

# Facilitating Equitable Agriculture Development

The case of Tanzania

# Facilitating Equitable Agriculture Development in sub-Saharan Africa

The Case of Tanzania

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# List of Acronyms

ADB	-	African Development Bank
ARI	-	Agricultural Research Institute
ASDS	-	Agriculture Sector Development Strategy
BoT	-	Bank of Tanzania
CAADP	-	Comprehensive African Agricultural Development Programme
CSOs	-	Civil Society Organizations
DADPs	-	District Agricultural Development Plans
DAP	-	Di-Ammonium Phosphate
EBA	-	Everything But Arms
EPAs	-	Economic Partnership Agreements
ESRF	-	Economic and Social Research Foundation
FDI	-	Foreign Direct Investment
FEWS NET	-	Famine Early Warning System Network
GCR	-	Global Competitiveness Report
GDP	-	Gross Domestic Product
HBS	-	Household Budget Survey
IFAD	-	International Fund for Agricultural Development
ILFS	-	Integrated Labour Force Survey
IMF	-	International Monetary Fund
LGAs	-	Local Government Authorities
NEPAD	-	New Partnership for Africa's Development
NGOs	-	Non-Government Organization
NPK	-	Nitrogen Phosphate Potassium
PPP	-	Public-Private Partnership
SACCOS	-	Savings and Credit Cooperative Society
SAPs	-	Structural Adjustment Programmes
TIB	-	Tanzania Investment Bank
TSP	-	Triple Super Phosphate
UAE	-	United Arab Emirates
URT	-	United Republic of Tanzania
VAT	-	Value Added Tax

# 1. Introduction

Macro-policy reforms adopted by Tanzania have enabled the country to sustain growth of Gross Domestic Product (GDP) at a rate of not less than 6 percent since 2001 up to 2010 (BOT, 2008/09; ADB, 2011). These reforms have integrated the domestic economy with the rest of the world and led to increased flow of Foreign Direct Investment (FDI) that has brought into the country innovations in production, processing and organization skills in mining, banking, telecommunication, hotels and other industries.

Despite such an impressive economic performance demonstrated by the country over a decade, little has been registered in terms of poverty reduction. Latest edition of Household Budget Survey (2007) suggests that poverty declined from 35 percent to 33 percent within a period of five years. The trend has raised a challenge on the economic growth and poverty reduction strategies pursued by the country and put the national development vision of eliminating poverty far from being achieved.

High growth rates have been accompanied by an increase in public spending over the years with fiscal deficit peaking to almost 6.6 percent of the GDP. Growing fiscal deficit signals budgetary pressures that could bring bad impacts<sup>1</sup> if it is not intended to alleviate the impact of rising food prices that is targeting on primary spending items of poor households and gradually reduced when the economy is recovering (IMF, 2011).

The inflationary pressures experienced (from 4.5 percent in 2002 to 12.1 percent in 2009) which negatively affected the livelihood of the majority of Tan-

zansians were mainly determined by an increase in food and energy prices<sup>2</sup>. Food prices increased due to, among other things, intermittent bad weather conditions<sup>3</sup> that have led to low crop production; price surge on agricultural inputs, such as fertilizers, that has increased the cost of production and limited production capacity of smallholder farmers. This also made it difficult for the country to take advantage of high food prices within the regional and global markets in order to reduce fiscal deficit, current account deficit and be able to increase its international reserve (see IMF, 2011).

External sector performance slightly improved due to global price surge on gold, food commodities and export diversification towards nontraditional exports. However, like other developing countries, Tanzania still suffers from export earning instability and hence maintains a trade deficit. Poor export sector performance hinders the supply of foreign exchange that is needed to import capital goods (Mjema and Nyoni, 2004). The Tanzanian economy was also affected<sup>4</sup> by the global economic crisis that forced the Government to create a stimulant package in the fiscal year 2009/2010 in order to rescue some private companies exporting crop produces. Following the end of the crisis, many African countries including Tanzania are projected to attain higher economic growth. The Economic Report on Africa (2010) has explained the drivers of the expected eco-

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<sup>1</sup> Bad impacts include price surge, capital flight and exchange rate misalignments (Sobhee (2010)

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<sup>2</sup> Food price instability is also expected to have a negative effect on the macro economic performance of a country through influencing the business cycle, level of inflation, exchange rate and overall political atmosphere (Getnet, 2009).

<sup>3</sup> Agricultural production is determined by weather conditions that prevail in each season.

<sup>4</sup> Foreign Direct Investment, prices of some export commodities and earnings from tourism went down.



conomic rebound as both domestic and international factors. More specifically, demand and prices of African exports are expected to increase, leading to more export earnings.

## 1.1 Agriculture and Poverty in Tanzania

The Agricultural sector supplies 65 percent of raw materials for domestic industries, 29 percent of foreign exchange earnings and 95 percent of the food consumed in the country. The sector is the major employer as evidenced by the findings in the Integrated Labour Force Survey of 2001/2002 (ILFS) which shows that 15.5 million people (i.e. 87 percent) of the country's labour force were employed in agriculture. The rest (i.e.13 percent) were either employed in other sectors of the economy or were unemployed. This shows clearly the importance of the sector in achieving a sustainable economic growth and poverty reduction in the country. The declining contribution of the sector to the GDP is associated with the growth in mining, service and manufacturing sectors as well as some poor performance of the sector itself<sup>5</sup>.

The importance of the sector is also reflected by the potentials that are within it, yet remain unexploited. For instance, there is a vast potential for agricultural production but the country's targets of being food secured and having improved farm income through increased production, productivity and efficient marketing system have not yet been attained. Tables 1 and 2 show that Tanzania is better off compared to the selected East African countries in terms of cereal production and import. Given the amount of land available and suitable for food production and other

advantages, the country has the potential to produce enough food for the entire East African region<sup>6</sup>. But this is not happening because of factors which include, among others, the lack of sufficient investments in terms of putting appropriate technology, credits and removal of all forms of constraints for value addition. In addition to that, the sector is dominated by small-scale farmers who are less educated and uninformed, and also use rudimentary technology; leading to low productivity and food insecurity.

**Table 1: Status on Cereal Production in '000 tones**

	2008	2009	2010
<b>Tanzania</b>	6.1	5.7	6.2
<b>Kenya</b>	2.7	2.8	3.4
<b>Uganda</b>	2.9	2.9	4.4

**Table 2: Cereal Import in '000 tones**

	Purchase	Aid	Total
<b>Burundi</b>	103.5	31.7	135.2
<b>Kenya</b>	2351.3	171.3	2522.6
<b>Uganda</b>	132.6	33.9	166.5
<b>Tanzania</b>	851	14.8	865.8

Source for Table 1 and Table 2 is FAO (2011) - *Global Information and Early Warning System*.

<sup>5</sup> According to Poverty and Human Development Report (2009), share of agriculture in total GDP was declining since year 1998 to 2008 (from 29.6 to 24.0 percent).

<sup>6</sup> A Rural Poverty Report (2011) attributes lack of market participation to uncertain, risky and unfavourable terms as among problems compelling many households to seek growing their own food and limit their investments in market oriented crops.

Apart from a dismal performance of the agricultural sector, Tanzania produces a number of food crops such as maize, sorghum, paddy and wheat, forming a category of cereals, while non-cereals include pulses, banana, cassava and potatoes. Since agriculture is largely rain-fed, production of these major food crops fluctuates seasonally with the constantly changing weather conditions. Ability of the farming households to grow enough food to support their family demand is greatly determined by weather conditions prevailing in a given season<sup>7</sup>. Irrigation schemes which were developed some years ago are now experiencing problems of water shortages, accumulated salt and debilitating infrastructure. Climatic change worsens the situation and poses a challenge on further development of open irrigation system.

Smallholder farmers who do most of the farming are poor, have relatively low levels of education, lack necessary credentials to access loans, lack insurance schemes to hedge against risks and face unpredictable Government policy related to management of food export; and hence the efforts to transform the sector into a market based agro-sector becomes rather complicated. This situation creates a vicious cycle with a drawback effect on supply response by the farmers and ultimately jeopardizes attainment of the national food security.

The liberalized marketing systems have made smallholder farmers vulnerable and without any form of safety net to insulate them. Structure and performance of the marketing systems provide unequal power to farmers, traders and investors. This power is exercised differently to control the market and ensure that larger benefits accrue to either traders or investors. This practice has become so serious in

different crop subsectors and poses questions over the relevance of deregulation policy. In view of that, Eskola (2005) observed that many African Governments still intervene in agricultural marketing; and in countries where the Government has withdrawn, the private sector has not always been able to replace the role previously occupied by the Government although in some areas with good transport infrastructure networks, impressive performance has been recorded. The hostility between traders and smallholder farmers has prompted the Tanzania Government to adopt a number of interventions with a view of improving market performance and livelihoods of poor farmers.

Food distribution system of the country is not efficient due to poor infrastructure, monopoly power of the few private traders (small and medium scale), low level of entrepreneurial skills, high transaction costs and lack of finance. Over the years, the country has experienced increased investment in agro-processing of cereals particularly in grain milling. This has led to changes in structure of the agro-processing within the country after the collapse of the state milling corporation in late 1980s. However, the changes have generated little benefits to farmers in terms of availing a market opportunity for maize. Farmers still face difficulties in selling their produce at premium prices and often appeal to the Government for intervention. This problem attributes to market fragmentations in which surplus and deficit areas are not well integrated.

Table 3 analyzes the demand and supply of selected main food crops (both cereals and non-cereals) for the year 2009. It shows that there was an overall deficit in cereals produced within the country in that year. Apart from rice, the country had deficit in sorghum and millet, wheat and maize which is the main staple food. On the other hand, there was surplus in non-cereals which are composed of pulses, bananas, cassava and potatoes.

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<sup>7</sup> See Kar J. and Kar M. (2008) Environmental and Changing Agricultural Practices; Evidence from Orissa, India. Indus Journal of Management and Social Science



**Table 3: Analysis of Demand for and Supply of Food**

<b>CEREALS</b>					
	<b>Maize</b>	<b>Sorghum and Millet</b>	<b>Rice</b>	<b>Wheat</b>	<b>Sub-Total</b>
Production	3326200	926683	867619	95124	5218626
Requirement	4,115,581	1535082	712390	204018	6567071
Gap(-) Surplus (+)	-789,381	-608,399	155,229	-108,894	-1,348,445
<b>NON-CEREALS</b>					
	<b>Pulses</b>	<b>Bananas</b>	<b>Cassava</b>	<b>Potatoes</b>	<b>Sub-Total</b>
Production	1116312	1073149	1972148	1392443	5554053
Requirement	657926	733176	1830567	781106	4002774
Gap(-) Surplus (+)	458386	339973	141581	611337	1551279
<b>TOTAL (CEREALS AND NON-CEREALS)</b>					
Production	5218626	5554053			<b>10772679</b>
Requirement	6567071	4002774			<b>10569845</b>
Gap(-) Surplus (+)	-1348445	1551279			<b>202834</b>

Source: *Fews net* (2009)

Impressive macroeconomic performance which the country has experienced for almost a decade, has not translated to relatively high poverty reduction. As indicated in the 2007 Household Budget Survey (HBS), about 12.8 of 38.3 million people were still living in poverty by the end of 2007 and that between 2001 and 2007 poverty declined marginally across the country. In mainland Tanzania, the poverty head-count ratio declined by only 2.2 percent from 35.6 percent in 2000/01 to 33.4 percent in 2007 (Mashindano and Kaino, 2009). The situation in rural areas, where the majority of people live was

even worse as the incidence of poverty had decreased by only 1.3 percent (from 38.7 to 37.4 percent) during the same period (Table 4). In short, this is an indication that the achieved growth has created very low level of poverty reduction in the country and especially in rural areas; The fact has generated an idea that perhaps, growth alone cannot lead to poverty reduction unless other measures are taken to make sure that there is equity in distribution of income, especially if where the growth contributing sectors are not pro-poor.

**Table 4: Incidence and Depth of Poverty in Tanzania Mainland**

Incidence of Poverty	Year	Dar es Salaam	Other Urban Areas	Rural Areas	Mainland Tanzania
<b>Food Poverty</b>	1991/92	13.6	15	23.1	21.6
	2000/01	7.5	13.2	20.4	18.7
	2006/07	6.7	12.9	18.4	16.5
<b>Basic Needs Poverty</b>	1991/92	28.1	28.7	40.8	38.6
	2000/01	17.6	25.8	38.7	35.6
	2006/07	16.2	24.1	37.4	33.4

Source: HBS 1991/92, HBS 2000/01, and HBS 2006/07.

The World Bank Report (2008) on agriculture states that in the 21<sup>st</sup> century, agriculture shall continue to be a fundamental instrumental for sustainable development and poverty reduction. Therefore, more still

needs to be done in the sector if Tanzania wants to achieve the target spelt out in its development Vision 2025.

## 1.2 Main Elements of Policy Framework

Over the years, the government has taken many initiatives to support agriculture in Tanzania. These efforts have led to the formulation and adoption of a number of policies and strategies which in one-way or another serve the agricultural sector, It is reported that about 101 policies (and strategies) in Tanzania support agriculture, Mkocha. M, 2012

This section presents three selected policies related to agriculture namely Agriculture Policy, Trade Policy and Investments Policy.

### 1.2.1 Agricultural Policy

The development of the agricultural sector is currently under the guidance of the Agricultural and Livestock Policy of 1997. In year 2006, the livestock

component was detached from the agricultural policy and since then a separate policy framework was adopted to guide the development of livestock sector. Currently, the Agricultural Policy of 1997 is under review and is sought to accommodate issues such as international collaboration that were not clearly addressed within the previous policy. The ultimate goal of the existing policy is the improvement of the wellbeing of the people whose principal occupation and way of life is based on agriculture. The policy has spelled out main objectives to be realized, which include assuring food security for the nation, improving national standards of nutrition, improving standards of living in rural areas, increasing foreign earnings, producing and supplying raw materials,

expanding the role of the sector as a market for industrial outputs, and developing and introducing new technologies for land and labour productivity. Others which are also important include developing human resources for transforming agriculture, promoting access of women and youth to land, credit, education and information as well as providing live-stock support services for enhancing agriculture.

On the basis of the policy framework, the Agriculture Sector Development Strategy (ASDS) was adopted. The ASDS is a broad framework which intends to create an enabling and conducive environment for improving profitability of the sector as the basis for improved farm incomes and rural poverty reduction in the medium and long term (URT, 2001). In order to operationalize the ASDS, the Agriculture Sector Development Programme (ASDP) was developed by the agricultural lead ministries in year 2006 (URT, 2010).

The ASDP is jointly implemented between the Government and development partners through a basket fund. List of development partners contributing to the basket include; the World Bank, Government of Japan, Irish Aid, International Fund for Agricultural Development (IFAD) and African Development Bank. Funds allocated for the ASDP are disbursed through the Local Government Authorities (LGAs) based on the District Agricultural Development Plans (DADPs). Performance review of the ASDP in the period 2006/7-2009/10 indicated that production and productivity were improving due to increased irrigation, construction of water harvesting facilities and construction of roads (URT, 2010). While the ASDP is still implemented, Kilimo Kwanza (Swahili for 'Agriculture First') campaign was launched in the year 2009. This campaign is intended to achieve a green revolution using the public-private partnership approach. The initiative is highly applauded by politicians and signals a new zeal for agricultural transformation. Its implementation has included

provision of subsidy to agricultural inputs, increased supply of tractors and power tillers done by the Government and private traders. Despite all these initiatives, agricultural sector performance is not yet impressive<sup>8</sup>.

## 1.2.2 National Trade Policy

Trade policy regime has passed through three phases, the first one being the period right after independence in which there were few foreign investors engaged either in farm production of cash crops or primary processing of agricultural products. Few public import substitution enterprises and a good number of indigenous smallholder farmers were engaged in the production of cash and food crops. In areas where cash crops production was substantial, farmers were organized and formed primary cooperative societies which were later joined by an umbrella body called 'regional cooperative union'. The economic system which was followed during this era was somehow motivating individuals to pursue their economic activities freely without the interference of the Government. The National Trade Policy describes the post-independence trade regime as a liberal one which reflected the relationship inherited from the colonial era with the private sector playing the conventional role of economic agent and engine of growth. Foreign trade flows and relations were based on increased production of agricultural commodities and unprocessed raw materials for exports. Given, low purchasing power of people and existence of a +subsistence domestic economy, though to a lesser extent commercialization was in favor of cash crops only.

The second phase started when the country embarked on Socialism policy in 1967 which entailed, among others things, putting all means of production

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<sup>8</sup> Performance of agriculture has been so erratic and remains prone to adverse weather conditions thus major breakthroughs are needed to facilitate growth in this sector (Kessy and Tostensen, 2008).

under the State. Within the macro policy, nationalization of private assets was endorsed, a situation which compelled foreign investors to flee the country and marked the beginning of economic decline. Independent cooperative unions were restructured and put under Government control. This period was followed by a liberalization phase, with the Government withdrawing from production and marketing. Within this period, crop marketing boards which were charged with managing traditional exports were also reformed. In 2003, a National Trade Policy was established. The policy endeavors to integrate Tanzania into the global economy through trade. In order to attain this target, the policy has put forward objectives and policy instruments to facilitate achievement of the goal.

Re-establishment of the East African Community in the year 2000 after the collapse of the previous one in year 1977 has made Tanzania as a regional member of a trading bloc. The arrangement was to have a custom union by 2004, followed by a common market, monetary union and finally engage a political federation. The Protocol on custom union expired and switched to another stage of a common market which was signed in year 2009 and started to operate in July 2010. Within this framework, the regional market has expanded and paved a way for flow of goods and services across borders. However, skepticism is still there over some issues which haven't been resolved yet<sup>9</sup>. Trade relationship between Tanzania and other countries hinges on either a bilateral or multilateral agreement.

Through a bilateral arrangement, in recent years Tanzania has seen the emergence of new economic trading partners such as China, India, Brazil, Turkey and United Arab Emirates (UAE) which has provided different fronts of cooperation in an endeavor to achieve economic benefits. Europe is considered a

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<sup>9</sup> Issues which are still contentious include migration and land.

long term trading partner; trade relationship between Tanzania and this region has passed through different multilateral agreements such as the Lome convention, Everything But Arms (EBA) Initiative and the new Economic Partnership Agreement (EPA). Negotiations on the EPA are taking place at the East African Community (EAC) level. Controversial issues which have delayed signing of the framework include reciprocity and its likely effects on EAC.

### 1.2.3 Investment Policy

Investment policy recognizes agriculture as one of the foundations of the Tanzanian economy in terms of provision of employment, food production and export. The policy emphasizes the need to develop all the components that are essential in attracting private investments such as having sufficient and reliable energy, conducive social front, investment friendly politics as well as good infrastructure. To increase investment in agriculture, the policy calls for mechanisms of fostering research and development that will encourage the adoption of new production technologies in order to increase agricultural productivity and enhance competitiveness of the sector<sup>10</sup>. Other factors which are advocated by the policy for further improvement and development include; extension services, encouraging investment in environmentally sound irrigation and implementation of an appropriate land tenure system. In order to achieve all these goals, the Government and other stakeholders need to ensure full access by agricultural actors to financial services particularly credit conditions which take into account of the actual nature of agricultural projects (takes a long time before benefits are recouped). Lack of financial facilities targeting agriculture has remained an issue of debate between the Government,

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<sup>10</sup> The World Bank report of 2008 has ranked Tanzania at 130<sup>th</sup> out of 176 countries which were surveyed. Within this position Tanzania is falling behind Kenya and Uganda.

financial sector, investors, farmers and politicians with little achievement registered so far.

Consequently, the problem has made local investors shy away from the sector, while smallholder farmers are struggling to get out of agriculture through education and even migration to urban areas. In the rural areas most of the farmers lack titles of the land on which they produce their crops and therefore cannot access finance. Water supply is a very important input in either industrial processing and/or farm production. The country is endowed with rivers and lakes which could serve as a reliable source of water for industries, farm production and domestic use. Unfortunately, harnessing such water resources remains a problem and has left the country facing persistent shortages of water to facilitate social-economic activities. The envisaged targets on growth and poverty reduction have motivated the country to formulate a development programme for the water sector. However, the initiative has not yet attained a required momentum. Challenges facing agriculture include the lack of an efficient irrigation infrastructure especially in times when water is becoming scarcer and conflicts are mounting over the issue in different areas.

Business environment is an essential aspect affecting private sector operations, and is faced with several challenges that include: unnecessary bureaucratic procedures; poor infrastructure such as roads, railways, ports; and the lack of reliable and sufficient supply of electricity and water. The state of performance by the country on these factors may explain why it's ranked 128th in World Bank Doing Business Report (2010) in terms of the ease of starting and operating local firms. Existing investment constraints in Tanzania match the 12 pillars described as important determinants driving productivity and competitiveness by the Global Competitiveness Report (2010-2011). Another critical factor for improving the investment climate is related to having an

educated workforce. In this light, the country is taking measures such as expansion and strengthening of vocational training centers as among strategies to improve labour productivity.

In terms of fiscal policy, problems facing the country include tax evasion and lack of innovation to broaden tax base. These problems were intensified after the onset of global economic crisis. According to AEC (2011) a shortfall in domestic revenues against budget targets was mainly attributed to the enduring effects of the global financial crisis that resulted in slower than anticipated growth in taxable production activities; as well as overly optimistic tax projections and delays in the implementation of some non-tax revenue measures that had been announced previously in the budget. This problem forced the Government to explore other sources of revenue which include revised immigration, residency permit and visa fees and revised fire service charges. In a desire to attract more investment particularly in the mining sector, the Government of Tanzania decided to offer a range of investment incentives, such as tax holidays and tax exemptions, etc., but it never considered offering similar types of incentives to agricultural sector despite its importance to the economy. However since 2004, it started to subsidize agriculture through a voucher system. This subsidy has been scaled up since then in each fiscal year. In the 2011/2012 budget, tax exemption has been granted to a range of agricultural inputs such as tractors, seeds and other crucial necessities.

#### **1.2.4 Policies Inter-linkage, Overlaps, Contradictions and Gap**

A proceeding review of agriculture, trade and investment policies has established evidences of linkages between them. This can be demonstrated through a number of ways, one of them is by considering the policy statement and objectives of the policy documents. For instance, investment policy focuses on

ensuring that investments are increasing in different sectors of the economy, with agriculture being one of the important sectors. Evidence of contradictions on the policies couldn't be confirmed. Trade policy provides a framework under which agricultural development can be achieved in the liberalized economy. But in order to attain agricultural development, there is a need of increasing both foreign and domestic investments. The investment policy has provided some guidelines on how to achieve the goal. It is from this perspective that these policies are considered to be complementing each other.

Nevertheless, a mere analysis on the policy framework may not reflect the actual situation on the ground and gauge on what is the contravening achievement of a given policy framework. Tanzania is credited for being among the few countries in Africa that has been able to attract a relatively high level of Foreign Direct Investment (FDI). But the

largest share of these investments has been going into mining and services sectors. Dominant players within the mining sector are multinational companies which are highly mechanized and unlike artisanal miners they provide few job opportunities for Tanzanians. There is no impressive achievement in attracting investment in the agricultural sector. This view is also shared by a Tanzanian report on Potential drivers of the economy (2010), which pointed out that proportionally, investment in privatized public enterprises has been used as a mode of entry by foreign investors in agriculture (particularly in crops subsector, 42.5 percent) than other sectors (23.5 percent in non-agricultural projects). The sectors which are experiencing high investments have low multiplier effect in the economy. The situation would have been different if heavy investments were flowing towards agricultural sector which is considered to be pro-poor.

## 1.3 Study Objectives, Rationale, Approach and Methodology

### 1.3.1 Main Objectives

- To examine the relationships existing between the agriculture policy makers, farmers, investors and traders in the country as well as their role/contribution to the policy formulation and implementation;
- To identify both the positive and the negative elements in the relevant policy framework that either facilitate or hamper positive interaction and equitable terms of trade among farmers, investors and traders;
- To encourage and promote dialogue among farmers, investors, traders and policy makers through inclusive research methodology; and,

- To generate a set of practical recommendations directed at all relevant stakeholders which will be the basis for advocacy for farmer-friendly and private sector-led agricultural development in the country

#### 1.3.1.1 Specific Objective:

- To review policy framework related to agriculture in the country (e.g. policies and strategies related to agriculture, investment, trade and development) and its implications on farmers, investors and traders;
- To examine the role and constraints faced by farmers, investors and traders in agriculture development in the context of existing policy framework;

- To establish linkages and relationships among stakeholders in the agricultural sector with focus on identifying both the positive and the negative elements and instances of interaction and terms of trade among farmers, investors and traders; and
- To identify and to articulate clearly all elements of an enabling environment for farmer-friendly and private sector-led agricultural development.

### 1.3.2 Study Rationale

Tanzania will be successful in attaining economic growth and eliminating poverty only if policies which are currently in place will transform agricultural sector. To achieve this, literature emphasizes on the need to improve production and productivity in order to generate marketable surplus, to develop infrastructure and trade facilitation measures, and finally, to create an enabling environment that provides a healthy and productive interaction between farmers, traders and investors. While all three prerequisites are important and need to be addressed holistically, there are some evidences that national Governments and their development partners have been focusing more on the first two, and often neglecting the third condition. Productivity-enhancing initiatives would improve the “endowment set” of a farmer-household, but in order to make use of that

and to improve the corresponding “entitlement set”; “positive terms of trade between the farmers, investors and traders” need to be improved. Unfortunately, information relating to how farmers, traders and investors are interacting is very scarce and therefore, formed a basis for this particular study.

### 1.3.3 Approaches and Methodology

This study used both primary and secondary data. Primary information was collected using an interview guide which was subjected to different actors engaged in the agricultural sector. The interview focused on establishing constraints, interactions by stakeholders, power and ability to influence existing policy and how they affect equitable interaction between stakeholders. The survey was intended to gauge whether there was an equal inclusion in policy formulation or change among actors within the sector. The role of associations formed by different actors was also established. We were particularly interested in the lobbying and advocacy function of associations or group and their outcome. Secondary information was gathered from institutions such as The Ministry of Agriculture, Food Security and Co-operative; Tanzania Investment Centre (TIC), Ministry of Trade Industry and Marketing (MITM), Economic and Social Research Foundation Library; the National Website, etc.

## 2. Analysis

### 2.1 Agriculture: Nature and Challenges

Agriculture has been growing over time in terms of volume of production of both food and cash crops. However, the pace at which the sector is growing is not high enough given the prevailing problems of food insecurity, high poverty levels and the need to resolve these issues. The existing agricultural system is composed of subsistence, commercial and mixed production. Subsistence production is operated by smallholder farmers who are generally poor and therefore use rudimentary production technologies. Unfolding market opportunities have enticed some to commercialize agriculture although it's still at a small scale level. Specific functions of smallholder farmers include engagement in farm production of different crops for household consumption and selling some to traders. Requirements for this group include: agricultural inputs packaged as a credit facility, enhanced market bargaining power, crop insurance, development of irrigation infrastructure, reliable system of extension services and storage facilities.

Medium scale farmers are very few, a reflection on low attractiveness of the sector to investors who could venture in commercial agricultural production. Unavailability of credit facilities to the sector is among the reasons for this. There is no difference between medium scale and large scale farmers in terms of their requirements. Large scale farmers are also very few and found only in production of cash crops such as tea, sugarcane, few in coffee production, rice, horticulture (particularly vegetables and cut flowers production) and the recent foreign companies that have invested in bio-fuel production

(example is Sun Bio-Fuel from the United Kingdom).

Land acquisition is also a problem especially if one needs a relatively large piece of land. Large scale investors often find themselves in conflict with small scale-farmers who claim that investors have invaded their land. Land conflict is not just between large and smallholder farmers, pastoralists also clash with smallholder farmers in different occasions. A good example is Kapunga and Mbarali rice farms which were privatized, but currently, smallholder farmers are claiming part of the area under the pretext that it belongs to them. Existing land policy advocates for fair land acquisition and ownership, improved access to land, enhanced security over land to owners without legal status, putting limits to the amount of land that can be owned by an individual, as well as clarifying on land management aspects and disputes resolution. Lack of awareness about the policy, land degradation and mismanagement of water resources are the main challenges facing management of land in the country.

Contract farming is another aspect operating in some crop subsectors such as sugarcane, where small and medium scale farmers located around sugarcane factories engage in production of sugarcane and sell to the factory. This system is also operating in vegetables and spices production where farmers enter into contract with local or foreign investors. Problems associated with the system include low education level and hence inability of the farmers to negotiate, failure to abide with terms and conditions stipulated in the contract and asymmetrical information flows. According to Ponte (2002), market organiza-



tion and types of contractual relationships need to be understood because they identify the dynamics of power relations among actors involved in the production, trade, processing and consumption of commodities.

Agricultural policy recognises needs of each category. For instance, subsistence farmers are motivated to engage in commercialized crop production as among ways to reduce poverty within the household level. As a result, there is a provision of facilities by the Government such as an introduction of a subsidy on agricultural inputs. Strengthening of extension services is among the efforts to scale up production and agricultural transformation into commercial farming. Large scale farming requires land allocation, tax exemption on imported capital goods, transport infrastructure development, human resource with required skills, etc. The Government has attempted to ensure that there is at least a minimum availability of those factors in order to attract investors as part of the strategy to scaling up production and productivity. The approach on developing the sector has changed upon the adaptation of a new policy which emphasizes Public Private Partnership (PPP). Implementation of the policy has encountered some problems related to the infancy of the private sector and generally low level of entrepreneurship within the agricultural sector. Despite such shortcomings, engagement of the private sector in agricultural development is among others, through the provision of inputs, and extension services in different areas (and subsectors).

Value addition on crop produce is not well developed in Tanzania - a situation which forces the country to export either raw or semi processed agricultural produce. Progress has been made in recent years in the processing of fruits and cereals. Currently, there are a few large food processing industries with numerous small and medium processors. Small and medium processors have low capacity, and thus lack

the ability to maintain high quality to compete with imported products. Lack of value addition to agricultural produce render the country uncompetitive and thus fail to even utilise its own domestic market due to globalization pressure. Value chain development is considered as a critical pathway for the country's economic growth and poverty reduction, all of which will only happen if the Government increases budgetary allocation to the sector. Such allocation should be used to improve supply side factors like development of water harvesting facilities and efficient irrigation systems, research development as well as improving market performance. Tanzania is supposed to ratify the Maputo Declaration which requires Governments to ensure 10 per cent of the national budget is allocated to agricultural sector. Being a member of the New Partnership for Africa's Development (NEPAD), Tanzania is also obliged to implement the Comprehensive African Agricultural Development Programme (CAADP).

The policy reforms have changed the agricultural marketing systems and subjected cooperative unions to a competition with the private sector. It was anticipated that competition would generate more benefits to farmers and other actors within the marketing systems. Conversely, the situation did not improve as it was expected (Mashindano *et al.*, 2008). Report by Eskolla (2005) suggests that Putterman (1995) had predicted that the withdrawal of the state involvement from agriculture marketing would not automatically lead to improvement in smallholder agriculture and market conditions. Mashindano *et al.*, (2008) commented on the concept of free market system and attributed the failure to a wrong interpretation of the system by the Government.

Free market system concept was conceived as a system in which the Government doesn't perform any function as everything was left upon the private sector. A lot of market problems were created by the system and compelled the Government to intervene.

To rescue the situation, the Government had to adopt a number of initiatives such as establishing and promoting a warehouse receipt system in certain crop subsectors as a pilot phase. This was supported by an introduction of legislation on warehouse re-

ceipt system that also required the formation of an agency to oversee activities related to the same. Presently, the system is operating in cashew nut, sesame, cotton and coffee subsectors.

## 2.2 Stakeholders: Their Roles and Interaction

Stakeholders within the agricultural sector include farmers and private traders engaged in farm production, processing and distribution. In addition to that, the list also includes institutions such as those that provide financial services, agricultural inputs, Non-Governmental Organizations (NGOs) which are doing the lobbying and advocacy, as well as the Government which is the main actor in terms of availing a favourable and an enabling environment. The length and complexity of the supply or value chain usually depends on the type of subsector and whether the crop is only consumed within the country or is also exported.

### 2.2.1 Farmers

As pointed out earlier, the sector is dominated by smallholder farmers, although in certain subsectors medium and large scale farmers do operate. Large scale operators are found in horticulture, sugar, tea, sisal, few in coffee production and just recently foreign investors have ventured in production of bio fuel. Vertical interaction between smallholder and medium or large scale farmers is not common except in few subsectors such as sugar, tea and horticulture. Contract farming is undertaken in certain subsectors such as that of cotton and vegetables. A contract scheme may also involve provision of agricultural inputs such as seeds, agro-chemicals and extension services. This system operates in few subsectors involving export of crop produce such as vegetables. Contract farming reduces market risks and therefore

acts as a form of insurance as it assures markets and price to farmers. However, the system also suffers from some weaknesses such as side selling or side buying in some cases. Asymmetrical flow of market information is a major problem facing smallholder farmers during contract negotiations.

### 2.2.2 Private Traders

Private sector is composed of private individuals and companies engaging in the purchasing of crop produce from farmers, transporting, processing (if any) and exporting or supplying within the country in deficit areas. On the basis of their operating capital, private traders are classified as small, medium and large scale operators. There is very little evidence on the existence of vertical or horizontal integration among the private players. In certain cases, legal frameworks may create an entry barrier to small-scale traders. For instance in the coffee subsector, agents within a marketing system are only issued with a single licence which allows them either to purchase coffee from farmers or participate in coffee auction for export. Groups of farmers or cooperative societies may also be allowed to export through organic market, fair trade or any other initiatives.

Small scale traders are composed of individuals who purchase crop produce from farmers and supply on retail basis to final consumers or to medium or large scale operators. Challenges faced by this category include: the inability to access credit, low education which is a hurdle in engaging a contract, and lack of

storage facilities among others. In some crop subsectors, issuance of a license excludes this category as it sets a minimum amount of capital or volume of produce to be purchased. This regulation forbids transporting cash crops outside a district without a permit, therefore compelling them to supply to traders (large scale) with a trading permit. This system was operating in cashew subsector prior to establishment of a warehouse receipt system. The establishment of the warehouse receipt system in cashew subsector has changed the marketing system as it allows only big companies to participate in purchasing cashew-nut from the auction.

Medium scale traders are those with facilities such as trucks, storage facilities and those who possess processing facilities for milling and/or grading. This category of traders is composed of few elites who have been attracted to the agro sector by unfolding market opportunities. Medium scale traders operate in crop subsectors such as maize, rice, vegetables, fruits and spices. They face a number of constraints like: the inability to link vertically with large scale traders, relatively low level of technology which leads to relatively low efficiency, small size which doesn't allow economies of scale. Ownership is sole proprietorship associated with poor governance, lack of new ideas and lack of enough capital to operate a firm. Large scale operators are composed of multinational companies such as Export trading, Olam and few locally based such as Mohamed Enterprise, Fidahusein Cashew, Bakressa Food Products, etc. These enterprises engage in crop purchasing from farmers, some process and then supply within the domestic market while others export unprocessed crop produce. As for traditional exports, regulation is overseen by a specific designated crop board. Problems which are experienced by large scale operators include: transaction costs associated with mobilizing crop produce from the farmers and rent seeking, electricity shortages and unavailability, and poor

transport infrastructure systems that come with high costs, among others.

### **2.2.3 Non-Governmental Organizations (NGOs) for Farmers**

Smallholder farmers lack an association(s) to represent their interests. In the past, cooperative unions were representing interests of the farmers, however after having succumbed to problems of poor governance; they failed to perform that role. Currently, NGOs have taken up the role of lobbying and advocating for the rights of smallholder farmers, especially if victimised by private traders in a course of selling their produce. Such institutions include: the associations of sugarcane out-growers, the association of mango growers (amagro) and other organizations which represent farmer interests in various platforms. The main functions of these institutions are lobbying and advocacy. Despite overwhelming forces from rich traders, these institutions have managed to pass their message into the Government's corridors. Areas on which they have been successful in their functions include the establishment of warehouse receipt system used to improve farm prices, tax exemption on agricultural inputs, the campaign against the use of non-standardized measuring facilities, etc.

### **2.2.4 Private Sector Organizations**

Private sector is currently considered an engine for economic growth, hence the establishment of new policies or their review towards a participatory approach. Interested stakeholders are involved in deliberations done at different levels. To facilitate engagement, private companies or individuals are encouraged by the Government to form associations in order to have a common voice. The Association of Sugarcane Processors, the Tanzania Chamber of Commerce, Industries and Agriculture, the Confederation of Industries of Tanzania, etc. have the common function of lobbying and advocating for issues

of interest to its members. Success or failure in policy lobbying and advocacy depends on the Government position on the subject matter. It is not always the case that the Government would be in consensus with either NGOs or private players. There are cases in which the Government institutes policies which are not favourable to either farmers or private players, a good instance being the cereals export ban imposed to ensure food availability. Farmers and private traders complain of being denied a lucrative business opportunity available in other East African member states. The outcry motivated the national assembly to demand an explanation. The Government defended the policy and regarded it as a good approach to ensure national food security remains a top priority.

### 2.2.5 Government Institutions

Matters related to the development of the agricultural sector fall under the agricultural-led ministries which include: the Ministry of Agriculture, Food Security and Cooperative; the Ministry of Land; the Ministry of Industry, Trade and Marketing; the Ministry of Finance and Economic Affairs; and the Ministry of Water. Decentralization has brought changes to responsibilities of the ministries, such that currently, they are responsible for the coordination, monitoring and evaluation of different projects and programmes undertaken at the local Government level. In addition to that, central Government has the responsibility to ensure that development activities undertaken at the local Government level are consistent with the agricultural policy. The decentralization policy provides a space for the ministries to allocate resources to different project activities which may have been planned at the local Government level through a participatory approach. This is a bottom-up approach which is currently being practiced. Therefore, the agricultural sector development is implemented either through DADPs or development projects which are implemented by development

partners who prefer projects rather than basket funding.

### 2.2.6 Warehouse Receipt Agency

The inefficient marketing system which had affected smallholder farmers for quite a long time motivated the Government to pass legislation in 2005 establishing the warehouse receipt agency. This agency is charged with all issues related to instituting, monitoring and advising on the warehouse receipt system within the country. The approach that is used by the warehouse receipt system is to collect crop produce from farmers and then to store them while waiting for better prices upon harvest season. Shiferaw *et al.*, (2008) recommended a strategy of enhancing access to marketing services using the warehouse receipt system through institutional strengthening, using crop inventory as collateral for credit from financial institutions or instituting a system whereby there is first payment and part of it is deferred until when the crop produce has been sold. This system was introduced as a pilot phase in cashew, cotton, sesame, coffee and maize in year 2005. Since its introduction, the system has been applauded for having created benefits to farmers. However, lack of empirical findings to ascertain this fact has remained a challenge although some members of parliament have been complaining about the system, arguing that part of farmer's income is deferred.

### 2.2.7 Crop Marketing Board

The policy reforms subjected to crop marketing boards were aimed at ensuring that there is a minimum distortion in the marketing system. These boards were initially in the market, operating by purchasing crop produce from farmers and exporting them. Currently, responsibilities of commodity boards include: formulating and implementing development strategies for each particular crop subsector, and provision of regulatory services as well as the dissemination of relevant information to stakehold-

ers in the industry. The restructuring retained seven agricultural commodity boards responsible for sisal, coffee, cotton, tea, sugar, cashew and pyrethrum. Ideally, marketing boards are supposed to serve interests of all stakeholders within a specific subsector. However, the resource capacities of these boards are still low and limit their ability to execute their legitimate responsibilities. Variation between the boards in terms of their level of efficiency is something obvious. The subsectors which constitute of smallholder farmers as majority are more affected than those composed of large producers (like those in sisal and sugar subsector). For instance in the sugar subsector, the problem of crop levy is only experienced by the out growers (small and medium scale farmers) while estates are exempted from paying any levy. This is a clear double standard which is reflecting high lobbying capacity of the estates and a low voice echoed by farmers who can hardly influence policy changes.

### 2.2.8 Agricultural Research Institutes

Advancement in technology is an important aspect in enhancing agricultural development in any country. Technological change is often related to improved agricultural productivity. In Tanzania, the mandate of changing agricultural technology or improvement of crop variety is a major task assigned to the Agricultural Research Institutes since its establishment. Once new technology has been developed and tested, the procedure of releasing a new variety follows. The procedure requires establishing foundation seeds then multiplication seeds which are distributed to farmers for planting. When it comes to releasing a new variety, research institutes are supposed to liaise with the extension services department which is currently under the Local Government Authorities (LGAs) within the district level.

The new Plant Protection Act of 2005 spells out the ownership of agricultural technology that is developed. The idea of providing such incentives is to

stimulate creativity and fasten agricultural technology which is critical to agricultural development of any country. Extension services department is charged with the duty of disseminating new agricultural technologies and provision of feedback to researchers on how farmers perceive new technology. Following the policy reforms, development and supply of agricultural technologies such as improved seeds, agricultural chemicals, irrigation facilities and so forth are undertaken through a Public-Private Partnership (PPP) initiative. Thus, there are several multinational companies supplying agricultural inputs like hybrid seeds (maize, sunflower, rice and vegetables) within the country like, Balton Tanzania, East African Seeds etc.

### 2.2.9 Local Government Authority

Responsibility of providing extension services to farmers falls under the mandate of the LGAs. Therefore, at each district there is an agricultural and livestock officer in-charge assisted by a number of subject matter specialists. Within a ward, or even at village level in some areas, there are two officers in charge of livestock and agricultural sector. However, many LGAs are facing the problem of management capacity. The root cause of the problem is low motivation and relatively low level of education among employees. LGAs are also responsible for the collection of crop levy. Legislation provides that LGAs can collect crop levy ranging from 3 up to 5 percent of the farm gate price from traders who purchase crop produce from farmers. In order to ensure compliance, LGAs opt to assume the responsibility of negotiating farm gate prices on crop produces. This makes it easier for them to collect a levy. However, it carries another risk of collusion with traders to reduce the price offered to farmers.

### 2.2.10 Agencies In-charge of Standards

There are different institutions which are mandated to oversee the various aspects related to standards. A

good example is the Bureau of Standards which is charged with setting standards, among others, for agricultural inputs such as fertilizers, farm implements, etc. Tropical Pesticide Research Institute takes the responsibility of monitoring, regulating, and issuance of permits for imported as well as domestically made agricultural chemicals. The major problem in this area is related to inefficient performance by these institutions due to lack of capacity, inadequate number of staff, little knowledge, lack of financial resources and logistical constraints.

Thus, unscrupulous traders take advantage by supplying substandard fertilizers or agricultural chemicals. Recently, in the cotton subsector, there were some claims that farmers were supplied with substandard insecticides. This happens because institutions lack the required capacity to undertake inspection, monitoring and evaluation functions. Normally,

inspection is required right at the point of entry into the country followed by regular checks at retail points. However, this is not the actual practice as distribution of low quality inputs is still a problem.

The Weight and Measures Agency was set up to ensure that weighing takes place using standardized measuring facilities. The agricultural sector is notorious for using non-standardized measuring facilities. Farmers, particularly smallholder farmers, face a serious problem related to the use of inefficient and non-standardized measuring facilities. They are not only offered low prices for their goods, but often find themselves at a loss due to poor measuring facilities. Interventions taken so far include the provision of education to farmers through different media, but radio is the most preferred one. Despite this campaign, the use of non-standardized facilities still continues.

## 2.3 Towards Equitable Terms of Trade among Stakeholders

There are a number of factors which impede efficient and effective interaction between stakeholders within the agricultural sector. Most of these constraints are either related to poor policy implementation, policy inadequacy and/or policy failure. However, negative effects facing stakeholders within the marketing systems multiply and affect others - a situation which hinders growth of the entire agricultural sector. A list of such constraints is discussed below.

### 2.3.1 Inefficient Marketing System

The post liberalization era of Tanzania is facing critical problems which are derailing development of different crop subsectors. Poulton *et al.*, (2006) has described a post liberalized era of the Sub Saharan Africa (SSA) as one which is experiencing a coordi-

nation failure amongst smallholder farmers<sup>11</sup>. A study by Mashindano *et al.*, (2011) conducted a spatial and temporal analysis of the price movement and concluded that there was no significant price differential over space and time within the marketing system of grapes. Inefficient marketing system has become a perennial problem affecting smallholder farmers given their characteristics. Asymmetrical information remains a major problem facing the farmers. Mwinyimvua and Mpango (2004) stated that the poor remains poor because they lack information about market opportunities and can't access credit to invest in education, skills and entrepreneurial activities. They also face high transaction costs

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<sup>11</sup> In addition to that, poor roads, telecommunications, poor market information, difficulties in enforcing interpersonal contracts and wide spread rent seeking behaviour are compounding the problem.

related to delayed payments after having sold their produce, and distorted or inefficient measuring facilities. Rent seeking behavior dominates marketing systems of various crop subsectors. A post-harvest loss is a serious problem given a perishable nature of some agricultural produce once they have been harvested. Farmers often find themselves in a dilemma of where they should take their produce upon harvest. Storage capacity is low and of low quality, a fact which contributes to crop losses.

### 2.3.2 Access to Financial Services

Access to agricultural financing is a critical problem facing actors operating in different crop subsectors. Information gathered from the survey suggests that smallholder farmers are the ones mostly affected. The main reason is the lack of collateral to provide against a loan. Land titling is expensive and not affordable to smallholder farmers. Different programs such as the formalization of assets popularly known as *MKURABITA* (in Swahili acronym), has generated very little benefits in terms of enabling farmers to access credit facility. Cooperative policy calls for mobilization of farmers into a group to form a Savings and Credit Cooperative Society (SACCOS) as an easy way of linking them with lenders. In this regard, it is worth recognising some efforts that have been done in selected subsectors such as cotton and sugarcane in terms of connecting farmers with the financial institutions. Microfinance products which are directed in rural areas mainly target the least poor, thus leaving out the poorest of the poor. Micro lenders prefer petty trading than lending to risky agricultural production.

### 2.3.3 Dry Weather Conditions

Agricultural productions in many places of the country rely on rainfall. Onset of climatic change has drastically changed the amount and pattern of rainfall to the extent of compromising efforts to expand agricultural production. This condition is increasing

household vulnerability to food insecurity and jeopardises national targets on economic growth and poverty reduction. The National Irrigation Master Plan (2002) has estimated total potential area for irrigation development to be 29.4 million hectares, out of which only 0.26 million were under irrigation. Irrigation development is an important factor that could contribute towards increased production and productivity, but is curtailed by a number of constraints. Eskola (2005) attributed the failure of irrigation within Tanzania to low investment and inadequate technical capacity of most producers to develop and manage irrigation schemes in a sustainable manner. Few irrigation schemes which were developed are now facing serious problems related to water shortages, salinity and deteriorated soil fertility, and have led to declined yield levels. Therefore, while statistics indicate an existence of enormous land potential for irrigation, evidence on the ground suggests a possibility if rain water harvesting facilities are established coupled with the use of efficient irrigation systems such as drip irrigation system. There is another possibility of using underground water sources. Otherwise, the recently emerging conflicts between farmers and livestock keepers, between sectors and controversies over the use of transboundary water bodies would hardly allow a space for further irrigation development.

### 2.3.4 Provision of Extension Services

Access to extension services is yet another dimension that is discriminating farmers based on their operating scale (smallholder, medium and large-scale farmers). The Government has the duty of providing extension services, although large scale farmers do employ their own field officers. A group of few farmers who operate under a contract farming system may also enjoy the services if their contract includes such a provision. Otherwise in the absence of such an arrangement, farmers rely on services provided by the Government. While the Government initiative in

terms of increasing the number of extension officers is accredited, quality of the service in terms of the ability to articulate field problems experienced by the farmers is still poor. Extension officers lack the needed skills to tackle field problems affecting the farmers. Due to low quality extension services, farmers are obliged to use their own knowledge to solve ever changing field challenges such as crop diseases, insects etc.

### 2.3.5 Ad hoc Policy Problems

Agriculture in Tanzania is facing a serious problem related to ad hoc change in agricultural policies particularly those which govern marketing of agricultural produce. The Government is often changing the policy whenever the country is projected or has succumbed to a shortage of food. Such ad hoc changes are justified by the Government as a necessary step in averting the country against a potential problem of food insecurity. Generally, the policy of ensuring national food security is accredited. However, what is often complained about is the manner at which this policy is being instituted. Market price offered by foreign markets in neighbouring countries during this period is relatively higher compared to what is often offered by the domestic market. Therefore, the export ban policy appears to be shifting the responsibility of ensuring national food security entirely to farmers. This policy creates investment disincentives within the sector and thus, derails economic growth and poverty reduction initiatives.

The situation has made some people believe that if one doesn't need to be in conflict with the Government, then he/she should invest in other sectors rather than food crop production. There was a time when local Governments had seriously waged to fight the marketing of roasted maize with a reason that it reduces the amount of dry maize that finally is harvested. Selling of roasted maize was therefore con-

demned on the disguise that it jeopardises food security within farming households.

Tanzania is well positioned and endowed with a lot of potentials for agricultural production compared to neighbouring countries (within the EAC where it is also a member). This is a great opportunity for Tanzania to utilise, but unfortunately it is not the case. Opening to export markets could provide incentives and prompt a supply response with possibilities of shifting the entire production frontier. Through this approach, the government will not be required to provide a lot of public resources, as it is currently the case, rather perhaps will just concentrate on the provision of pure public goods and leave others for the market to provide. Markets with incentives will supply services such as agricultural inputs, credits and even extension services - a situation which will enhance a self-propagation of the sector. However, it should be made clear that development of this nature can only happen if – and only if – the private sector is guaranteed of generating a profit, and the government is instituting facilitative policies which focus on stimulating and speeding up different initiatives aiming at transforming agriculture within the country. This idea is somehow converging with a report by Poulton *et al.*, (2006) which described various problems facing agriculture and in particular smallholder farmers and suggested an approach of improving market performance by promoting greater regional trade with complementary reforms to encourage greater investments by private trading enterprises as a solution.

### 2.3.6 Access to Agricultural Inputs

Due to the ever changing climatic conditions, soil nutrients depletion and other factors, the country has reached a stage whereby crop production requires the use of purchased agricultural inputs. This view is equally shared by Poulton *et al.*, (2006) who emphasized on the need to use purchased inputs such as



seeds, fertilizers, and crop protection chemicals in order to make crop production a viable undertaking. The use of purchased inputs is largely determined by income status of farmers among other factors. Unfortunately, low income base and lack of credit present a hindrance on accessing improved agricultural inputs. The use of agricultural inputs in Tanzania follows a similar pattern like those of the other SSA countries in which the usage has declined after the inception of Structural Adjustment Programmes (SAPs). This programme had entailed, among other things, the withdrawal of the Government in production and marketing, as well as subsidy in favour of private sector. Generally, there was a great optimism on the reformation which unfortunately failed to demonstrate a reality.

A large number of smallholder farmers continue to engage in subsistence agriculture, and are therefore unable to benefit from liberalized markets (Shiferaw *et al.*, 2008)<sup>12</sup>. For the past six years, the Government of Tanzania has embarked on the provision of agricultural subsidy through a controversial voucher system. A subsidy programme focuses on agricultural inputs such as fertilizers, agrochemicals and seeds. Through this arrangement, the price of inputs has been subsidized and has therefore helped in reducing the market price. However, given that inputs such as fertilizers had already gone up in the world market, and the continuing weakening of the Tanzanian shilling against hard currencies such as the dollar, this has contributed to a price surge. High fuel costs are yet another aspect that leads to increasing higher inputs price. URT (2010) conducted an analysis

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<sup>12</sup> Due to a liberalized market system inputs price increased steadily following removal of subsidy and devaluation of exchange rates. Private sector which emerged after the withdrawal of the government lack enough capital and professional capacity, a situation which forced them to distribute through a small network and to leave out farmers who live in remote areas where the distribution cost were considered to be high and purchasing power of the people was relatively low. The effect is much higher in food crops than the cash crops.

which indicated that prices for DAP, TSP and NPKs escalated by 132 per cent, 150 per cent and 72 per cent, while the least increased were UREA (56 per cent) and CAN 60 per cent respectively.

Therefore, even when a subsidy is factored in, the price remains exceptionally high to smallholder farmers whose income is low. A subsidy which is provided by the Government caters only to transport costs, and there are some claims that farmers who are located in remote rural areas don't enjoy the subsidy. Management of the voucher system is yet another challenge that the Government needs to resolve if farmers are to access the subsidy. Combinations of factors are the main reasons for observed large divergence between demand and supply as well as the supply and usage of fertilizer. Currently, the soils have become so depleted of nutrients to the extent that one can hardly harvest crop produces without the use of fertilizers. Again, the trend of using imported fertilizers will not take the country far. Tanzania is endowed with a lot of resources such as natural gas and rock phosphate which could be used to create and supply fertilizer within the country and even export to the East African region.

### 2.3.7 Tax or Crop Levy

Crop tax or levy is considered as a nuisance tax by traders and farmers. The levy is charged by local Government authorities. Legislation empowers local Governments to charge crop levy ranging between 3 to 5 per cent of the farm gate price. In order to ensure that it collects this type of tax, private individuals or firms are required to apply for a permit to engage in purchasing of crop produces from certain districts. Issuance of certificates or crop purchasing permits requires a buyer to state the market price to be offered. The price offered is used to gauge payments of tax. Since negotiations are conducted between private companies and local Government authorities, there is a high chance of colluding and

paying less than the required price to farmers. Thus, the levy is a double sword to farmers as negotiations take place in the absence of farmers and rely on private traders to pass the information to farmers. A survey revealed that while farmers (out growers) who are engaging in sugarcane production are obliged to pay tax (Value Added Tax) whenever they sell their produce to the industry, processors such as Mtibwa

or Kagera Sugar or even Kilombero Sugar Company who also own farms don't pay such a tax. This is a double standard which needs an immediate intervention. In some traditional exports crops such as coffee and cashew nut, local government target primary cooperative society whenever they sale a crop consignment to collect the produce levy.

## 2.4 Problems Facing Private Sector

### 2.4.1 Lack of Steady Supply of Crop Produce

Low production capacity of farmers affects agro processors, exporters of raw produce and retailers of various food crops. During the survey, a manager of one supermarket in Dar es Salaam city explained difficulties in setting formal contracts with farmers to supply fresh vegetables, citing low capacity of suppliers to implement such contacts as a major reason. Therefore, a verbal contract was an appropriate means to avoiding legal wrangle. Similarly, private investors in agro-processing face a problem of intermittent supply of agricultural produce and usually close their industries whenever the supply is curtailed. In view of that, they preferred verbal contracts in order to accommodate intermittent supply. Given the situation, it may become difficult to develop the sector.

### 2.4.2 Problem of Electricity

Tanzania is currently facing a serious problem of power supply to the extent of introducing power rationing. This problem is adversely affecting private and public sector's daily operations and the wide economy. Main accounting factors include land degradation, mismanagement of water resources, and the onset of climatic change which has affected tor-

rential rains. On the other hand, there has been an increase in economic activities that have increased the demand for power, unfortunately backed by no further development plans in power generation. Over-reliance on hydro-power generation instead of diversifying into other alternative sources of power was/is not a very good policy. Tanzania is endowed with large reserves of coal which can be put into power generation. Mitigation measures used by the private sector include running thermal generators which are expensive and affect competitiveness in the market.

### 2.4.3 Transaction Costs

In Tanzania, the marketing systems of most crop subsectors are not well organised. They require, for example, buyers to move around in search of agricultural produce. This approach carries risks of losing money along the way, especially in rural areas where there are no banking services available. Since farmers are scattered in different areas, traders and/or agents are obliged to move around villages and to set up collection points for purchasing crop produces. Hence, one needs to set up temporary offices in order to collect the produce - an approach which increases operating costs. In areas where primary cooperative societies operate, private traders opt to use them to purchase the produce on their behalf. Another form

of transaction cost is related to conflict resolution which takes a relatively long time.

#### **2.4.4 Expectations of Farmers and Private Sector**

Farmers believe that the Government has the necessary capacity to solve problems in agriculture such as unreliable supply of agricultural inputs, market inefficiency, lack of credit, absence of market negotiating power, dry weather conditions, and the need to develop irrigation infrastructure. Failure to tackle these problems is not associated with lack of funds, rather it is associated with graft and lack of political will.

Smallholders believe that they have the right to acquire and use any piece of land within the country. On the other hand, large scale farmers are considered as invaders who should be evicted when necessary. This is a growing sentiment among smallholder farmers in Tanzania. Reported cases of clashes between large and smallholder farmers provide a clear testimony on the problem. Smallholder farmers expect the Government to apply power to evict foreign investors who clash with them. Private sector engaging in agricultural sector expects the Government to implement a business friendly operating environment. This includes finding a sustainable solution to

the problem of electricity. They also require policies that are not distortive, rather should facilitate private sector operations. Trade prohibitive measures like food export ban should be avoided through diligent planning.

#### **2.4.5 Role of the Government**

Specific functions that are currently undertaken by the Government include: regulation, monitoring, setting standards and enforcing compliance. Others include development of infrastructure to reduce transaction costs, issuing of export or import permits, and reviewing of policies in a participatory manner (although there is no equal participation by all groups). Provision of subsidy on agricultural inputs is supplied by the private sector given PPP approach. Land is considered a public property; therefore investors who wish to embark on agricultural production ought to request from the Government. Problem of low producer price offered to smallholder farmers is being addressed by the Government through promotion of warehouse receipt system in different subsectors. The Government is has another duty of solving the problem of agricultural financing and has established a special window for agriculture at the Tanzania Investment Bank (TIB).

## 3. Conclusion and Recommendations

### 3.1 Conclusion

This study intended to examine the relationships between the agriculture policy makers, farmers, investors and traders in the country as well as their role/contribution to the policy formulation and implementation; and to identify both the positive and negative elements in the relevant policy framework that either facilitate or hamper positive interaction and equitable terms of trade among farmers, investors and traders. It is a fact that, agriculture is mainly dominated by small farmers while there are only few medium and large scale farmers. The difference in the three groups of farmers is in terms of assets and or resources endowments. Small and medium scale farmers' production activities are affected by factors such as lack of access to credit, market information, agricultural inputs, storage facilities and insufficient supportive services such as extension services, to mention a few. Due to their resources endowments large scale farmers are capable of overcoming these constraints.

Farmers use different mechanisms to influence policy depending on their scale of production. While large scale farmers use their association or even individual firms to lobby for a particular policy change, NGOs represent smallholders in policy review or lobbying and advocacy for policy change. This important activity is complemented by politicians particularly members of parliament who normally pressurize the Government to implement or change specific policies which are not favorable to the sector.

The role of traders is to purchase farm produce from the farmers, process and then supply them either to domestic or foreign markets. Like large farmers,

traders also have associations which represent their interests in policy design. Their operations are curtailed by a range of factors namely: problem of energy shortage/availability; inefficiency in transport infrastructure such as roads, railways and ports; lack of access to finance; lack or poor storage facilities; and bureaucratic procedures which increase the costs of doing business.

Interaction between farmers and large private investors is affected by poor implementation of policies such as trade, agricultural marketing, irrigation, energy, micro-finance and agricultural policies, as well as bureaucratic tendencies. Different abilities and approaches for lobbying and advocacy used by each group is one of the reasons for inefficiencies within the marketing system. Private investors are found to have more lobbying power than smallholder farmers. Smallholder farmers generally lack market incentives to increase production. Therefore, addressing supply side constraints and increased transparency and symmetrical flow of information within each marketing system would provide appropriate approaches to fostering equitable interaction. For example, if provision of extension services is improved and farmers have access to agricultural inputs, while the infrastructure is better and so marketing information is flowing symmetrically, then the relationship between the two parties will be good depending on how private investors are faring. If private investors are facing a hostile investment climate, then they will fail to operate and the negative effects will multiply to farmers.

Findings have indicated that involvement of the government as a key stakeholder may improve interaction between farmers and the private sector but in

certain situations, may even worsen the interaction (accounted to rent seeking behaviour).

## 3.2 Recommendations

In order to ensure equitable interaction between farmers, traders and investors, drastic measures should be taken to address the following:

- The Government should increase resources allocation in order to build up and improve existing infrastructure such as irrigation systems and rural roads, and ensure that there is sufficient and reliable electricity. This will entice actors to invest more in the sector and hence be able to compete at all levels;
- Public institutions need to be strengthened in order to pick up existing and even future challenges. This should include mobilization of smallholder farmers to form cooperatives or groups in order to foster information sharing and to reduce transaction costs of reaching them. Such associations should help in addressing asymmetrical flow of information;
- Initiative of establishing warehouse receipt system should be scaled up and introduced to other crop subsectors as well. This is an area where the Government should collaborate with the Civil Society Organizations (CSOs);
- The private sector should scale up its activities and ensure profits are equitably distributed to all actors along the supply or value chain. Approaches such as contract farming, which would include provision of agricultural inputs and even extension services, may help to reduce transaction costs of dealing with smallholder farmers. However, low prices offered to farmers and the use of non-standardized facilities should come to an end. The private sector should focus on mutual benefits, in other words a win-win situation with the farmers in order to develop the sector;
- CSOs should collaborate with the Government in undertaking a national sensitization campaign to smallholder farmers so that they can understand and consider large scale farmers as partners rather than just land grabbers. This should help to reduce negative attitudes towards large scale farmers within the country. In order to achieve a lasting solution, out-grower schemes can be used by large scale farmers in such a way that smallholder farmers around the estate are sensitized and trained to engage in production of crops which are ultimately purchased by the large scale farmers. This will help in improving living conditions around the areas directly and hence improve the relationship between large-scale and small-scale farmers; and
- As for the case of development partners, they should avail more financial aid to the sector either through basket funding or by project financing. This should be coupled with availing market opportunities for processed agricultural produce from Tanzania.

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# Annex 1: Interview Guide for Field Survey

1. What is your opinion regarding the currently agricultural policy frameworks in Tanzania?
2. What is your role when it comes to policy formulation and implementation?
3. Have you ever being contacted and participated in policy review?
4. Even if you did not participate, do you fee to be represented in such forum?
5. What is you opinion regarding the relationship between policy makers, farmers, investors and traders relationship?
6. Please mention and elaborate on any positive or negative element in the agricultural and related policy framework that either facilitate or hamper positive interaction and equitable terms of traders among farmers, investors and traders.
7. Please mention and explain different constraints faced by each group and elucidate on how it impedes agricultural growth and transformation.
8. Why do you think that the entire set of actors is important in endeavor to accelerate agricultural growth and transformation?
9. How can we encourage and foster equitable interaction between farmers, investors, traders and policy makers?
10. Please mention and articulate clearly all elements of an enabling environment for farmer-friendly and private sector-led agricultural development.







## Annex 2: List of Key Informants

S/No	Name of Organization
1	Ministry of agriculture, food security and cooperative
2	Tanzania Agricultural Council
3	Association of Mango Growers
4	Association of Sugarcane Processors
5	FINTRACK - Tanzania
6	Sun –Bio-fuel
7	Tanzania Coffee Board
8	Tanzania Cashew Board
9	FARMBASE LTD
10	Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA)
11	Tanzania Sugar Board
12	Imalaseko Supermarket
13	Fruit Vendors
14	Retailers – Rice and beans

