

Growth and Poverty: Some Empirical Evidence from Tanzania and Implications for the SDGs

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Introduction

- The major objectives of the SDGs is decent living for every body on earth
- Consequently top on the agenda is rightly poverty alleviation, but what strategies?
- One important and universally accepted (including the debates on SDGs) dimension of poverty alleviation is Growth of economies.
- And perhaps this is the reason the current booming growth in poor countries such as those in Africa is widely being celebrated.

Growth and Poverty



- Starting point is the well acknowledged fact that growth is important but not sufficient.
- Others think of growth with redistribution
- But according to others (e.g. Osmani 2003) there are other two conditions that must be fulfilled for a poverty reducing growth:
 - i) extent to which growth enhances the employment potential, including of the poorest.
 - ii) extent to which the poor are able to integrate into economic processes.

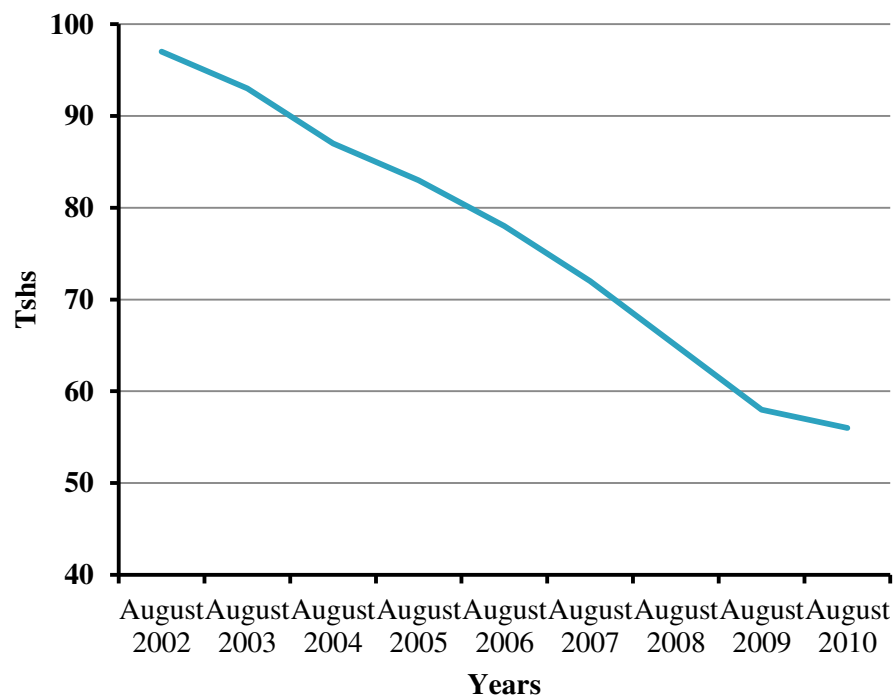
Growth and Poverty Cont..



- **First factor fulfilled:** According IMF (2013) forecast, 7 of the 10 fastest growing economies are in Africa: (**Ethiopia (8.1%)**), **Mozambique (7.7%)**), **Tanzania (7.2%)**), **DR Congo (7%)** , **Ghana (7%)**), **Zambia (6.9%)** and **Nigeria (6.8%)** .
- The World Bank recently released its semi-annual “Global Economic Prospects ”that indicate among the 29 fastest growing economies, 16 are in Africa, including all the above countries.
- But to what extent are these growth poverty reducing? That is, are the second and third criteria also fulfilled?

Looking Beyond Aggregate GDP: Some Evidence from Tanzania

Trend in Purchasing Power of Tanzanians ■



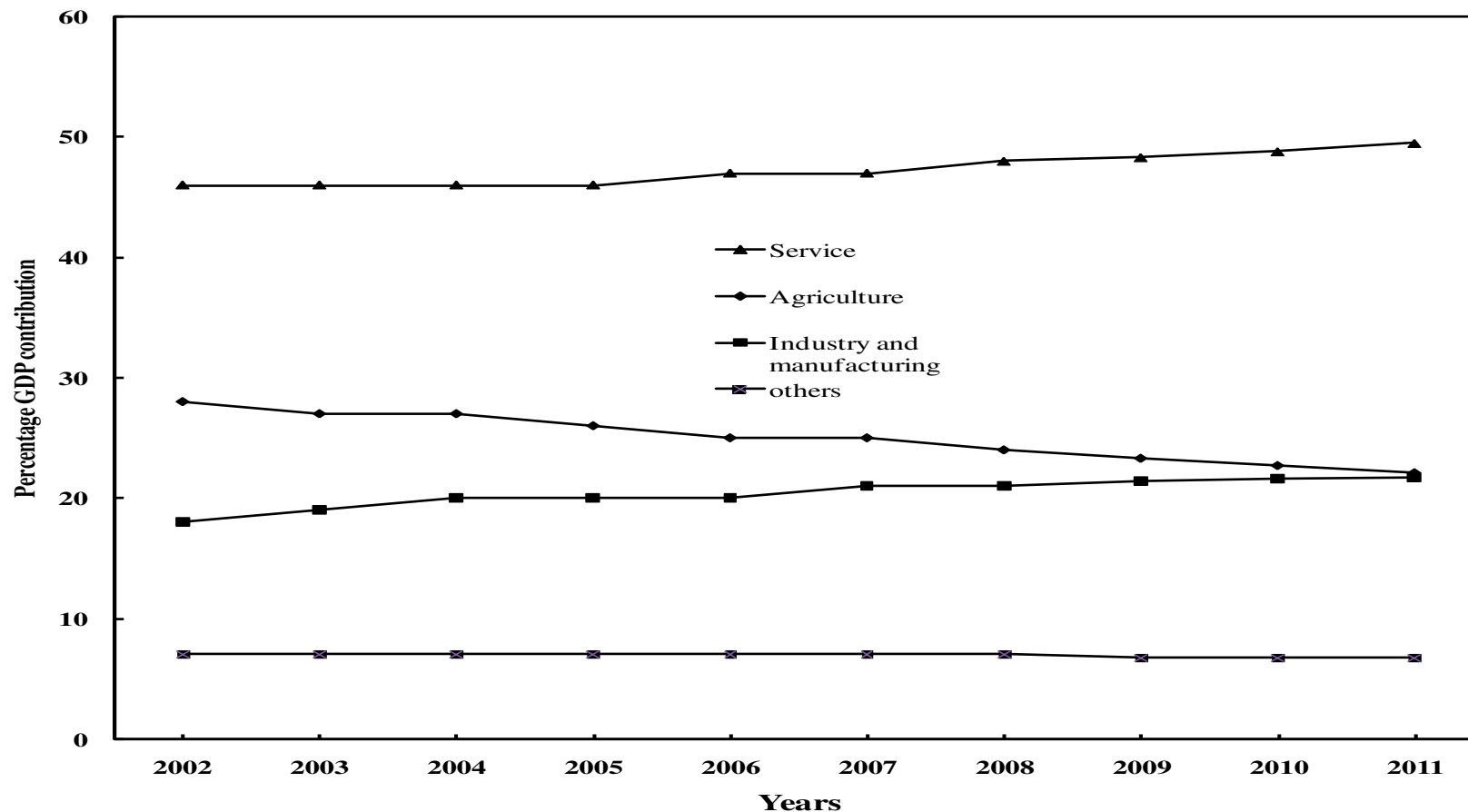
Source: NBS (2010)

Looking Beyond Aggregate GDP: Some Evidence from Tanzania



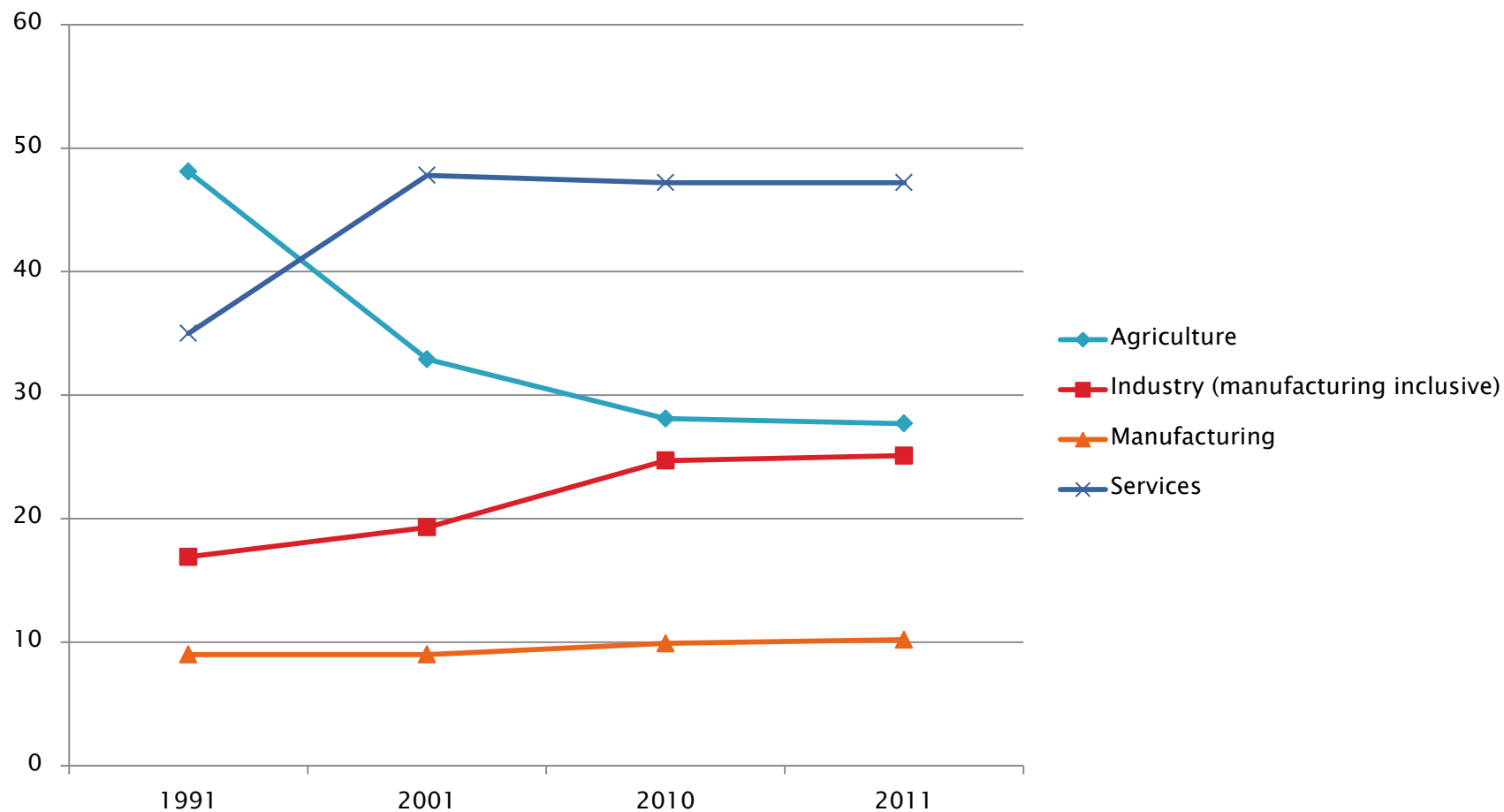
- The national poverty headcount fell by just 2.1% from 35.7% in 2000–2001 to 33.6% in 2007 (World Bank, 2009).
- In addition, according to the UNDP (2013b) there is no prospect of Tanzania decreasing the proportion of its population which earns below \$1 per day to 19.5 percent by 2015 as targeted in the MDG agenda.
- Major reason being low level of productive employment for the poor.
- Confirmed by the fact that major contributors to the growth are sectors that generally have low employment potential as indicated in figure below:

Looking Beyond Aggregate GDP: Structure of the Economy



Source: URT (2011)

Looking beyond Aggregate GDP: Premature Structural Transformation



Looking Beyond Aggregate GDP: Positive Structural Transformation (Malaysia)



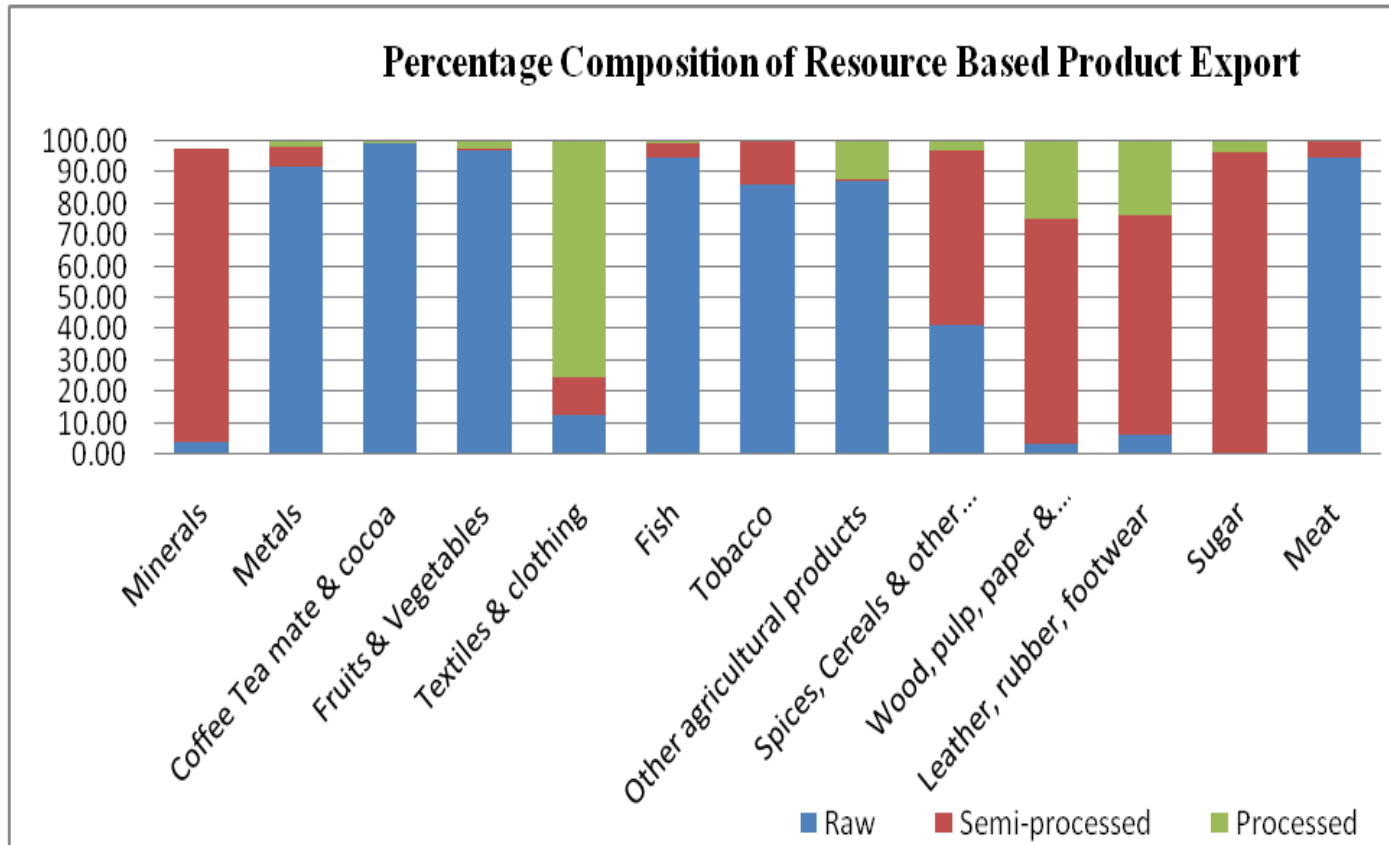
- Between 1960 and 2000 contribution of agriculture to GDP declined from 40.5% to 12.8 % while the contribution from manufacturing rose from 8.2% to 34.7% (Khoo, 2010).
- Employment in manufacturing increased from 17% in 1990 to 26.3% in 2000; and in agriculture decreased from 36.7% to 18.2%
- Along side this positive structural transformation poverty decreased from 17.1% in 1991 to 5.7% in 2006 (Malaysian Development plan (2006–2010))

Looking Beyond Aggregate GDP: Premature Structural Transformation cont.



- Generally, if **normal trend** is followed, service orientation of economies tend to be accompanied by high income, and high quality of life – as it is in developed countries.
- And service sectors tends to be those that are knowledge intensive (e.g. IT services, R&D, logistics, financial services)
- Tanzanian poverty situation is aggravated by the fact that its small and stagnant manufacturing is resource based, with less employment potential as shown below:

Looking Beyond Aggregate GDP: Structure of the Manufacturing Sector



Source: Source: Tanzania Industrial Competitiveness Report, 2012

Looking beyond Aggregate GDP: Importance of Manufacturing

- A large body of empirical evidence demonstrates that the manufacturing sector must play a key role in a country's economic development if wealth and jobs are to be created.
- The difference in income levels across countries is basically from differences in capabilities to produce and sell internationally competitive products for a prolonged period of time (Lee and Mathews 2013).
- **Poverty eradication therefore is a process of many forms of capability building; on top is technological and innovation.**

Conclusions and Implication for the SDGs



- Putting poverty goal on top is ok, but isolating this from issues of growth and productive employment (goal 8) and industrialization and innovation (goal 9) will not help much.
- Major focus for SDGs (for poor countries) to be on putting the countries on normal path to structural transformation that is poverty reducing.
- Integrate goal 1 with 8 and 9.
- For monitoring the achievements, SDGs should emphasize looking at what is beneath the aggregate growth than just the aggregate figure.



Thank you for your attention