. Women empowerment projects: (i) Tanga credit scheme	Groups of women in Tanga	Denmark and UNIFEM	District committees	Initiated by the Ministry of community development
(ii) Women development fund	Groups of at least 5 women and covers the following regions: Lindi, Kigoma, Tabora, Dodoma, DSM, Pwani, Arusha	Treasury provided seed capital.	District committees	Before collecting funds, women undergo training
(iii) Training fund for Tanzania women.	Scholarships for short and medium term training of women	CANADA	Ministry of Community development, women affairs and children	Candidates must come from women groups
(iv) Health, sanitation and water (HESAWA)	Women in Mara, Mwanza and Shinyanga		Business care services (private)	HESAWA concept is being repeated in Lindi, Mtwara and Iringa
3. Small scale industries	Small scale manufacturing projects	Originally SIDA now SWEDCORP	SIDO	Bureaucratic and low loans recovery rate
4. The rural youth training and employment programme	Rural youths	ILO-RYTE	National bank of commerce (NBC)	It has made few loans and the loan recovery rate is very low
5. The Presidential trust fund for self- reliance	Informal sector groups	General public	President's Office	Started in 1989. High operating costs but low volume. It changed to Grameen in 1992

Project	Beneficiaries	Funding	Executing agencies	Remarks
6. The Tanzania youth development and employment foundation	Informal sector groups	- Government - Dutch embassy - USAID	NBC	Started in 1987 Recovery rate has improved from 60% to 100%
7. Women economic activities (WEA)	Women	UNICEF	NBC	
8. Rural women's increased economic participation (RWIEP)	Rural women	Government and ILO	NBC	
9. Loan scheme for women	Women	DANIDA	NBC	
10. Women in development	Women	NBC	NBC	It has stopped
11. ILO/AGIFUND credit scheme	Youth and women in rural areas	ILO	CRDB	CRDB provides normal banking services
12. Australian special fund for women in development	Women micro-entrepreneurs	Australia	CRDB	Ditto
13. UN/World Bank food programmes smallholder credit	Dairy farmers in rural areas	UN/World Bank	CRDB	Ditto
14. The Tanzania national programme of action for sustainable income generation (The income generation programme or IGP)	Informal and small business sectors in infrastructure agriculture and micro-enterprises	UNDP and other donors	Private sector for management and implementation	IGP is a five year programme. Training is an important component
15. Promotion of rural initiatives and development enterprises Ltd (PRIDE) Tanzania	Micro-enterprise sector in the informal sector (50% women)	NORAD and other donors	Private sector	Provide short term mostly working capital loans
16. Skills training and loans for women and youth	Marginalised women and youth	World vision, DANIDA, NORAD, PACWA, etc	Mission to the needy	Started in 1988

Unable to survive on single incomes individuals and households have sought to diversify their income sources. Moonlighting by public officials and setting up informal businesses by employees have become common. Increasing competition in the informal sector has induced further diversification. In some areas population pressure and ecological degradation have pushed peasants into off-farm activities. One effect of these coping mechanisms has been to blur the traditional rural-urban divide as both rural and urban populations engage in many of the same kind of activities and produce similar kinds of goods and services.

The pursuit of multiple income generating activities has several implications. First, these developments have made the identification of winners and losers in the adjustment process more complex. Second, the character of the informal sector has changed, with control shifting towards the middle and upper classes who have better access to capital, skills and political connections. Third, the authority and effectiveness of some institutions has been weakened by the erosion of wages obliging employees to spend fewer hours (and to become less enthusiastic) in their official duties. Fourth, new inequalities are opening up as some individuals exploit new opportunities in the market, in the weakened state apparatus, and in forging international connections and related networks. Such polarization is likely to make it more difficult to construct national institutions that command overall loyalty and support. Fifth, when resources are diverted from their original purpose distortions may occur. Thus public servants have discovered that travelling and subsistence allowances can offset eroding salaries and they take all available opportunities to attend seminars and conferences. Such distortions accentuate the erosion of the capacity of the institutions where they are employed.

The producers of export crops have received higher prices following the large devaluations. Most export crops (not tea and sisal) are largely produced by small farmers. However, devaluation has raised the prices of imported inputs.

The removal of fertilizer subsidies reduced profitability in fertilizer-intensive agricultural activities. The largest share of fertilizer use was in the production of export crops such as tobacco and by medium and large scale growers of maize in the southern regions of Iringa, Mbeya and Ruvuma. In these regions, higher fertilizer prices caused sales to fall in the late 1980s. In 1989 tractor, lorries, farm machinery and branded spare parts were becoming available on the open market but commercial farmers argued that[29] the increased availability of these items scarcely compensated for the steep rise in their operating costs. But, of course, the big users of fertilizers were the richer farmers.

The removal of subsidies on maize meal is likely to have negatively affected urban consumers. However, subsidized maize meal had been selling at higher unofficial prices even before the subsidy was removed since the effectiveness of price control was low. Access to price controlled maize flour at NMC was increasingly becoming a matter of having the right contacts. Some poor people were already purchasing some of their supply of maize flour on the free market. Second, liberalization of the grain markets ended the monopoly of NMC and allowed competition among suppliers of grain to the urban centres. This helped to cushion the rise of grain prices following liberalization.

As for non-traditional crops, export prices and total production have improved considerably. Liberalization has both increased real incomes from the sale of maize and rice and improved their availability. Both rural and urban consumers have benefitted from increased consumption at relatively lower prices because of the greater availability of consumer items (Bevan et al., 1989; 1990; Booth et al., 1993; and Mans, 1994). The share of non-traditional exports in total export earnings doubled between 1986 and 1989. After 1990 the increase lost steam, presumably a reflection of lack of institutional support and investment in the export sector and supporting activities.

During the period a credit squeeze has been common, especially for parastatals and agricultural marketing cooperatives. Small farmers, who depended on their cooperatives for credit, are likely to have suffered. The lack of formal credit to assist the expanding trade in grain has led to the emergence of money-lenders who provide short-term financing for grain purchasing. The policy of spreading banking services to remote rural areas has faced difficulties. In fact, the National Bank of Commerce has been closing some unprofitable branches in remote areas while new banks operate only in Dar es Salaam.

The impact of monetary, credit and financial reforms on the informal sector does not seem to be directly positive. High interest rates have shifted the structure of credit towards speculative activities. Financial sector reform has focused on the survival of existing institutions and on the entry of new foreign banks with little attention to the promotion of credit institutions which could help the poor.

[29] Booth, D. Structural adjustment in a socio-political context: Some findings from Iringa region, mimeo. 1991.

While grain market liberalization helped urban consumers, prices offered by private traders in more remote areas have generally not improved. The positive effects of grain market liberalization have been felt in areas with good transport networks.

The economic reforms appear to have expanded non-agricultural activities in two ways. Firstly, rising rural incomes are an incentive to non-agricultural production. Secondly, the greater availability of raw materials and spares has supported the expansion of industries such as grain mills, oil presses, coffee and cashew nut processing and saw mills ((Bagachwa, 1995).

Reforms have reduced the earlier bias in the allocation of, for example, foreign exchange and credit in favour of large firms. Import liberalization has improved the supply of intermediate industrial inputs and spare parts enabling a number of small firms to diversify. However, while economic reforms have assisted some small firms to recover they have penalized others. Over two-thirds of the firms that responded in a recent study, see Bagachwa (1995) found it easier to obtain imported inputs and nearly half found it easier to obtain domestic inputs. In some cases, however, excessive competition had reduced profit margins and lowered their volume of sales, see table 8.

Table 8. Change in accessibility of resources and degree of competition (1986-1991) per cent

	Easier to obtain		Harder to get credit	Greater competition faced	New equipment purchased	Product mix changed
	Imported inputs	Domestic inputs				
Agriculture	72	59	91	83	39	28
Mining and quarrying	87	60	82	78	47	15
Manufacturing	82	71	89	87	66	54
Construction	65	63	76	62	32	20
Trade, restaurants and hotels	78	87	90	91	50	62
Transport	69	56	75	75	55	15
Community and personal services	81	75	80	69	60	25

Source: Bagachwa (1995).

The impact of economic reforms on output and employment in those enterprises has been mixed, table 9. Firms reporting higher output levels were in trade, restaurants and hotels (69 per cent), community and personal services (65 per cent) and manufacturing (57 per cent). Stagnation in output was reported to be highest in mining and quarrying (68 per cent) and construction (59 per cent). In all firms, however, the increase in employment lagged behind the increase in output.

Some small rural artisans, such as shoemakers, blacksmiths, cloth-makers (e.g. tie and dye) have been negatively affected by import liberalization on the output side and by devaluation on the input cost side. Cheap imported shoes have had a detrimental effect on the traditional leather and tyre sandal (kubazi) making industry, which used to thrive in the earlier period. Lifting restrictions on imports of second-hand textiles and clothes has expanded employment for small-scale retail traders but meant less work for the tailors who made up garments as well as for the local textile and clothing industry.

5.0 Recommendations and conclusions

The economic reforms have had both positive and negative impacts on poverty alleviation. The impact depends on where the poor are and the kinds of activities they undertake. These, however, have been changing as different groups have responded differently. The process of adjustment has itself been dynamic. However, there is need to

Table 9. Impact on employment and output in selected enterprises (1986-1991) per cent

	Change in output			Change in employment		
	Increase	No change	Decrease	Increase	No change	Decrease
Agriculture	37	52	11	14	83	3
Mining and quarrying	24	68	8	10	79	11
Manufacturing	57	13	30	22	18	18
Construction	33	59	8	30	42	28
Trade, restaurants and hotels	69	15	16	19	55	26
Transport	41	35	24	22	65	13
Community and personal services	65	21	14	17	68	15

Source: Bagachwa (1995)

contribute to institutional capacity building. Market-friendly policies should be accompanied by people-friendly markets (e.g. participatory institutions, investment in social services and labour intensive technologies).

If the lesson of the 1970s is that the sustainability of basic needs and other socio economic objectives was limited by the neglect of macro structural adjustment considerations then the lesson of the 1980s is that sole focus on the latter is equally perilous. During the period of economic reforms the rate of growth increased but while this reduced poverty for some groups it worsened the poverty of others. On balance it seems reasonable to suggest that overall poverty declined but that some of the poor became worse off, while the rich got richer. The net effect was an increase in income inequality. There is increasing evidence that while sustainable growth is necessary for the elimination of poverty some patterns of growth have a greater impact on poverty alleviation than others. Economic growth increases both jobs and the size of the market for goods and services produced by the poor. A high rate of growth (7-10 per cent) which is also labour intensive, is most likely to achieve these objectives faster.

The alleviation of poverty will also depend crucially on the government's ability to finance both services for the poor, especially health and education, and public infrastructure, which has an important effect on the adoption of new technology, labour productivity, and agricultural output. The rapid restoration of the quantity and quality of social services is an integral element of any employment strategy. This can be achieved by increasing the health and education budgets and by shifting resources within each sector. The new social sector strategy (1995) which promises to improve the participation of beneficiaries in the design of programmes (and in cost sharing) has the potential to enhance the provision of social services if well designed and implemented.

When it became apparent that the first phase of economic reforms had produced some adverse social consequences a special SDA program was introduced. This tried to improve the incomes of the poor separately rather than as part of the reform process. The participation of the poor was limited and efforts towards poverty alleviation were not coordinated and complementary. The effectiveness of the array of SDA related activities in reducing the increasing inequality of income distribution has been limited by the failure to integrate the various SDA components into the management of reform and into the overal development strategy.

Informal sector activities have grown in importance to become a dynamic part of the economy. Informal sector employment (both self-employment and wage employment) has provided an important fall back position for those leaving the formal sector or diversifying their sources of incomes. The informal sector has played this important role despite public policy and only recently has the government given thought to encouraging it. However, it is not certain that informal sector activities are capable of transforming the economy. The challenge is for government policy to consolidate the positive survival strategies that many individuals and households had devised.

One implication of this study is that poverty analysis should take into consideration the circumstances and conditions that originally bring about poverty. The state can play a key role in reducing poverty by supporting research activities to generate information about the causes, extent and severity of poverty.

There is need to create an appropriate environment for the poor to increase their productivity through better access to resources and better public investment. Support for small and medium size enterprises in both agriculture and industry may be more effective in improving food security, generating employment and raising the level of productivity.

The debt crisis subjected economic management to the conditionalities of the IFIs and other parts of the donor community. The ownership of the development programmes that were adopted became questionable. What is needed now are strategies which enhance national ownership of donor assisted programmes and build the necessary national capacity to ensure their sustainability, especially for those which could alleviate poverty.

The findings of this study suggest that the management of reforms requires a considerable capacity in terms of policy analysis and economic management. Capacity building is needed to better identify, analyse and formulate policies with a favourable impact on poverty eradication. The current institutional reorganization, creating a separate ministry for poverty and environmental issues as from November 1995, is a move in the right direction. However, the challenge remains that of building the capacity to effectively integrate poverty concerns into the overall management of reforms.

High level incomes have largely originated from trade, mineral exports and engaging in speculative activities. Some of these activities have profited from the absence of an institutional framework to manage reforms in a liberalized economy. Two issues can be raised in this context: first, the challenge of building the capacity to manage reforms to achieve socioeconomic objectives more effectively; second, there is a need to design policies which will channel profits into productive investments (including in supporting services).

Revenue collection through direct and indirect taxes has not been reformed to cope with the widened and more diversified income sources. The challenge is to effect a tax reform which widens the tax net to cover new sources of incomes. Taxation could be one answer to curbing the growth in pre (and post) tax income inequality.

Fiscal policy has not been actively directed towards poverty alleviation. During the reform period the tendency has persisted of spreading government expenditure too thinly on too many activities. This has not permitted the effective use of fiscal policy to address the direct and indirect impact on reforms on poverty.

Appendix

Poverty alleviation projects

National programme of action for sustainable income generation (IGP)

The IGP is a five year, two phased dollars US 100 million programme of action, introduced to create and expand sustainable income generation projects in the agricultural, infrastructure and informal sectors. The programme is designed to carry out the government's national employment policy using the private sector for project execution, programme management and training.

The objectives of the IGP are as follows:

i. to strengthen private Tanzanian companies able to execute infrastructure rehabilitation and development projects;
ii. to strengthen non-governmental organizations in order to implement income generating activities in targeted sectors;
iii. to redesign and/or expand existing activities to increase their income generation potential; and
iv. to encourage greater private sector participation in the delivery of services whenever there is a comparative advantage in doing so (eg. contracting out equipment maintenance).

Initial funding comes from UNDP and other donors, from a management fee of 2-4 per cent and from interest earned on donor resource balances. It is estimated that in phase one the IGP will finance 20 to 30 projects. An estimated 3 million individuals are expected to benefit either directly, as they experience increases in cash income, or indirectly with better access to services and improved infrastructure.

The IGP strategy is centred on seven principles, viz. simplicity, transparency, independence; efficiency; cost effectiveness; sustainability; and skills transfer. In Phase I (24 months) the programme will cover Dar es Salaam, Zanzibar, Mwanza and Arusha regions. Phase II will move rapidly into southern regions and the rest.

Promotion of rural initiatives and development enterprises Ltd (PRIDE) Tanzania

PRIDE/Tanzania, which is to be registered as a Tanzania NGO and strengthened under a 5 year management agreement with the Council for International Development/Kenya, will establish 3 PRIDE branches in the country over a period of 2 years (one branch in year 1 and 2 branches in year 2). Each PRIDE branch will extend loans to 1,000 small and micro-enterprises over a period of 2 years.

Given the short term nature of the loans, which will be repayable over 50 weeks, repeat loans for clients are projected. It is estimated that each branch will extend 620 loans in its first year and 1,450 loans in its second year of operation.

Client loan insurance fund (LIF) or mandatory savings was estimated to reach a value of dollars US109,565 per branch after 2 years. The project is expected to result in the creation of 1,130 productive jobs per branch at an estimated cost per job place of US dollars 30. The clients will be those individuals who are self-employed and/or operate micro enterprises in the informal sector, and about 50 per cent will be women.

The PRIDE credit model is designed to incorporate mechanisms which begin leading towards financial self sustainability from the outset. The model requires external funding during its first year of operation. By the beginning of its second year of operation, all recurrent costs are covered by income earned from loan interest and fees paid by clients. Similarly, all principal repayments on loans are revolved and re-lent, thus offsetting the total loan fund requirements.

Initially, the following areas will be covered by the project: Manzese (Dar es Salaam), Ngamiani (Tanga), Chanika (Handeni) and Themi (Arusha).

Rural youth training and employment (RYTE)

This is a micro credit scheme for rural youths sponsored by UNDP through ILO. It makes uncollateralized loans to youths. Its loan recovery rate is not high.

Presidential trust fund for self-reliance (PTF)

PTF was established in 1989 to extend soft loans to facilitate business start ups and self employment for unemployed youth and women and to micro enterprises in the informal sector. Short-term loans of between shs.50,000-300,000 at subsidized rates of interest were extended in the form of cash, materials and equipment. However, the scheme was beset with bureaucratic controls and with loan arrears to the tune of shs.16 million. Consequently PTF re-oriented itself to the Grameen Bank model of uncollateralized, multi-sectoral, short-term loans to informal sector groups. Loans are extended to members of groups and range between shs.20,000-88,000. Interest is 20 per cent per annum. Loan disbursements and collection are handled directly by PTF staff with no linkage to the commercial banks. The loans are repayable over one year on a weekly basis. The results have been very encouraging and the loan recovery rate is over 90 per cent.

Tanzania youth development and employment foundation (TYDEF)

TYDEF was founded in 1987 to promote employment for youth and women by assisting them to start or expand their own micro enterprises. Loans are advanced through groups of 5-10 persons, and loan amounts range from shs.5,000-100,000 in the form of cash, materials or equipment and are repayable over one year on a weekly basis. Interest is 20 per cent per annum. Loans are uncollateralized. Funding comes from government and donor agencies. At present TYDEF covers Dar es Salaam only, and its loan recovery rate is over 10 per cent.

Mission to the needy

This was established in Tanzania in 1988 and its target groups are marginalised women and youths. It provides skills training and loans of between US dollars 100-500. The loans are short-term, repayable over 6 months with a maximum grace period of 3 months. No interest is charged and the repayment rate is above 90 per cent. Sources of funding include World Vision, DANIDA, NORAD, Pan African Christian Women's Association (PACWA) and private individuals.

National enterprises development fund

This is a government funded project providing assistance to small enterprises (traders, farmers, manufacturers, etc) and entrepreneurship training. The 1994/95 government budget allocation is shs.1,000 million. However, only shs.500 million has been disbursed. The fund is being managed by SIDO. Its repayment period is 21 months with a grace period of three months and an interest rate of 20 per cent per annum.

Women development fund

The government voted shs.500 million to establish the fund in the 1994/95 financial year. Some shs.25 million have already been disbursed. The fund is being administered by the Ministry of Community Development, Women Affairs and Children. It is extended to groups of 5 women or more, and it covers 7 regions, viz. Lindi, Kigoma, Tabora, Dodoma, Dar es Salaam, Pwani and Arusha. Group members are given training before funds are disbursed.

Community development trust fund (CDTF)

CDTF started as a social welfare fund but it is now diversified into a credit fund for assisting micro enterprises.

Oxfam

Oxfam started operating as a social welfare fund but now it has re-oriented itself into a credit fund.

Women in development

This fund was started by National Bank of Commerce to extend uncollateralized loans to women all over Tanzania, but due to repayment problems the scheme has collapsed.

Other NGOs credit funds include:

- UNIFEM fund (women)
- Enterprise development fund (Dar es Salaam only)
- Skills development for self-reliance
- Ford foundation (women)
- Women's economic activities (sponsored by UNICEF)
- Rural women's increased economic participation (sponsored by the ILO and the government)
- Loan scheme for women (sponsored by DANIDA)
- ILO/AGIFUND credit scheme for youth and women in rural areas
- Australian special fund for women in development, providing individual loans of between shs.100,000-500,000
- Credit shops - established by Poverty Africa in collaboration with Plan International.
- Entrepreneurial development fund - started by IPP to provide credit to youths in Dar es Salaam

Most of the NGOs are reorienting themselves into credit schemes for the poor, and their traditional social welfare function is not very popular with new NGOs. Tanzania has over 200 NGOs, most of which are small and inexperienced or ill equipped to undertake the tasks which they were formed for.

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