

# HARNESSING INVESTMENT IN TANZANIA'S AGRICULTURAL SECTOR FOR INCLUSIVE GROWTH: WHERE TO FROM HERE?

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## **ABSTRACT**

This paper unpacks Tanzania's investment laws and their impact on the development of the country's agricultural sector. It discusses current government-led policies and initiatives that aim to stimulate growth in Tanzania's agricultural sector while improving the socio-economic conditions of smallholder farmers. Tanzania is attracting significant private sector interest in its agricultural sector; whether these initiatives are successful at balancing investors' needs with development goals remains questionable. The paper discusses some of the successes and difficulties surrounding public-private partnerships and their inclusion of smallholder farmers in growing value chains. It also offers policy recommendations that identify how farmers can be better incorporated into value chains, and identifies the remaining bottlenecks in policy reforms and integration processes.

## **ABOUT THE AUTHOR**

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**ABBREVIATIONS AND ACRONYMS**

ACT	Agricultural Council of Tanzania
ASDP	Agricultural Sector Development Programme
BLP	Business Linkages Programme
CAADP	Comprehensive Africa Agricultural Development Programme
CSO	civil society organisation
CSR	corporate social responsibility
CTF	Catalytic Trust Fund
FAO	Food and Agriculture Organisation
FDI	foreign direct investment
FTFP	Feed the Future Programme
GDP	gross domestic product
MDGs	millennium development goals
MEGA-PPP	mega public-private partnerships
MNCs	multinational companies
ODA	overseas development assistance
PPPs	public-private partnerships
SAGCOT	Southern Agriculture Growth Corridor of Tanzania
SMEs	small and medium-sized enterprises
TADB	Tanzania Agricultural Development Bank
TAFSIP	Tanzania Agriculture and Food Security Investment Plan
TAHA	Tanzanian Horticulture Association
TAPP	Tanzania Agriculture Productivity Programme
TIC	Tanzanian Investment Centre
USAID	US Agency for International Development
VAT	value-added tax

## INTRODUCTION

In recent years Tanzania has become a darling of Western donors and investors, building on an image of stable democratic reform and economic structural transformation. It is one of the top three aid recipients within Africa and accounts for 5% of all aid given to Africa.<sup>1</sup> High levels of multilateral and bilateral donor partner involvement in its agricultural sector account for up to 5.6% of the country's gross national income.<sup>2</sup> However, there is much debate about whether this involvement (and funding) flooding into the country is having a deep and lasting impact on poverty alleviation and social transformation. With a population estimated at 52 million, 28% of all Tanzanians survive below the poverty line and rely predominantly on subsistence farming.<sup>3</sup> The majority of the country's population resides in rural areas; consequently, agriculture is a vital source of economic activity, contributing up to 31% of the country's gross domestic product (GDP)<sup>4</sup> and employing 66% of the country's workforce.<sup>5</sup> Women constitute 55% of the agricultural labour force.<sup>6</sup>

Tanzania is a low-income country with an annual growth rate of 7% per year – the fastest growth recorded in East Africa – with an average income level at \$950 per capita. Despite this high growth rate it did not meet its poverty reduction targets under the *Millennium Development Goals (MDGs)*. Its poverty levels have remained stubbornly high and dropped only marginally from 35.7% in 2001 to 33.6% in 2011.<sup>7</sup> Initial reports on the poverty alleviation effect of Tanzania's impressive growth rate appear confined to Dar es Salaam, and there seems to be little evidence of gains penetrating the rural areas. The UN Children's Emergency Fund estimates that one in four urban families and one in six rural families live in poverty.<sup>8</sup>

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- 1 OECD (Organization for Economic Cooperation and Development), 'Development Aid at a Glance: Statistics by Region, Africa', 2015, <https://www.oecd.org/dac/stats/documentupload/2%20Africa%20-%20Development%20Aid%20at%20a%20Glance%202015.pdf>, accessed 26 July 2016.
  - 2 World Bank, 'Net ODA received (% of GNI)', <http://data.worldbank.org/indicator/DT.ODA.ODAT.GN.ZS?view=chart>, accessed 26 July 2016.
  - 3 World Bank, 'Tanzania', <http://data.worldbank.org/country/tanzania?display=graph>, accessed 29 April 2016.
  - 4 World Bank, 'Agriculture, value added (% of GDP)', <http://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?view=chart>, accessed 7 July 2016.
  - 5 *Ibid.*
  - 6 New Alliance, *Tanzania: Progress in Public Private Partnership in Agriculture Transformation*, June 2014, [https://new-alliance.org/sites/default/files/resources/Tanzania%20New%20Alliance%20Country%20Report\\_2014\\_English.pdf](https://new-alliance.org/sites/default/files/resources/Tanzania%20New%20Alliance%20Country%20Report_2014_English.pdf), accessed 16 January 2017.
  - 7 Commonwealth Foundation, *A Civil Society Review of Progress towards the Millennium Development Goals in Commonwealth Countries: National Report: Tanzania*. London: Commonwealth Secretariat, 2013.
  - 8 UNICEF (UN Children's Emergency Fund), *Cities and Children: The Challenge of Urbanisation in Tanzania*. Rome: FAO (Food and Agriculture Organization), 2012, [http://www.unicef.org/infobycountry/files/Cities\\_and\\_Children\\_-\\_FINAL.pdf](http://www.unicef.org/infobycountry/files/Cities_and_Children_-_FINAL.pdf), accessed 7 July 2016.

Currently, Tanzanian farmers face myriad challenges in accessing global agricultural markets. Tanzania shows great potential – it has an abundance of land and water resources,<sup>9</sup> a favourable climate to cultivate a variety of crops, and the ability to access foreign markets through the major port city of Dar es Salaam.<sup>10</sup> However, at a grassroots level, change is occurring slowly. Of all the arable land in Tanzania only a quarter is in use, showing that there is huge growth potential for agriculture in the country. According to the Food and Agriculture Organization (FAO), the growth rate of land under use is around 3% per year.<sup>11</sup> Fake agricultural feed and inputs, quality and quantity restrictions, and the smuggling of agricultural produce into neighbouring countries to sell at a higher price are just some of the challenges to growth in Tanzania's agricultural sector.<sup>12</sup>

These problems have had a negative impact on the government's attempts to stimulate growth in the agricultural sector. Agricultural growth was at 4.3% in 2012 and 2013, but fell short of the government's 6% [Comprehensive Africa Agricultural Development Programme](#) (CAADP)<sup>13</sup> target, and was far below the MDG target of 10.8% required to reduce income poverty by 2015.<sup>14</sup> The growth rate has failed to reduce poverty levels among smallholder farmers, a situation compounded by the high population growth in Tanzania's rural areas. FAO found that<sup>15</sup>

agricultural growth has been concentrated in rice, wheat and three cash crops: cotton, sugar and tobacco. Because these are more often produced by commercial farmers, this growth did not contribute strongly to poverty reduction. By contrast ... livestock and horticulture have the greatest growth potential, and ... cassava, pulses and oilseeds will do more to reduce poverty and improve nutrition. By virtue of its size alone, maize has the greatest potential in all three respects. It is argued that a major effort is needed to raise yields in these high potential sectors.

It is clear that Tanzania's agricultural sector offers great potential, but is not without structural challenges. There are a plethora of government-led, donor-driven and

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- 9 Currently, Tanzania is experiencing a drought, possibly as a result of climate change. This will affect how water is utilised for agriculture in the coming years, particularly since most of the land farmed in Tanzania remains non-irrigated and dependent on increasingly erratic rainfall. It is also likely to influence the kinds of crops that are cultivated in the future. See Molteni M, 'Facing climate change, Tanzania cannot afford to fear GM crops', *Wired*, 14 October 2016, <https://www.wired.com/2016/10/facing-climate-change-tanzania-cant-afford-fear-gm-crops/>, accessed 3 November 2016.
- 10 US Government, 'Feed the Future: 2011–2015 Multi-Year Strategy Paper'. Washington DC: US Government, 2011.
- 11 FAO, 'Analysis of Donor Support to CAADP, Pillar Four – Phase Two'. Rome: European Initiative for Agriculture Research for Development, 2011.
- 12 Interview, Agricultural Council of Tanzania (ACT), 18 May 2016.
- 13 The CAADP is an AU initiative to address food insecurity and encourage agricultural transformation on the continent.
- 14 Republic of Tanzania, Ministry of Finance, 'Mkukuta Annual Implementation Report 2013/14', 2013.
- 15 FAO, 2011, *op. cit.*

public–private partnerships (PPPs) underway in Tanzania. However, it remains unclear how the transformation of its agricultural sector has been affected by years of support from a variety of institutions and donors.

This paper examines investment initiatives and policies within the Tanzanian agricultural sector in order to determine whether support programmes and investment by the government and donors are having a lasting impact on the agricultural landscape, and if these projects are successful at including smallholder farmers in larger agricultural and retail value chains. Current PPPs will also be examined in order to further understand the contribution, if any, that private and public sector investment in and improvements of agricultural value chains have made to incorporate smallholder farmers into larger value chains. The paper builds on extensive desk research as well as interviews with donors, private agricultural organisations and government entities. It also incorporates a horticultural case study as an illustration of existing policy constraints in Tanzania's governance framework and the challenges facing the inclusion of smallholder farmers into larger value chains. It discusses the role of investment vis-à-vis PPPs in order to understand how mega-PPPs can be harnessed for smallholder farmer inclusion, while offering a potential avenue for greater and enhanced involvement in global agricultural markets.

## VALUE CHAIN ANALYSIS OF TANZANIA'S AGRO-PROCESSING SECTOR

### KAPLINSKY'S VALUE CHAIN ANALYSIS

In his 2000 paper entitled 'Globalisation and Unequalisation: What Can Be Learned from Value Chain Analysis?', Kaplinsky uses a value chain analysis for understanding continuous inequality and unequal benefits accruing from globalisation. Emerging in the 1960s and 1970s, value chain analysis was predominantly used to describe and understand mineral exporting economies. Over the years the analytical focus on value chains has waxed and waned, with a recent rise in the development of value chains to promote industrialisation in developing and least developed countries. Kaplinsky defines a value chain as 'the full range of activities which are required to bring a product or service from conception, through the intermediary phases of production (involving a combination of physical transformation and the input of various producer services), delivery to final consumers, and final disposal after use'.<sup>16</sup> Value chains include various vertical and horizontal linkages to other value chains or intermediate goods and services, and are recognised for their ability to contribute towards pro-poor initiatives and facilitate better linkages of small businesses with the larger marketplace.<sup>17</sup> Lastly, value chains should

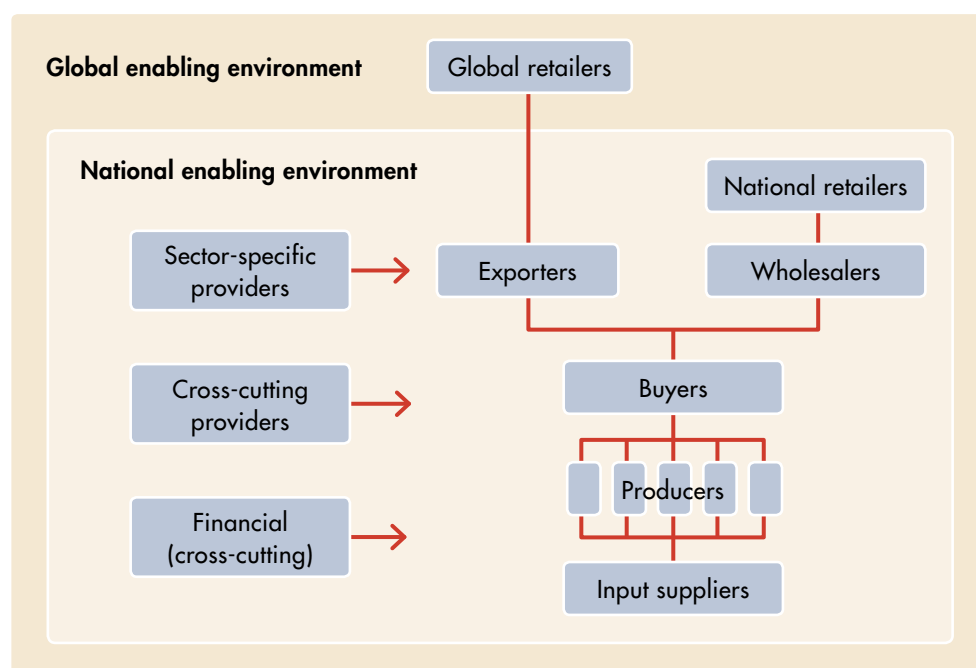
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16 Kaplinsky R, 'Globalisation and unequalisation: What can be learned from value chain analysis?', *The Journal of Development Studies*, 37, 2, 2000, pp. 117–146.

17 Webber CM & P Labaste, *Building Competitiveness in Africa's Agriculture: A Guide to Value Chain Concepts and Application*. Washington DC: World Bank, 2010.

remain competitive by upgrading in response to the changing demands and requirements of the end market.<sup>18</sup> Figure 1 depicts a general value chain map.

**FIGURE 1** VALUE CHAIN FLOW CHART



Source: Dunn E, 'Smallholders and Inclusive Growth in Agricultural Value Chains', USAID/FIELD Report 18, 2014

Rather than promoting and trying to understand what creates and sustains a value chain, Kaplinsky uses the value chain as an analytical tool to examine how and why some countries benefit from globalisation and why inequality is growing despite greater global economic growth and economic participation. He identifies value chain analysis as an important tool towards policy development that can have an impact on inequality. Key to this analysis is identifying (i) rent seekers in the chain; (ii) governors of the chain; and (iii) the systemic approach to efficiency, rather than looking for efficiencies within each step of the chain. This can be understood as: who controls access to a particular value chain and who benefits from this control; who arranges the various contributions to the chain; which actors ensure quality and coordination within the chain; and who ensures

18 Dunn E, *Smallholders and Inclusive Growth in Agricultural Value Chains*, FIELD Report No. 1. Washington DC: USAID (US Agency for International Development)/FHI 360, 2014.



close cooperation within the chain to enable greater efficiencies. These questions show that there is a distinct power relationship in a value chain, which eventually explains why some actors within a chain benefit disproportionately from globalisation and the unequal distribution of income.

Using the example of the fruit canning value chain, Kaplinsky applies his analytical tool to show that small-scale producers will always benefit proportionately less from participating in the chain as they neither control access to the chain nor govern the inputs in terms of quality or time, and can do little to improve efficiency without becoming larger-scale producers. An understanding of Kaplinsky's value chain analysis is helpful in analysing the successes and challenges of Tanzania's ongoing investment projects in its agricultural sector, and whether these initiatives have been successful at helping smallholder farmers move beyond subsistence farming and incorporating them into larger agriculture value chains.

### DEVELOPING AGRO-PROCESSING VALUE CHAINS

With growing interest in value chain development to support industrialisation, many analysts and authors have written about the importance of encouraging African farmers to upscale and create or integrate into agro-processing chains. Reference is often made to how developed nations used agriculture as the first step towards industrialisation. This is because increased agricultural output has had positive impacts on farmer incomes in rural areas, allowing for developments in education and the acquisition of assets. Given sub-Saharan Africa's potential for agricultural production, scaling up towards agro-processing or value-added agricultural production offers a potential solution that would enable smallholder farmers to improve their socio-economic conditions. The benefits of scaling up towards agro-processing is well documented, and include generating larger incomes and employment, and designing policies to overcome barriers and advance domestic players towards global competitiveness.<sup>19</sup>

As such, there is a growing emphasis on the need for farmers to 'upgrade' their current operations by increasing productivity and efficiency. This plays an essential role in bringing smallholder farmers into higher value markets, as it increases their contributions towards value added products and allows them to use their resources more productively and earn higher returns from agricultural production when market conditions are favourable.<sup>20</sup> However, this can only be achieved by removing entry barriers such as resource limitations, labour shortages and lack of inputs, which can hinder their ability to establish linkages with more lucrative markets.<sup>21</sup> Some critics suggest that the mere modernisation of smallholding farming will not lead to poverty reduction unless farmers can upgrade to

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There is a growing emphasis on the need for farmers to 'upgrade' their current operations by increasing productivity and efficiency

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19 ACET (African Center for Economic Transformation), *2014 African Transformation Report: Growth with Depth*, <http://www.africa-platform.org/sites/default/files/resources/2014-african-transformation-report.pdf>, accessed 29 April 2016.

20 Dunn E, *op. cit.*

21 *Ibid.*

commercial-scale farming.<sup>22</sup> Nevertheless, many academics maintain that increasing subsistence farmers' outputs remains a way to reduce their absolute poverty,<sup>23</sup> and there is growing acceptance among both donors and governments that large-scale farming should only be complementary and not replace smallholder-led agricultural growth.<sup>24</sup>

### BOX 1 WHAT DOES IT TAKE TO MODERNISE AGRICULTURE FROM SUBSISTENCE TO COMMERCIAL SCALE? WHY IS TANZANIA'S RURAL FARMER AT A DISADVANTAGE?<sup>a</sup>

- **Roads:** Many rural areas are cut off from markets, making it costly to move goods, with expensive input factors and labour.
- **Power:** Without electricity only very limited agro-processing can take place.
- **Irrigation:** With an increasingly uncertain climate due to climate change, farmers need to be able to rely on irrigation to increase outputs.
- **Lack of competition:** Traders set prices and not market factors; the lack of competition in the transport of produce means that farmers become price takers.
- **Property rights:** Customary law does not provide for land rights, making it difficult for farmers to use land as collateral for financing.
- **Pests and diseases:** These cause volatilities in yield outputs, preventing smallholder farmers from producing goods that meet international standards requirements.<sup>b</sup>

a ACET, *op. cit.*

b Arce C & J Caballero, *Tanzania Agricultural Sector Risk Assessment*. Washington DC: World Bank, 2016.

Source: CBD, 'Convention on Biological Diversity', 1992, Article 1, p. 3, <https://www.cbd.int/doc/legal/cbd-en.pdf>

## THE POLICY ENVIRONMENT: HELPING OR HINDERING INVESTMENT?

### GOVERNMENT INITIATIVES TO ENCOURAGE INVESTMENT IN TANZANIA

Given the importance of agriculture to Tanzania's society and economy, there are several policies aimed at stimulating agricultural growth and further modernising and industrialising the sector. In recent years, the government has taken several steps towards harmonising its agricultural policies and encouraging investment in the sector. These

22 Christiaensen L & L Demery, 'Are African countries paying too much attention to agriculture?', UN University, 2010, <https://www.wider.unu.edu/publication/are-african-countries-paying-too-much-attention-agriculture>, accessed 30 April 2016.

23 *Ibid.*

24 Tumusiime E & E Matotay, *Sustainable and Inclusive Investment in Agriculture*. New York: Oxfam America, 2013.

initiatives reflect an attempt by the government to make its policies easier to navigate and more accessible to stakeholders and potential investors. Table 1 identifies certain key national strategies geared towards generating agricultural growth and investment in the sector.

<b>TABLE 1 PLANS AND POLICIES TO BOOST AGRICULTURAL OUTPUT</b>	
<b>Development plans</b>	<b>Description</b>
<b>National Poverty Reduction Strategy II (Mkukuta II)</b>	Effective from 2010–2015, Tanzania's National Poverty Reduction Strategy phase II focused on achieving its MDGs and reducing poverty through three broad outcomes: (i) growth and reduction of income poverty; (ii) improved quality of life and social well-being; and (iii) good governance and accountability.
<b>Development Vision 2025</b>	This aims to develop Tanzania to middle-income status by 2025 with a per capita income of \$3,000 through a series of five-year development plans. The focus is on industrialisation, competitiveness, quality livelihood, rule of law and education. The vision is focused on raising living standards for Tanzanians towards middle-income status through ensuring food security, increasing exports and improving incomes.
<b>Comprehensive Africa Agricultural Development Programme (CAADP)</b>	The CAADP aims to help African countries reach a higher path of economic growth through agriculture-led development. African countries have undertaken to increase government spending on agriculture to 10% of their total budgets and reach an annual growth rate of 6% by 2015.
<b>Agricultural Sector Development Programme, 2002 (ASDP)</b>	The ASDP is coordinated by the Minister of Agriculture and Food Security. Its main objective is to achieve sustained agricultural growth at a rate of 5% per year by transforming subsistence farming into commercial agriculture through private sector-led initiatives. The ASDP aims to provide farmers with better access to and use of agricultural knowledge, technologies, marketing systems and infrastructure in order to improve productivity, increase incomes and promote private investment. A total of \$1.78 billion has been earmarked for the ASDP over eight years, in terms of which 75% of the funding is directed towards irrigation for development work and 2% towards market and private sector development initiatives. The ASDP components are financed through a basket fund.
<b>Agriculture First 'Kilimo Kwanza' policy, 2009</b>	This is a public–private led agricultural investment programme with the objective of fostering a green revolution, modernising the agricultural sector and mobilising the private sector towards increased investment in the agricultural sector. The Tanzanian government has prioritised agriculture as one of the National Key Result Areas, with a specific focus on three value chains, namely rice, maize and sugar. Other projects are also in the pipeline, such as horticulture, potatoes and tea.

Development plans	Description
<b>New Alliance for Food Security and Nutrition, 2012</b>	A collaboration between Tanzania, G8 countries and 19 private institutions, the New Alliance is designed to increase sustainable and responsible private investment in the agricultural sector to support Tanzania's overarching Kilimo Kwanza and CAADP targets.
<b>Tanzania Agriculture and Food Security Investment Plan (TAFSIP)</b>	The TAFSIP is a 10-year investment plan designed to map the investments required by the CAADP's 6% GDP per year agricultural growth target. The TAFSIP is also aligned with Vision 2025. Its goals include contributing towards national economic growth and alleviating food insecurity.

Sources: Tanzanian Government, 'Tanzanian Government Programme Document: Agricultural Sector Development Programme (ASDP)'; Flowers K & O Shuma, *Tracking Promises: Analysing the Impact of Feed the Future Investments in Tanzania*. Washington DC: CSIS (Center for Strategic and International Studies), 2016; GAFSP (Global Agriculture and Food Security Program), 'The Kilimo Kwanza Resolution', [http://www.gafspfund.org/sites/gafspfund.org/files/Documents/KILIMO\\_KWANZA\\_RESOLUTION\\_-\\_FINAL%5B1%5D.pdf](http://www.gafspfund.org/sites/gafspfund.org/files/Documents/KILIMO_KWANZA_RESOLUTION_-_FINAL%5B1%5D.pdf), accessed 14 July 2016; New Alliance, *Tanzania: Progress in Public Private Partnership in Agriculture Transformation*, June 2014, [https://new-alliance.org/sites/default/files/resources/Tanzania%20New%20Alliance%20Country%20Report\\_2014\\_English.pdf](https://new-alliance.org/sites/default/files/resources/Tanzania%20New%20Alliance%20Country%20Report_2014_English.pdf), accessed 16 January 2017; United Republic of Tanzania, 'Tanzania Agriculture and Food Security Investment Plan (TAFSIP), 2011–2021', October 2011

Although there is a range of agricultural growth policies, Tanzania has experienced some challenges in attracting consistent investment in its agricultural sector. Historically, its socialist government has not always encouraged private sector investment; as such, some practitioners feel that the country lacks an enabling policy and business environment.<sup>25</sup> There are perceptions that this anti-investment sentiment is still present: for example, the newly-elected government's recent unilateral ban on sugar imports<sup>26</sup> sent a discouraging message to those waiting to see how its stance on investment would change in the coming years. Consequently, Tanzania's agricultural sector has not always had a smooth trend of increases in foreign direct investment (FDI), as depicted in Table 2 and Figure 2.

Not all government initiatives and strategies have proven successful at an implementation level. The regulatory environment for investment and greater private sector participation has improved over the years, but there are still problems in doing business (ie, regulatory conditions, ownership issues and the existing tax regimes).<sup>27</sup> Tanzania is currently ranked at 120<sup>th</sup> of 140 economies in the [2015 World Economic Forum's Global Competitiveness](#)

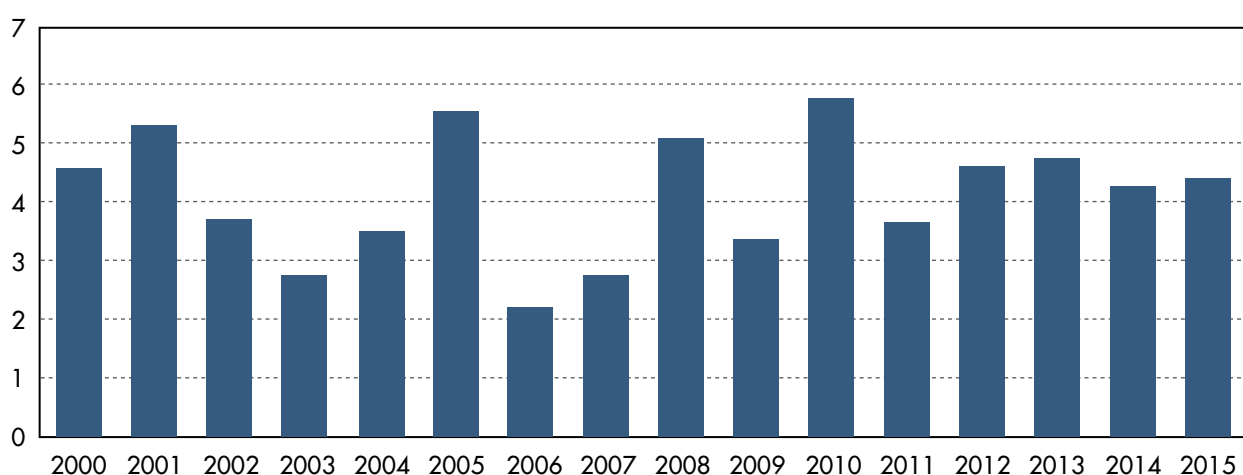
25 Interview, World Bank agricultural specialist, 18 May 2016.

26 Tairo A, 'President Magufuli orders control of sugar import', *The East African*, 27 February 2016, <http://www.theeastafrican.co.ke/news/President-Magufuli-orders-control-of-sugar-import/-/2558/3094508/-/kywcj3z/-/index.html>, accessed 19 July 2016.

27 OECD, *Investment Policy Reviews: Tanzania 2013*. Paris: OECD, 2013.

Report.<sup>28</sup> For foreign investors, high interest rates at local banks ranging from 14% to 24% act as a deterrent to borrowing.<sup>29</sup> At the same time, foreign investment regulations are scattered across numerous laws and regulations, which makes navigating the Tanzanian investment legal landscape more challenging for foreign investors, especially in the absence of an overarching national investment strategy.<sup>30</sup>

**FIGURE 2** AGRICULTURAL FDI NET INFLOW AS A PERCENTAGE OF TANZANIA'S GDP



Source: World Bank, 'Foreign direct investment, net inflows (% of GDP)', <http://data.worldbank.org/indicator/BX.KLT.DINV.WD.GD.ZS?view=chart>, accessed 14 September 2016

**TABLE 2** AGRICULTURAL FDI FLOW AND STOCKS, 2009–2013

Year	Flows (\$)	Stocks (\$)
2009	29.0 million	231.3 million
2010	22.9 million	254.2 million
2011	31.4 million	285.6 million
2012	11.2 million	296.8 million
2013	10.3 million	307.1 million

Source: Ndulu B, Kairuki J & A Chuwa, 'Tanzania Investment Report, 2014–2015'. Dar es Salaam: Tanzanian National Bureau of Statistics

28 WEF (World Economic Forum), 'Tanzania', <http://reports.weforum.org/global-competitiveness-report-2015-2016/economies/#economy=TZA>, accessed 28 July 2016.

29 Arias P *et al.*, 'Tanzania: Analysis of private investments in the agricultural sector of the United Republic of Tanzania', in *Trends and Impact of Foreign Investment in Developing Country Agriculture: Evidence from Case Studies*. Rome: FAO, 2012.

30 OCED, *op. cit.*

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As part of their CSR requirements, investors contribute towards smallholder farming communities by encouraging joint ventures between themselves and these communities

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However, there are several initiatives underway geared towards increasing investment opportunities within the agricultural sector. The Tanzanian Investment Centre (TIC) is the primary government agency tasked with facilitating and encouraging foreign and local investment in the country, and is responsible for creating linkages between investors and local communities with the end goal of strengthening technology and skills transfers. Among the TIC initiatives to make the sector more appealing to investors are its investor-friendly tax provisions. The TIC offers tax incentives to both foreign and local investors for a minimum investment amount of \$500,000 in capital for foreign investors and \$100,000 in capital for local investors.<sup>31</sup> These incentives form part of a strategy where businesses are permitted to import capital goods associated with their investment at 0% duty, and a value-added tax (VAT) deferment is permitted until the business starts its operations and for a further tax-free period of five years thereafter.<sup>32</sup> This is an initiative aimed at assisting businesses to grow in their inception period, with the long-term goal of generating profits and expanding.

However, measures are not only geared towards ensuring gains for investors. The TIC has created safeguards to ensure that farmers also benefit. Mandatory corporate social responsibility (CSR) conditions for both foreign and local investors are incorporated into investment agreements on a sector-by-sector basis.<sup>33</sup> As part of their CSR requirements, investors contribute towards smallholder farming communities by encouraging joint ventures between themselves and these communities, ensuring that smallholder farmers have land tenure security, and improving local community infrastructure through their projects (eg, companies that build roads or install electricity poles for their operations are required to extend this infrastructure into local communities/villages as well).<sup>34</sup> Consequently, this infrastructural support not only contributes to an improvement in smallholder farmers' living standards but also provides much-needed infrastructure that can facilitate long-term improvements in farming production and the transportation and storage of produce.

The TIC is also involved in training programmes for farmers, one of which is the [UN Conference on Trade and Development-partnered Business Linkages Programme \(BLP\)](#), designed to link multinational companies (MNCs) with small and medium-sized enterprises (SMEs). Within the confines of this programme, the TIC provided training to 341 SMEs and educated farmers on quality issues.<sup>35</sup> Although the initiative was generally regarded as a success, a 2012 evaluation of the BLP revealed the following challenges:

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31 Interview, Tanzanian Investment Centre (TIC), 17 May 2016.

32 Arias P *et al.*, *op. cit.*

33 Interview, TIC, 17 May 2016.

34 *Ibid.*

35 Engelhardt A, *Eternal Evaluation of UNCTAD's Empretec and Business Linkages Programme*. Birmingham: Lotus M&E Group, 2012. The initiative provides entrepreneurship training workshops to SMEs, offers business development services and facilitates the acquisition of funds from financial institutions by SMEs. See TIC, 'Business linkages programme', <http://www.tic.co.tz/menu/315>, accessed 14 September 2016.

- The BLP did not complement existing national and multilateral donor programmes, including the UN Development Assistance Plan for Tanzania.<sup>36</sup> This opens possibilities for siloed approaches to development projects, and the BLP failed to capitalise on donors' technical expertise to contribute to the implementation of the programme.
- At an implementation level, participants requested a follow-up session and continued linkages with larger national companies, which have not always materialised. Follow-up training and workshops are essential for farmer involvement in larger value chains, especially since the BLP resulted in a general increase in employment, turnover, contracts and clients, although this remains a work in progress as growth in these areas have been gradual.<sup>37</sup>

Nevertheless, the BLP is a step in the right direction, as it is 'fully embedded in the TIC's work programme, and its relations with the private sector are good' – a possible contributory explanation for its successes.<sup>38</sup> Importantly, demand from smallholders and SMEs to be linked to MNCs and larger domestic companies show willingness on the part of smaller producers to access larger value chains.<sup>39</sup> The Tanzanian government's goal of listing SMEs on the local stock exchange demonstrates the levels of outreach to incorporating SMEs into larger investment chains. However, the BLP requires further outreach and the incorporation of more SMEs if it is to have wider impact and see a large-scale value chain inclusion of smallholder farmers and agribusinesses.<sup>40</sup> Importantly, the TIC also managed to successfully link 30 suppliers in Tanzania to transnational companies, with 10 of those linked to Shoprite. Although Shoprite has since exited the country, this shows that with the correct guidance and sustained investment, smallholder producers can be successfully integrated into larger value chains. An initiative such as the BLP also offers the chance for smallholder farmers to move beyond rent seeking in the system, and to understand and improve their own efficiencies. This enables them to develop the necessary skills and knowledge to engage with larger value chain players on a more equitable footing.

Another initiative links smallholder farmer associations/co-operatives to large-scale agricultural input suppliers. Government efforts range from central to local government, and all input suppliers have to be registered in each farming district and distribute supplies according to these channels, down to the village level.<sup>41</sup> This helps ensure that farmers receive inputs at affordable prices and on terms and conditions that are transparent and negotiated in advance. There are also innovative initiatives underway to ensure that market-related information is widely available: in 2011 the government partnered with mobile company AirTel to enable smallholder farmers to access information on markets

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36 Engelhardt A, *op. cit.*

37 *Ibid.*

38 *Ibid.*

39 *Ibid.*

40 *Ibid.*

41 Interview, Tanzanian Chamber of Commerce, Industry and Agriculture (TCCIA), 17 May 2016.

A siloed approach towards resolving land conflicts has resulted in slow dispute settlement, lengthy delays in cases being heard before the higher-level institutions and insufficient training of tribunal staff

and market prices via their mobile phones.<sup>42</sup> Although linking input suppliers to rural farmers is not without its challenges (this service is not always available in very remote parts of Tanzania),<sup>43</sup> the initiative is an attempt by the government to ensure that farmers can access information that enables them to obtain the best possible deal for their produce.

Projects to incorporate smallholder farmers into larger value chains are not limited to government-led initiatives. The Agricultural Council of Tanzania (ACT), a civil society organisation (CSO) of private sector players, collaborates with researchers, farmers, suppliers, and various other actors to address agricultural production levels in the country. The ACT has been instrumental in working with the government to create the Tanzania Agricultural Development Bank (TADB), and is also involved in an on-going land tenure system review and helping to simplify regulatory bodies' responsibilities.<sup>44</sup> Ultimately, the ACT seeks to improve Tanzania's agricultural business environment by providing a platform for private–public stakeholder dialogue and information analysis.<sup>45</sup>

The ACT has two specific programmes targeting smallholder producers. The 'Farming to Business' initiative involves smallholder farmers in 29 districts throughout northern Tanzania, the Southern Highlands and the Southern Agriculture Growth Corridor of Tanzania (SAGCOT) (see below for discussion). Although the project is fairly new (implemented in 2012), farmers are provided with training on how to improve their farming methods and increase their yields and, importantly, follow-ups are conducted to ensure that they are implementing what they have been taught.<sup>46</sup> The second project, known as the 'Farmers Platform', builds a contact base of these trained farmers with the end goal of matching them with input suppliers and ensuring that they are subsidised through economies of scale. This engagement allows farmers to interact with input suppliers, thereby allowing them to purchase farming inputs at lower rates.<sup>47</sup>

### CURRENT CHALLENGES: LAND TENURE AND TANZANIA'S PROPERTY REGIME

Tanzania's property ownership regime poses further challenges, both for investors and for creating an investor-friendly environment for the country's agricultural sector. In terms of the Land Act of 1999, 'all land in Tanzania shall continue to be public land and remain vested in the President as trustee for and on behalf of all the citizens of Tanzania'.<sup>48</sup> Foreigners are thus unable to own land in Tanzania, as detailed below. Land is categorised into four distinct categories: general, village, reserved, and hazardous. In brief, general land is all land that is not reserved or village land, and includes unoccupied land and land

42 *Business Times Tanzania*, 'Mobile phone technology moves to promote Kilimo Kwanza', 8 July 2011, <http://businesstimes.co.tz/market-and-economy/mobile-phone-technology-moves-to-promote-kilimo-kwanza/>, accessed 15 November 2016.

43 Interview, TCCIA, 17 May 2016.

44 New Alliance, *op. cit.*

45 *Ibid.*

46 Interview, ACT, 18 May 2016.

47 *Ibid.*

48 Government of Tanzania, Land Act 4 of 1999.



under urban use; village land is approximately 70% of all Tanzanian land, while reserved land includes land designated for national parks and public utilities.<sup>49</sup> These categories help preserve villagers' land rights, particularly since land can only be transferred from 'village' to 'general' status with permission from the local community.<sup>50</sup>

However, transferring village land to general land use, so investors can use the land, has been problematic. Land can be leased for a period of up to 99 years, but the existing legislation does not allow individual Tanzanians to sell land to foreigners.<sup>51</sup> Foreign companies can only be granted rights of occupancy or TIC derivative rights on general land and for investment purposes. In order for this to be possible,

- land designated for investment purposes must be identified, published in the Government Gazette, and allocated to the TIC, which then creates derivative rights for investors; and
- land transfers have to be approved by the relevant village councils, district communities and the Ministry of Lands, House and Human Settlements Development.<sup>52</sup> However, as a result of red tape and slow negotiations this process can take a long time to complete. Consequently, some foreign investors sub-lease land from Tanzanian citizens because this is quicker to do, instead of following the lengthy due processes, which would give them official land rights and greater land tenure security.<sup>53</sup>

Challenges surrounding land disputes have to do with the lack of tenure security over land that has actually been registered – which is as little as 3% of all land in Tanzania.<sup>54</sup> Unclear land tenure laws have given rise to conflicts over land and water rights between medium-sized farmers and smallholder producers.<sup>55</sup> Disputes between horticultural investors and local communities are also increasing as a result of inadequate legislative frameworks, long registration processes and minimal expertise to address and manage group land rights.<sup>56</sup> Water disputes centre on competing national objectives, particularly the desire to better irrigate agricultural land versus the use of water for energy and power generation.<sup>57</sup> There are also mixed reports on the decentralisation of land in rural areas: some reports suggest that the central government is vested with significant powers via the Land Commissioner,<sup>58</sup> while others find that within rural areas the implementation of

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49 Makwarimba M & P Ngowi, 'Making Land Investment Work for Tanzania: Scoping Assessment for Multi-stakeholder Dialogue Initiative'. Tanzania: REPOA (Policy Research for Development), 2012.

50 Arias P *et al.*, *op. cit.*

51 Strauss P, Donovan RJ & S Manji, *Tanzania Investment Climate Statement 2015*. Dar es Salaam: US Department of State, 2015.

52 *Ibid.*

53 OECD, *op. cit.*

54 *Ibid.*

55 Arias P *et al.*, *op. cit.*

56 OECD, *op. cit.*

57 Arias P *et al.*, *op. cit.*

58 OECD, *op. cit.*

land rights lies largely with local governments and institutions, with existing legalisation providing only a framework/guideline to processes.<sup>59</sup>

The establishment of local institutions to administer and settle disputes in rural areas has been hindered by a lack of implementation plans at a national level and the fact that the necessary dispute settlement bodies are split between various ministries.<sup>60</sup> A siloed approach towards resolving land conflicts has resulted in slow dispute settlement, lengthy delays in cases being heard before the higher-level institutions and insufficient training of tribunal staff.<sup>61</sup> Processes are also marred by a lack of transparency and accountability among the institutions responsible for land administration.<sup>62</sup>

Similarly, disputes surrounding access to water resources affect local villages because ill-defined guidelines from the government have a knock-on effect on both conservation efforts and smallholder farmers, causing rising tensions between the various stakeholders that have competing needs regarding water usage.

In addressing water conflicts between farmers and pastoralists, the Pawaga model could offer a way forward. A partnership-driven solution involving all stakeholders, the model includes by-laws and a land-use plan that identifies clearly demarcated areas controlled by farmers and pastoralists respectively.<sup>63</sup> This model is currently used in the Pawaga region in southern Tanzania, by all 12 villages and 60 hamlets, and has been successful in reducing water conflicts between farmers and pastoralists.<sup>64</sup>

In the coming years, land reform processes will have to be simplified and technical and financial resource allocations increased.<sup>65</sup> The Tanzanian government will have to provide a more streamlined approach towards managing land and granting investors access, while also addressing the competing interests between farmers, pastoralists and investors. Economic growth and improved land tenure security need not be polar opposites, provided these interests are adequately balanced by the relevant authorities. Local government authorities are better placed through their involvement in local communities to address decision-making processes and land allocations,<sup>66</sup> which would help facilitate a more simplified land regime system. They should be included in land administration matters, become more accountable to the communities they serve, and assisted in terms of improving their resources and technical expertise.

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59 Pedersen RH, 'Tanzania's Land Law Reform: The Implementation Challenge', DIIS (Danish Institute for International Studies) Working Paper, 37. Copenhagen: DIIS, 2010.

60 *Ibid.* See also Makwarimba M & P Ngowi, *op. cit.*

61 Pedersen RH, *op. cit.*

62 Makwarimba M & P Ngowi, *op. cit.*

63 Makoye K, 'Straight talking calms rural water conflicts in Tanzania', *Reuters News*, 3 March 2016, <http://www.reuters.com/article/us-tanzania-water-conflict-idUSKCN0W51KB>, accessed 7 November 2016.

64 *Ibid.*

65 Pedersen RH, *op. cit.*

66 OECD, *op. cit.*

## HORTICULTURE AND TANZANIA: PROMISES FOR SMALLHOLDER FARMER INCLUSION?

The Tanzanian government has come to realise the importance of developing and promoting its horticultural sector as a potential avenue for increased farmer inclusion in larger value chains. The TIC estimates growth in the horticultural sector at between 9% and 12% for the past five years, while horticultural investments constitute up to 17% of all investments in the agricultural sector.<sup>67</sup> Key horticultural production areas include the Southern Highlands, the Northern Corridor (including Arusha) and the coastal zone of Zanzibar. As an industry heavily dependent on smallholder farmers (up to 70% of producers farm land less than 2ha in size) the horticultural sector provides an interesting case study to understand the manner in which smallholder farmers are being incorporated into the larger agricultural market, and to see whether it is a successful initiative towards poverty alleviation.<sup>68</sup>

Crops such as green beans, mangetout and French beans are regarded as high value. Spices from Zanzibar and seasonal fruits also fall within the ambit of horticulture. Horticultural cultivation is now encouraged among smallholder farmers throughout East Africa owing to its quicker cultivation time and higher earning capacity in European markets than cereal crops. A study conducted in Ethiopia found that the per capita income of farmers participating in horticultural cultivation was reportedly five times higher than those cultivating cash crops.<sup>69</sup> Consequently, horticultural cultivation is seen as a way to boost the income of farmers who cultivate only cereal crops and to provide increased employment opportunities in agricultural communities,<sup>70</sup> owing to smallholder farmers' comparative advantage in the labour-intensive cropping systems required for competitive horticulture value chains.<sup>71</sup> Horticultural crop diversity, coupled with Tanzania's arable land and natural advantage of having smallholder producers playing a prominent role in the country's agricultural industries, could place the country on a competitive footing for a wide range of high-valued agricultural exports.<sup>72</sup>

One of the goals for the horticultural sector in the country should be to connect these farmers to export markets. However, Tanzania's horticultural export sector is more reliant on its larger exporters instead of smallholder enterprises, despite the fact that smallholder farmers constitute the bulk of the country's producers. Although measures to encourage smallholder involvement in the horticultural sector are underway, efforts have not been sufficiently successful in utilising this strength to the sector's advantage. This means that Tanzania has little comparative advantage over a competitor such as

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67 TIC, 'Tanzania Investment Guide, 2014–2015'. Dar es Salaam: TIC, 2014.

68 Mkindi J, 'Horticulture value chain in Tanzania', Tanzanian Horticulture Association presentation, 2011.

69 Tufa A, Bekele A & L Zemedu, 'Determinants of smallholder commercialization of horticulture crops in Gemechis District, West Hararghe Zone, Ethiopia', *African Journal of Agricultural Research*, 9, 3, 2014, pp. 310–319.

70 *Ibid.*

71 Dunn E, *op. cit.*

72 Mkindi J, *op. cit.*

Kenya. A 2013 study reported that Tanzania's horticultural sector relied on about 30 large exporters. In comparison, Kenya's horticultural exports comprise produce from a total of 240 producers, of which only 40 are large-scale exporters.<sup>73</sup> Moreover, Tanzania's horticultural sector is often unable to capitalise on value-added production, particularly where produce is exported to Kenya in the raw form. This is because there is often little or no traceability once a product leaves Tanzania (eg, citrus exports to Kenya),<sup>74</sup> which means that Tanzanian farmers are unable to obtain a better price for their produce because the 'Tanzanian brand' does not exist.

In an attempt to encourage horticultural cultivation among smallholder farmers, several measures have been implemented. The Tanzanian Horticulture Association (TAHA) is responsible for encouraging smallholder horticultural farmers' growth and participation in agricultural markets through the provision of technical support. Established in 2004, TAHA is a private sector association representing the horticultural industry in Tanzania that uses advocacy and lobbying to achieve its aims. In particular, TAHA contributes towards facilitating horticultural investment through identifying priority clusters in the SAGCOT area and promoting SAGCOT for investment.<sup>75</sup> Some of its successful initiatives include negotiating a waiver of procedures for importing essential fertilizers for horticultural farmers and helping smallholder farmers obtain accreditation in terms of Global G.A.P. Standards, which are voluntary standards for agricultural produce at the pre-farm-gate level.

In addition, the National Horticulture Development Strategy of 2012–2021 (Horticulture Strategy) seeks to transform the sector through several long-term strategic goals:

- promoting horticulture;
- expanding long-term financing and investment;
- addressing land, policy and infrastructure bottlenecks;
- expanding the production base and improving produce quality;
- strengthening industry linkages; and
- mobilising human resources.<sup>76</sup>

The Horticulture Strategy is specifically geared towards addressing the bottlenecks present in the sector. An analysis of the legislation shows that the Tanzanian government clearly understands the structural challenges facing its horticultural sector, which range from low productivity and quality, and limited access to financing and long-term investment opportunities for farmers to inadequate market development and a lack of skills and knowledge among farmers themselves. It recognises that farmers' production and profits are constrained owing to their lack of economies of scale, as well as their

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73 Mashindano O *et al.*, *Tapping Export Opportunities for Horticulture Products in Tanzania: Do We Have Supporting Policies and Institutional Frameworks?*, ICBE-RF (Investment Climate and Business Environment Research Fund) Report, 60/13. Canada: ICBE-RF, 2013.

74 SAGCOT, 'Appendix IV: Value Chain and Market Analysis'.

75 New Alliance, *op. cit.*

76 *Ibid.*

inability to access export markets and information about markets. Nonetheless, it remains questionable whether these challenges are being adequately addressed through ground-level interventions.

There are no rural banks specialising in products or financing incentives for horticultural farmers. Rural areas in Tanzania are not easily accessible for commercial banks, which tend to be located in larger towns and cities and have products tailored to service the needs of their corporate clients rather than those of rural farmers. The banks, constrained by their drive to be profitable, view farmers as a high-risk category of borrowers, as they are more likely to default than corporate customers.<sup>77</sup> Other deterrents for commercial banks are the risks associated with agricultural production itself: diversion of inputs, informal and unreliable markets for produce, lack of capital and loan security, and an unclear property rights regime.<sup>78</sup> Commercial banks are thus often hesitant to engage with farmers. However, the existing sources of financing for farmers (such as small-scale loan sharks) often impose high interest rates and lend very small sums of money. In the long term this only contributes to their financial insecurity.

In an attempt to address these concerns, the Tanzanian government and the ACT partnered to create the TADB as a financing instrument. Although it has only been operational since 2015, there are already concerns that the TADB is inaccessible to individual farmers and lacks the capital to support all smallholder farmers' financing needs.<sup>79</sup> Consequently, there is a possibility that the main beneficiaries will be medium-scale farmers already in possession of collateral instead of the smallholder producers<sup>80</sup> most in need of access to financing on affordable terms. Commercial banks' absence from rural areas also does little to address farming communities' need to access financing on a regular basis.<sup>81</sup> There is an urgent need to provide some form of mobile or accessible financing to smallholder farmers that will help finance their movement into different sectors of the value chain, or even for crop diversification and access to quality inputs and equipment. Consequently, many smallholder farmers are still only able to access funding through farmer cooperatives, and cannot manage their finances in the absence of such measures.<sup>82</sup>

While tax rebates exist for larger export producers, small-scale producers and exporters that fall below the VAT registration threshold are disadvantaged, as they cannot access reimbursements.<sup>83</sup> One of the ways that farmers are prevented from up-skilling is through the VAT and tariff charges on agro-inputs such as seeds and plant materials. High-quality inputs are even more critical for the horticultural sector,<sup>84</sup> but smallholder producers can

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77 Schoeman M & M Carr, 'Case study 01: Access to finance in Malawi', in *Regional Business Barriers: Unlocking Economic Potential in Southern Africa*. Johannesburg: SAIIA & GIZ (Deutsche Gesellschaft für Internationale Zusammenarbeit), November 2014.

78 *Ibid.*

79 Interview, ACT, 18 May 2016.

80 OECD, *op. cit.*

81 Interview, World Bank agricultural specialist, 18 May 2016.

82 Interview, ACT, 18 May 2016.

83 OECD, *op. cit.*

84 Interview, World Bank agricultural specialist, 18 May 2016.

face up to 25% tariff and 18% VAT charges for agro-inputs.<sup>85</sup> In the horticultural sector this is a huge problem, as high-quality seeds are unavailable locally and must be imported. Although the VAT Act of 2014 has taken some steps to exempt agricultural implements such as tractors and select inputs, the list is criticised for its incompleteness: irrigation and water harvesting equipment are not included in the list of exempt implements and horticultural stakeholders thus have to import this at significant personal cost.<sup>86</sup> Combined with unfair administration levies, the current tax levels prevent farmers from reinvesting their savings or some of their profits towards purchasing new seed, thereby restricting their ability to save and make substantial investments in their businesses for future growth.<sup>87</sup> In general, the tax regime appears to be problematic for many actors throughout agricultural value chains, and requires an overhaul. It has resulted in many individual smallholder farmers' being unable to escape the subsistence farming trap and tap into opportunities – unless they are part of larger farming co-operatives that have domestic and external market links

Although the TIC is the guardian of investment in Tanzania, the centre has been criticised for the poor implementation of its initiatives, despite its offering attractive incentives to investors in horticulture.<sup>88</sup> Like other agricultural producers, horticultural farmers are also negatively impacted by challenges that make them reliant on Kenya's infrastructure: Kenya offers more attractive airport tariff rates than Tanzania, has simpler bureaucratic procedures, and cold rooms for produce storage.<sup>89</sup> As a result, many farmers and co-operatives use Kenya's airports and ports instead of Tanzanian infrastructure. The lack of affordable and accessible infrastructure is a huge challenge for horticultural producers, particularly since their produce is more susceptible to spoilage than some cash crops. Consequently, Tanzania continues to be surpassed by Kenya and South Africa in output levels, as these countries have far more sophisticated value chains and, in Kenya's case, greater success at harnessing their smallholder farmers for the mass production of horticultural produce.

To compare: Kenya has been able to generate significant foreign earnings – to the value of \$300 million – through trade in horticultural products, and is one of the largest exporters of horticultural produce (up to 3 million tonnes) in the world.<sup>90</sup> Its total horticultural production levels increased by 9% in one year: from 7.3 million tonnes in 2013 to 7.9

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85 Mashindano O *et al.*, *op. cit.*

86 New Alliance & Grow Africa, *2014–2015 Joint New Alliance and Grow Africa Progress Report: Tanzania*, PAPAC (Platform for Agricultural Policy Analysis and Coordination), September 2015, <http://papac.info/wp-content/uploads/2016/04/NA-Grow-Africa-report-Sept-20-2015-1.pdf>, accessed 19 January 2017.

87 Mashindano O *et al.*, *op. cit.*

88 *Ibid.*

89 *Ibid.*

90 HCDA (Horticulture Crops Development Authority), *Role of Horticultural Crops Development Authority and Horticulture Sector Performance Report*. Nairobi: HCDA, 2013.

million tonnes in 2014.<sup>91</sup> The Kenyan export market is diverse and includes EU member states, South Africa and Saudi Arabia.<sup>92</sup> Compared to Tanzania, there also appears to be better coordination among stakeholders. Kenya has:

- a developed and dynamic private sector that profitably markets a wide range of horticultural products to diverse international markets;
- government involvement through the facilitation of sectoral growth, incentives, support services, and infrastructure development; and
- an overhauled investment climate that includes macroeconomic trade reforms and a more liberalised trading environment.<sup>93</sup>

Kenya has also been successful at ensuring that smallholder farmer participation has resulted in socio-economic growth for local communities. The FIELD 2014 report documents that participants in select smallholder projects (maize, horticulture and dairy development programmes) experienced greater poverty reduction rates (up to 5%) than non-participants, as a result of various forms of upgrading.<sup>94</sup> A positive collateral impact was also observed: poverty rates dropped by up to 10% for non-participants in villages that were participating in the three projects. This shows the positive spill-over effect that inclusion can have on the larger community setting.

There are pervasive financial and infrastructural challenges in Tanzania's agricultural and horticultural sector at every step in its various value chain links. However, in its recommendations the Horticulture Strategy fails to go beyond identifying constraints and highlighting focal areas for intervention, which are then categorised into short-, medium- and long-term initiatives. More descriptive than analytical, the Horticulture Strategy does not offer significant detail on the exact measures the Tanzanian government intends to take to harness growth and development in this sector. Although it identifies challenges and prioritises strategic interventions, it does not detail how these interventions will be achieved. It also does not sufficiently detail how these measures will affect farmer unions, agro-businesses, investors and other relevant stakeholders, and does not shed much light on how these actors will complement government initiatives to boost the sector's growth and development.

Although there has been some improvement over the past few years, it is clear that structural changes to investment regulations and policies are a necessity for Tanzania's investment climate. Changes are needed specifically in terms of streamlining policies and mechanisms, enhancing the TIC's role as a 'one-stop shop' for investor engagement in Tanzania, and coordinating collaboration between the government and private entities in

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Kenya has also been successful at ensuring that smallholder farmer participation has resulted in socio-economic growth for local communities

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91 USAID-KAVES (USAID – Kenya Agriculture Value chain Enterprises), *Horticulture: Validated Report 2014*, AFA (Agriculture and Food Authority), 2014, <http://www.agricultureauthority.go.ke/wp-content/uploads/2016/05/Horticulture-Validated-Report-2014-Final-copy.pdf>, accessed 19 January 2017.

92 *Ibid.*

93 *Ibid.*

94 Dunn E, *op. cit.*

order to avoid duplication of efforts and to create an investment-friendly environment. A concrete effort must be made to encourage greater investment in the agricultural sector, particularly in light of the sporadic investment trends in the past, and to involve smallholder producers further up the various agricultural value chains.

## DONORS AND PUBLIC–PRIVATE PARTNERSHIPS: PERSONAL GAIN ONLY?

### PRIVATE SECTOR INVESTMENT IN TANZANIA

Interviewees noted the presence of both local and foreign investment in Tanzania, although the size of the investment differs per each individual investor. In his inaugural speech in 2016, President John Magufuli expressed a desire to attract more foreign investment, and the country has recently begun engaging in a growing number of PPP arrangements to facilitate investment in the agricultural sector. To date Tanzania has been successful at attracting overall FDI: in 2013 it received \$1.87 billion in FDI inflows, a whopping 72% increase from the previous year and the highest in the East African region.<sup>95</sup> However, there is no overarching legal framework for regulating FDI in Tanzania;<sup>96</sup> a possible explanation for the lack of clarity on investment procedures.

The government has attempted to address this regulatory uncertainty with the Public–Private Partnership Act (PPP Act) of 2010 and the parallel National Agriculture Sector Policy of 2013, which identifies the private sector as farmers, exporters, distributors and ‘all organisations directly involved in productive activities’.<sup>97</sup> In general, PPPs can vary greatly as they are dependent upon the terms and conditions detailed in a contract or agreement. PPP contracts list the responsibilities of each contracting party and, importantly, will allocate risks to parties as per their agreement.<sup>98</sup> The PPP Act emphasises infrastructure development in sectors focusing on roads, railways, airports and ports, together with power generation and the agricultural sector. However, progress is slow: the PPP Centre is not yet operational, and several PPPs are in progress but have yet to reach financial completion.<sup>99</sup> Moreover, the government’s approach in offering incentives to investors can be unpredictable: in 2014, the Tanzanian government decided to limit the scope of incentives by increasing the investment threshold requirements to qualify as a ‘strategic’ investor (recognised as such owing to the size of their investment, significant job creation, introduction of new technology, etc.) to \$50 million for foreign investors

95 James X. Zhan *et al.*, ‘World Investment Report 2014: Investing in the SDGs: An Action Plan’, UNCTAD (UN Conference on Trade and Development), 2014, [http://unctad.org/en/PublicationsLibrary/wir2014\\_en.pdf](http://unctad.org/en/PublicationsLibrary/wir2014_en.pdf), accessed 26 January 2017.

96 US Department of State, ‘Tanzania Investment Climate Statement’, 2015, <https://www.state.gov/documents/organization/244606.pdf>, accessed 22 October 2016.

97 New Alliance & Grow Africa, *op. cit.*

98 World Bank, ‘PPP arrangements / Types of public–private partnership agreements’, <http://ppp.worldbank.org/public-private-partnership/agreements>, accessed 17 November 2016.

99 US investment climate report, *op. cit.*



and \$20 million for Tanzanian investors.<sup>100</sup> Similar unpredictable decisions could raise concerns in investors, who want predictable and transparent business environments as a prerequisite for investing in a country.

Nevertheless, the creation of specific agriculture-focused government bodies to encourage and cultivate private sector investment is testimony to the importance that agriculture plays in the Tanzanian economy, and the potential it could offer for economic growth should the country be successful at becoming a food powerhouse on the continent. What is striking is the involvement of food and seed MNC investors such as Unilever, Monsanto, SAB Miller, Syngenta and Tansed International in Tanzania's agricultural sector.<sup>101</sup> However, given that Tanzania is encouraging investment into the country and embracing PPPs as a way of growing its agricultural sector, this is perhaps less surprising. The key question is whether these initiatives are successfully implemented on the ground and facilitate the inclusion of smallholder farmers into large enterprises; and whether PPPs, which are essentially profit-driven exercises, are being balanced against broader socio-economic development goals that are in farmers' best interests.

It is interesting to note that many of the initiatives identified as 'success stories' (ie, able to improve smallholder farmers' access to markets and that contribute to their socio-economic upliftment) include some form of private sector involvement. There are specific initiatives that have managed to successfully incorporate smallholder farmers into the production value chain, such as Kilombero (rice and sugar), Unilever (tea), Mount Meru (sunflower oil), CETAWINO (grapes for wine production), and Tanga Fresh (milk). However, all of these initiatives have the long-term backing of investors, ongoing training and years of experience. Some, such as CETAWINO, were driven by determined entrepreneurs and involved lesson learning on a trial-and-error basis. Others, such as Kilombero (Pty) Ltd and Tanga Fresh, have had foreign investment in the form of MNCs/PPPs.<sup>102</sup> Although significant private sector and government investments have facilitated their successes, these businesses continue to face challenges – for example, Tanga Fresh still uses plastic bags to package its milk, as opposed to Kenyan milk products that come in carton boxes with screw-on lids.<sup>103</sup> So even within their domestic markets agri-processing initiatives face hurdles in accessing local consumers, which makes linking them to regional chains even tougher.

In their 2013 study Mashindano and his colleagues identified Arusha and Kilimanjaro as areas that have had some success in enabling smallholder producers to access larger markets for their horticultural products. However, here again these achievements correlate

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100 Strauss P, Donovan RJ & S Manji, *op. cit.*

101 New Alliance, *op. cit.*

102 Kilombero's investor is the UK-based Agrica, which focuses on large-scale sustainable agribusinesses in Africa. See New Alliance, *op. cit.*

103 Interview, World Bank agricultural specialist, 18 May 2016. Consumers want access to products with a long shelf life. As a result of their lack of infrastructure and the unavailability of agro-processing facilities, Tanzanian producers are disadvantaged from supplying a vital domestic market with their produce, leaving them vulnerable to competition from neighbouring producers.

with private sector involvement through York Limited and Home Veg (based in Arusha) – companies that have introduced a fairly successful business model in these regions. In addition, accessing export markets has also progressed slowly: for example, Gomba Estate, Tanzania's largest fresh vegetable exporter, ceased operations in 2007 owing to financial constraints, while high-value vegetable exports remain concentrated in the UK and Dutch markets alone.<sup>104</sup> Serengeti Fresh Limited, a high-value vegetable export company currently based in Arusha, exports out of Tanzanian and Kenyan airports, and is one of the few Tanzanian companies participating in the highly competitive industry.

From discussions with interviewees and according to official reports and documents, attracting and retaining investment to spur growth is a huge driving factor for garnering growth within the agricultural sector. Investment in horticultural crops can provide Tanzanian farmers with fairly quick access to money in light of the consistent turnaround time for crop cultivation, and motivating farmers to move into this sector has not been difficult.<sup>105</sup> However, the government has to strike a delicate balance between creating an enabling environment that encourages investment within the agricultural sector while also bearing in mind current CSOs and farmer union concerns that the private sector does include enough pro-poor strategies in its projects and is more concerned with farming systems, enterprise and economic returns.<sup>106</sup> Investments that remain non-inclusive will do little to assist farmers in accessing larger markets or improving their farming methodologies and socio-economic conditions. In the absence of these there is a real possibility that farmers will remain entrenched in poverty, staying little more than rent seekers in various value chains.

### **A NEW MODEL FOR AGRICULTURAL SUCCESS?**

Owing to concerns that attempts to boost farmers' productivity levels over the last few decades have not been successful, the focus has now shifted to examining how to improve the entire agricultural value chain instead.<sup>107</sup> Both donors and recipient governments shoulder the responsibility for poor investment in agriculture and rural development throughout sub-Saharan Africa. Figure 3 shows that despite increased official development assistance (ODA) in these countries, donor investment in this sector has been stagnant in recent years. Current spending reflects a 25% decrease in funding available for agriculture and rural development in sub-Saharan Africa since the early 1980s.<sup>108</sup>

104 MMA (Match Makers Associates), *Fresh Fruit and Vegetable Sub-Sector / Value Chain Analysis*. Dar es Salaam: MMA, 2008.

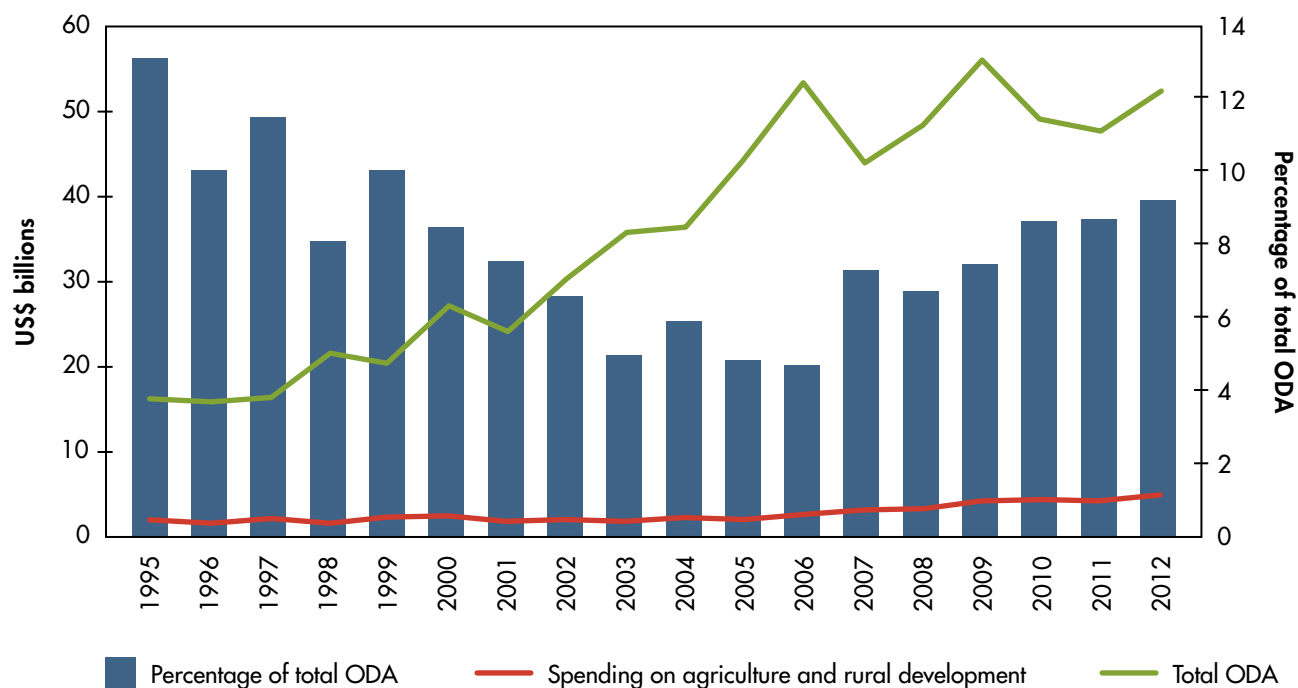
105 Interview, ACT, 18 May 2016.

106 Tumusiime E & E Matotay, *op. cit.*

107 Interview, World Bank agricultural specialist, 18 May 2016.

108 Willoughby R, *op. cit.*

**FIGURE 3** DONOR ODA SPENDING ON AGRICULTURE AND RURAL DEVELOPMENT IN SUB-SAHARAN AFRICAN COUNTRIES, 1995–2012



Source: Oxfam, 'Moral Hazard? Mega Public–Private Partnerships in African Agriculture', Briefing Paper, 188, 1 September 2014.

Several types of donor-driven investments can be made:

- increasing smallholder farmers' access to pricing, market demand and specialised technical information;
- developing and facilitating scale-appropriate agricultural technologies and input packages to rural farmers; and
- undertaking investments that benefit a large number of smallholder farmers.<sup>109</sup>

As a positive, interviews suggested that donor coordination is harmonised in order to avoid duplication, and healthy relationships exist among the donors present in Tanzania.<sup>110</sup> Moreover, the donor presence spans various portfolios, ranging from infrastructure involvement, human capacity building and up-skilling production towards agro-processing ventures, to providing funding for research and evaluation.

109 Dunn E, *op. cit.*

110 Interview, World Bank agricultural specialist, 18 May 2016.

In recent years Tanzania has begun engaging in numerous donor-driven initiatives to encourage and promote agricultural growth in the country. One such initiative is the US Agency for International Development's (USAID) [Feed the Future Programme](#) (FTFP). Tanzania hosts the largest country-focused FTFP in the world, with the US government having contributed \$327 million towards its agricultural development in the period 2010–2015.<sup>111</sup> This amounts to \$77 million per year, with 80% of the FTFP's resources having been invested in the SAGCOT initiative discussed below.<sup>112</sup>

In terms of the programme's involvement with the Tanzanian government:<sup>113</sup>

- The FTFP is aligned with the Tanzanian government's CAADP targets and its National Nutrition Strategy, thereby ensuring that the programme takes into account the government's own developmental goals.
- Together with CSOs, the FTFP also provides support to the Prime Minister's Office for the implementation of a national nutritional education programme and helps to align the government's ASDP to its CAADP goals. Similarly, the programme will also support the Tanzanian government's policy reform measures to address current agricultural policy and governance issues.
- Food security and nutrition activities are coordinated between the relevant agriculture and nutrition ministries in the Tanzanian government, which helps to reduce overlaps and ensure successful long-term aid programming and technical assistance.
- Training and knowledge building among Tanzanian professionals and government officials is taking place in order to ensure agricultural policies and plans are successfully implemented.

The FTFP's key investments focus on areas where the US government believes it can have the greatest impact in facilitating systemic changes through PPPs. Its strategic focus is on three key intermediate results: improved agricultural productivity; expanded markets and trade; and increased investment in agriculture and nutrition-related activities. These include rather ambitious measures such as improving research and innovation efforts; improving Tanzania's competitiveness in regional and international trade by 25%; and increasing yields of target crops by up to 50%.<sup>114</sup> Currently, the FTFP focuses on three specific investment programmes:

- [NAFAKA](#), a rice and maize value chain programme geared towards improving productivity, competitiveness and domestic and regional trade in these crops;
- [SHIFT](#), a sustainable horticulture for income and food security programme aimed at improving various facets of Tanzania's horticultural sector (ie, expanding market opportunities, increasing productivity and reducing post-harvest losses); and

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111 Flowers K & O Shuma, *Tracking Promises: Analysing the Impact of Feed the Future Investments in Tanzania*. Washington DC: CSIS (Center for Strategic and International Studies), 2016.

112 USAID, 'Feed the Future: Tanzania Factsheet', January 2015.

113 US Government, *op. cit.*

114 *Ibid.*

- Tanzania Agriculture Productivity Programme (TAPP), which hopes to increase small-holder farmers' incomes through enhanced productivity and improved access to domestic and foreign markets.<sup>115</sup>

Although a donor-led/funded initiative, the FTFP also reflects the 'changing face' of such initiatives through its inclusion of local actors (such as farmer organisations) and private sector initiatives (such as SAGCOT), and the involvement of private sector actors such as TAHA and Kilombero (Pty) Ltd.<sup>116</sup> There have been some developments that indicate positive donor–government–private sector collaboration, provided some rules of governance are involved, particularly since large-scale agricultural PPPs can skew benefits towards the privileged and further marginalise the poor.<sup>117</sup> For example, the FTFP is better resourced, financed and staffed, and thus project staff are better equipped and more motivated to attend to farmers' needs.<sup>118</sup> Some studies have found that the TAPP and NAFKA projects have been successful at addressing knowledge gaps in production and crop intensification (although this is an ongoing process), while also improving farming methods through increasing yields, saving seeds and reducing the usage of inorganic fertilisers.<sup>119</sup> The FTFP has produced tangible benefits to communities, contributing to the overall economic sustainability of these projects and hopefully motivating farmers to continue farming with these methods even after it has ended.

The World Bank's investment in boosting productivity includes focusing on the entire value chain and encouraging private sector investment in agri-businesses and agro-processing initiatives. This might explain why programmes such as the SAGCOT initiative targets improvements along the entire value chain and has the support of both donors and the private sector. Launched in 2010 at the World Economic Forum Africa Summit, the SAGCOT initiative is designed to address the infrastructural challenges facing farming communities within the SAGCOT belt, which stretches from Dar es Salaam, across the southern part of Tanzania and into the northern parts of Zambia and Malawi. Spanning 35 000ha, with the goal of creating 420 000 jobs and generating farming revenues of up to \$1.2 billion,<sup>120</sup> SAGCOT aims to provide a holistic approach towards the socio-economic development of Tanzania's rural economies and communities.

Oxfam labels this initiative as a 'mega public–private partnership' (mega-PPP) owing to its potential for macro-level implementation and changes to existing economic, legal and regulatory policies.<sup>121</sup> A defining characteristic of these mega-PPPs is their ability to offer

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115 *Ibid.*

116 Tumusiime E & E Matotay, *op. cit.*

117 Willoughby R, *Moral Hazard? 'Mega' Public–Private Partnerships in African Agriculture*, Oxfam Briefing Paper, 188. London: Oxfam, 2014.

118 Tumusiime E & E Matotay, *op. cit.*

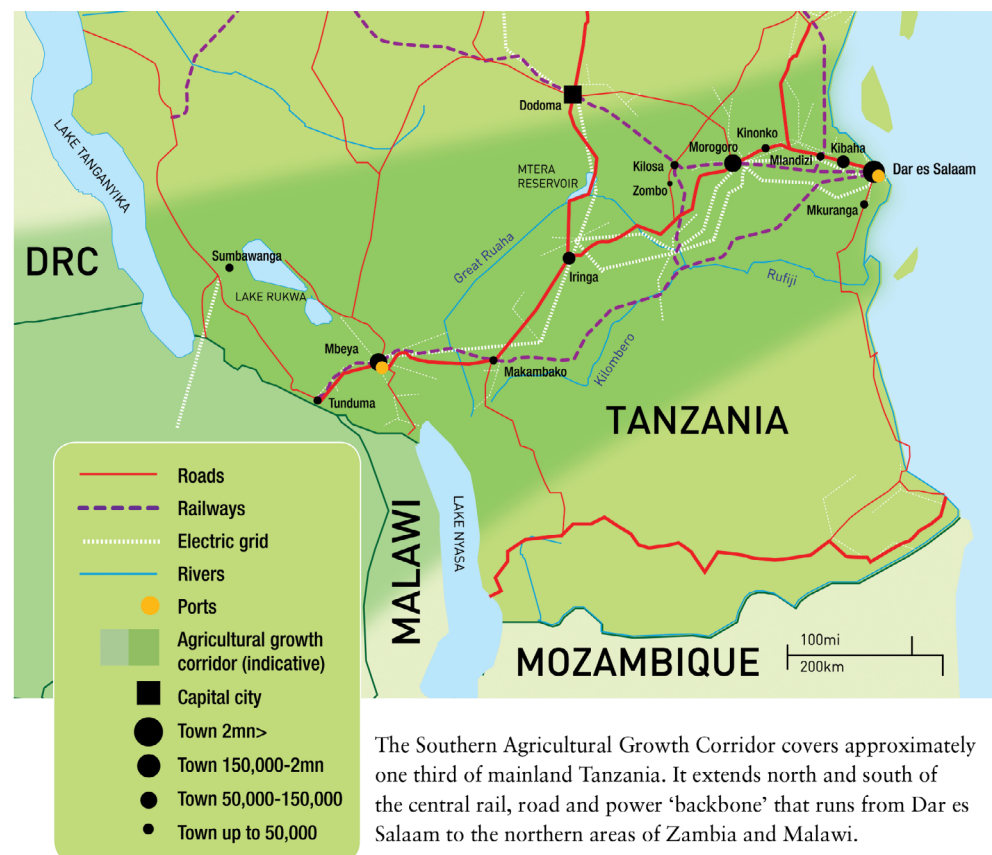
119 *Ibid.*

120 Jenkins B, *Mobilising the Southern Agricultural Growth Corridor of Tanzania: A Case Study*, CRI (Corporate Responsibility Initiative) Report, 49. Massachusetts: Harvard Kennedy School, May 2012.

121 Tumusiime E & E Matotay, *op. cit.*

comprehensive incentives to encourage investment and elicit the support of multilateral banks/large donors (the EU, UK and US are all involved in the SAGCOT initiative) to support their viability. They also have the potential to create jobs and improve local actors' socio-economic conditions. Long-term goals such as infrastructure development in the form of railways, roads and electric grids are part of SAGCOT's overarching development objectives, as is linking farmers to the Dar es Salaam international port and on to international markets.

**FIGURE 4** SAGCOT'S INFRASTRUCTURE INVESTMENTS



Source: AgDevCo & Prorustica, 'SAGCOT Investment Blueprint', 2011, [http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT\\_High\\_res.pdf](http://www.sagcot.com/uploads/media/Invest-Blueprint-SAGCOT_High_res.pdf), accessed 22 October 2016

SAGCOT's objective is to link smallholder producers with commercial agriculture, thereby expanding their outreach towards global markets,<sup>122</sup> particularly through the creation of agribusinesses. In order to do this, however, investment must be encouraged and

122 Flowers K & O Shuma, *op. cit.*

harnessed for wider growth. The initiative looks to create an enabling environment that will bring about changes to tax regimes and land policies and support the development of core infrastructure capacities within rural areas, so as to encourage investors and agricultural companies to operate within the region, with the goal of increasing food production, reducing poverty, creating jobs and supporting economic growth.<sup>123</sup> In the mobilisation phase, the initiative also offered donors and interested companies special vehicles that allowed them to support new and riskier long-term efforts.<sup>124</sup>

Another component of the SAGCOT initiative, apart from attracting investment into the area and building capacity with the TIC, is the SAGCOT Catalytic Trust Fund (CTF).<sup>125</sup> The CTF is a matching grant fund that is ultimately a loan to be repaid by the Tanzanian government to the World Bank once the CTF becomes a legal entity.<sup>126</sup> The CTF is designed to provide innovative forms of financing that will help reduce the costs and risks involved in early-stage agricultural investment, with the intention of attracting private sector investors that would otherwise refrain from participating in the initiative.<sup>127</sup> It will also provide farmers with financing to procure machinery and technology.<sup>128</sup> In addition to the CTF, the SAGCOT initiative will provide 'weather insurance' for smallholders (ie, micro-insurance), which will also enable farmers to invest in new crop varieties, fertilisers and sustainable technologies in order to ensure their produce is drought-resistant and adapted to changing climate conditions.<sup>129</sup>

In terms of its approach, the initiative shows linkages between using investment and including smallholder farmers in larger value chains. According to the SAGCOT blueprint projections, up to 85% of agricultural production within the corridor will come from smallholder producers and farmer associations<sup>130</sup> – a clear indication that they will be a prominent feature of the initiative. By incorporating these farmers into larger processes there is hope that they will benefit through their involvement in supply chains as outgrowers or through contract farming agreements, while also accessing larger chains of interaction that support learning and networking among farmers.<sup>131</sup>

The SAGCOT Centre is tasked with providing information to and coordinating investment and actions by the various actors involved in the initiative. In order to ensure functionality

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123 Tumusiime E & E Matotay, *op. cit.*

124 Jenkins B, *op. cit.*

125 Catalytic funding agreements can be understood as 'donors provid[ing] matching grants based on national and international businesses wishing to invest in PPP zones. The finance aims to reduce operational and capital costs for companies wishing to expand smallholder production'. See Willoughby R, *op. cit.*

126 Interview, World Bank agricultural specialist, 18 May 2016.

127 Jenkins B, *op. cit.*

128 Milder JC *et al.*, *The SAGCOT Greenprint: A Green Growth Investment Framework for the Southern Agricultural Growth Corridor of Tanzania*, Draft Report. Dar es Salaam: SAGCOT (Southern Agricultural Growth Corridor of Tanzania), 2012.

129 *Ibid.*

130 *Ibid.*

131 Tumusiime E & E Matotay, *op. cit.*

it has independent legal status and staff, as well as a Board of Directors to oversee the work and address complaints.<sup>132</sup> The centre is not responsible for funding or the enforcement of environmental regulations; however, part of its mandate involves facilitating a business–government dialogue, reforming policies and adopting best practices, and mobilising players to fill investment opportunities.<sup>133</sup> Its funders include the Tanzanian government (\$1 million), USAID (annual contribution of \$2.5 million for a period of five years) and the World Bank (\$45 million).<sup>134</sup>

Mega-PPPs are not a one-stop solution in linking smallholder farmers to larger markets. The Tanzanian agricultural sector shows that smallholder farmers must first be integrated into local markets through improving domestic trading conditions and ensuring quality and quantity outputs. Only after that can they expand into regional markets, which offer an ideal export-orientated market. Simultaneously, collaboration and interaction among donors, the government and the private sector can work towards harnessing initiatives such as SAGCOT as an inclusive model for smallholder producers. Four years after the creation of the initiative the ACT and TAHA have finally signed memorandums of understanding,<sup>135</sup> a positive development in including important stakeholders that are in a position to ensure that the SAGCOT initiative provides an enabling environment for smallholder farmer participation and economic growth. The Tanzanian government appears to understand the importance of striking the right balance in this regard: for the SAGCOT initiative, land allocations of between 3 000 and 50 000ha have been reserved to lease to investors, with the land surrounding these plantations reserved for smallholder farmers.<sup>136</sup> As a result, smallholder farmers are expected to benefit from better access to larger markets, inputs, extension services and irrigation. This will help them to increase their outputs and improve their farming methods, with the hope of ultimately increasing their profits, improving their living standards, and generating movement beyond their current income brackets. The initiative also aims to manage environmental risks through a ‘Green Growth’ strategy, which will address agricultural, social and environmental sustainability objectives.<sup>137</sup> Mega-PPPs must therefore complement investment plans to support more marginalised and food-insecure areas (especially those that lie beyond the investment goals of the private sector), mitigate environmental damage, and ensure greater transparency and communication on the contract terms being discussed between agricultural companies and farmers.<sup>138</sup>

Although ambitious with a strong socio-economic angle, PPPs must be viewed in light of the Tanzanian agricultural sector’s current constraints, including land tenure and land usage. For example, although there are no asset or minimum acreage requirements for participation in the FTFP’s TAPP and NAFKA programmes, field observations suggest

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132 Jenkins B, *op. cit.*

133 *Ibid.*

134 *Ibid.*

135 Willoughby R, *op. cit.*

136 *Ibid.*

137 *Ibid.*

138 *Ibid.*



that for specific crops (such as rice and horticulture) involvement in these donor-funded programmes is conditioned by access to both financial capital and water.<sup>139</sup> When public investments are concentrated in high-potential areas that garner the support and presence of donors and large private companies, it means that smaller, more marginalised populations could have little access to these opportunities, and are at greater risk of increased food insecurity and poverty.<sup>140</sup> Those in areas that attract less investment have fewer economic opportunities (compounded by a growing population) and limited purchasing power to address their food security needs.<sup>141</sup> Although the FTFP has been effective at improving rice production in Tanzania it has also been criticised for its lack of focus on commercialising smallholder farmers and creating an enabling environment linking them to larger, more profitable markets.<sup>142</sup> There are also concerns among CSOs that the success of mega-PPPs will depend upon the use of hybrid seeds, pesticides and chemical fertilisers, which threaten the sustainability of local ecological systems.<sup>143</sup> This might be a general characteristic of companies working within mega-PPPs, simply because 'commercially viable' or organised farmer co-operatives are better able to meet the stringent quality and quantity requirements, and would also have access to larger plots of land.<sup>144</sup> A 2012 assessment of land usage in Tanzania has also cautioned against the possible contradiction between poverty reduction and the SAGCOT and Kilimo Kwanza initiatives, which look to up-skill smallholder farmers despite insecurity over access to land, use of natural resources and their inclusion in these growth strategies and agricultural projects.<sup>145</sup>

Investments via mega-PPPs are thus a double-edged sword. They have the potential to ensure greater capital by way of large-scale investments that create jobs, reduce poverty and stimulate economic growth. Most importantly, they can provide farmers with access to the necessary training, technology and inputs that will help improve the quality and quantity of their produce and ultimately help them gain access to larger domestic, regional and international markets. SAGCOT could help farmers move beyond being simple rent seekers to becoming active participants in the value chain, particularly as access to better information and technology could help them with conducting their own quality control and coordinating within the various agricultural value chains under the SAGCOT initiative. However, it is important that efforts aimed at value chain integration are not limited to commercial or co-operative farmers alone. Similarly, smallholder farmers should not be included in a way that exacerbates their food insecurity or lowers their purchasing power, eg, through the use of complicated contracts and non-transparent business arrangements.<sup>146</sup> In order for SAGCOT to be truly inclusive, control over accessing value chain benefits should not be limited to donors and private sector financiers/investors

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139 *Ibid.*

140 *Ibid.*

141 Tumusiime E & E Matotay, *op. cit.*

142 Flowers K & O Shuma, *op. cit.*

143 Tumusiime E & E Matotay, *op. cit.*

144 Willoughby R, *op. cit.*

145 Makwarimba M & P Ngowi, *op. cit.*

146 *Ibid.*

Comprehensive governance is essential in ensuring that smallholders are properly included in mega-PPPs

alone, and it should use clearly understood terms and conditions that benefit smallholder farmers. Comprehensive governance is essential in ensuring that smallholders are properly included in mega-PPPs. This is a role the Tanzanian government should play, and would help militate against the risk that MNCs have sole control over access to value chain benefits.

### THE RETAIL SECTOR IN TANZANIA: SUPPORT OR HINDRANCE?

Supermarkets are a relatively recent phenomenon in Tanzanian society. Shoprite and Pick n Pay (from South Africa) and Nakumatt (from Kenya) are the most prominent examples of successful supermarket ventures in the Southern African region. They involve domestic farmers through various fresh produce supply chains. The expansion of the supermarket sector offers an outlet for economic growth within developing countries and can catalyse change in the manner in which food systems operate, since they link farmers to wholesalers and retail chains, and facilitate consumer access to greater food varieties.<sup>147</sup> Supermarkets bridge the supply gap to both domestic and foreign markets, contribute to lower food prices and make food accessible for both rural and urban communities.<sup>148</sup> However, capitalising on these benefits has proven challenging in Tanzania, as every link in the food procurement value chain requires further development.<sup>149</sup>

Economies of scale requirements dictate the need for consistent quality and quantity of produce, something that smallholder farmers struggle to deliver due to infrastructural constraints and the informal context within which they operate.<sup>150</sup> Supermarkets have more stringent quality requirements than traditional markets, such as functioning procurement systems, reliable and constant supply of produce, and fresh fruit and vegetables that satisfy international food and health safety requirements.<sup>151</sup> As Weatherspoon and Reardon note, the rapidly developing supermarket sector on the continent will increasingly influence the structure of and conditions for agri-food businesses in Africa, and 'will determine the conditions and potential for small farms and firms to sell their products to the urban market'.<sup>152</sup> There are two key challenges for smallholder producers, particularly in Tanzania, where supermarket value chains are less well developed than in Kenya or South Africa:

- farmers' ability to meet supermarkets' economies of scale and therefore increase their production levels or sufficiently tighten coordination among themselves in order to meet high-volume demands; and

147 Wagner J *et al.*, 'Supermarket food procurement practices in Dar es Salaam: Risks and benefits for rural smallholder farmers', *Undercurrent Journal*, XII, 1, 2016.

148 *Ibid.*

149 *Ibid.*

150 Wagner J *et al.*, *op. cit.*

151 Nishiura A, *The Food Industry and Supermarkets in Eastern Africa: A Preliminary Report on Research in Tanzania and Ethiopia*. Chiba: Institute of Developing Economies, 2010.

152 Weatherspoon DD & T Reardon, 'The rise of supermarkets in Africa: Implications for agrifood systems and the rural poor', *Development Policy Review*, 21, 3, 2003, pp. 333–355.

- farmers' ability to satisfy exacting international standards, food safety/sanitary and phytosanitary concerns, and product requirements.<sup>153</sup> Research recognises that simply increasing output is insufficient in alleviating farmers' poverty and improving their income levels; instead, products also need to cater for the demands of the market and satisfy market requirements.<sup>154</sup>

Even then, shopping at the supermarket appears to be an activity reserved for the rich and upper middle class, as many Tanzanians continue to shop at their traditional markets and/or cultivate their own crops. In a study conducted by Jeremy Wagner *et al.*,<sup>155</sup> interviews revealed that four out of eight supermarkets identified expatriates as their main customers, as supermarkets remain clustered in high-income neighbourhoods. However, as supermarkets seek to expand their consumer market beyond the upper and middle-income classes, supplying food to poorer members of society (particularly the urban poor) will become increasingly important. It is here that smallholders could step in by offering their produce at more affordable rates to people in lower income brackets, provided they are able to ensure a regular supply of produce that satisfy retail standards and requirements. Consequently, the question of costs will become paramount in years to come, thereby further obliging suppliers to be highly competitive and cost-efficient, and meet quality and safety standards.<sup>156</sup>

Currently, one of Tanzania's largest supermarket retailers is Nakumatt, which purchased Shoprite's Tanzanian chain in 2014. Shoprite was one of the pioneers of the supermarket concept in Tanzania, having opened its first store in 2001.<sup>157</sup> It stocked approximately 600 kinds of fruits and vegetables, with local procurement of fruit at 25% and vegetables at 60%. The home fruit procurement ratio was quite low because certain types of fruits (such as apples) cannot be cultivated in Tanzania.<sup>158</sup> In addition, Shoprite reportedly only dealt with 55 farms directly and obtained the remainder of its fruit and vegetables through agents.<sup>159</sup> Reports of Tanzanian farmers' frustration at their inability to access supermarket retailers were widespread. Both farmers and the Tanzanian government expressed their dissatisfaction with Shoprite's tendency to procure up to 80% of its total fresh produce from South Africa,<sup>160</sup> despite the fact that a large proportion of these are easily cultivated in Tanzania.<sup>161</sup> As a result there is a perception among some farmers that the retail sector is not interested in sourcing produce from smallholder producers,<sup>162</sup> with the exception of very successful and larger producers such as Tanga Fresh or Mount Meru.

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153 *Ibid.*

154 Humphrey J, 'The supermarket revolution in developing countries: Tidal wave or tough competitive struggle?', *Journal of Economic Geography*, 7, 2007, pp. 433–450.

155 Wagner J *et al.*, *op. cit.*

156 Weatherspoon DD & T Reardon, *op. cit.*

157 Nishiura A, *op. cit.*

158 *Ibid.*

159 *Ibid.*

160 Wagner J *et al.*, *op. cit.*

161 Interview, ACT, 18 May 2016.

162 Interview, TCCIA, 17 May 2016.

Although it is easy to dismiss retailers as unsupportive of smallholder farmers and their produce, these competing interests require further analysis. It is also important to remember that it would be cheaper for retailers to source locally instead of importing their goods, and Shoprite did make some efforts in this regard, as it was involved in the BLP discussed above. However, it appears from interviews that Nakumatt has not showed the same interest in engaging with SMEs or sourcing its products from local producers. Shoprite had made an effort to encourage local production involvement in its retail chain, which also had the trickledown effect of having Tanzanian goods stocked in neighbouring countries' retail stores.<sup>163</sup> After Nakumatt's takeover, however, there was no more interest in supplying regional supermarkets such as those in Uganda.<sup>164</sup> This might have something to do with Shoprite's playing a key role in linking smallholder producers with larger-scale, regional markets through its regional branches and its involvement in the BLP, which Nakumatt has not been involved in. As a result, some smallholder farmers might not have had the incentive to engage in cross-border regional trade, in the absence of the reliable transportation services and storage and cold-room facilities that a large supermarket could offer. Consequently, Dar es Salaam supermarkets have struggled to find consistent sources of quality and quantity products within the domestic market.<sup>165</sup> Retailers' inability to successfully incorporate smallholder farmers is thus not necessarily simply their own failure to engage, but rather hinges on a myriad of these complex challenges.

One of the criticisms levelled against the supermarket sector is its unwillingness to learn how the local sector works; to draw upon the knowledge of local actors and incorporate them into produce supply chains.<sup>166</sup> In order to make supermarkets more attractive to local consumers there is a need to cater to their dietary requirements, and stocking produce of this kind offers chain retailers the potential to assure long-term sustainable sourcing from smallholder producers, thereby contributing towards their economic development and incorporation into larger national and regional markets. Nonetheless, it is important to remember that supply and value chain intervention must be balanced: the large-scale incorporation of smallholder farmers into co-operatives and commercial arrangements should not undermine their development and cement unequal bargaining power and relationships between the two parties.

Given that Tanzania's supermarket structures are less developed than those of some of its peers, important lessons can be learnt from other African countries' experiences thus far, particularly in terms of encouraging outgrower schemes for small farmer export horticulture and ensuring sufficiently diverse foreign markets so as to avoid an over-dependency on singular foreign supermarket chains and retailers.<sup>167</sup> The Horticulture Strategy explicitly encourages contract farming between purchasers and farmers/farming co-operatives, particularly because private sector participation can be promoted in this manner, enabling farmers to improve their farming knowledge, upskill, and procure high-

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163 Interview, TIC, 17 May 2016.

164 *Ibid.*

165 *Ibid.*

166 Interview, independent researcher, 7 July 2016.

167 Humphrey J, *op. cit.*

quality seed and fertiliser.<sup>168</sup> Under contract farming requirements farmers have to comply with the Tanzanian Bureau of Standards' certification, and have adequate cold rooms, quality packaging materials and Global Gap certification.<sup>169</sup> Contract farming offers farmers credit, access to inputs and machinery and insurance against market failures, and can offer producers a stable income and reliable market access.<sup>170</sup> Contract farming is also regarded as a tool to organise commercial agricultural production and incorporate smallholder farmers into these methods of production.<sup>171</sup> However, the arrangement also needs to be properly managed in order to ensure that trust and transparency in business relations are not lost between parties, that prices are fair and that the produce is of the required standard.

Thus, sourcing fresh produce from smallholder farmers need not be disadvantageous: retailer commitment to smallholder farmers can help facilitate government relationships, especially where such engagement takes the form of farmer development programmes.<sup>172</sup> Including smallholder farmers in the retail sector can offer various benefits, such as the pull factor for farmers to have access to a stable market for good profits, and the push incentive to improve their produce and become competitive within their own regions and on the continent at large.<sup>173</sup> Local agents, traders and smallholder farmers have a wide network of contacts, and understand Tanzanian working conditions. Involving local agents and traders in larger value and supply chains is an essential part of further sourcing produce from smallholder producers, especially since local traders and agents have the strongest relationships with local producers and are best positioned to inform them of supermarket quality and quantity requirements and facilitate their interaction. It would also encourage knowledge sharing between all parties involved. Therefore, engaging with smallholder producers and forming lasting relationships, while also incorporating existing local markets and value chains, will assist retailers in further engaging with producers. It will also offer a chance for long-term engagement and farmers' moving beyond their role as mere suppliers of produce to engage in diverse supply chains, improve their farming methods and, ultimately, contribute towards their own socio-economic growth.

## CONCLUSION

Tanzania is uniquely positioned owing to the majority of its farmers' being smallholders, and the country must find strategies that enable their inclusion in agricultural value chains. Policies and investment measures that better involve smallholder farmers, increase their involvement and participation through technical capacity building and knowledge

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168 HODECT (Horticultural Development Council of Tanzania), *National Horticulture Development Strategy of 2012–2021*. Dar es Salaam: HODECT, 2010.

169 Mashindano O *et al.*, *op. cit.*

170 IFAD (International Fund for Agricultural Development), *Contract Farming and Smallholder Participation: Lessons Learned*. Rome: IFAD, 2015.

171 HODECT, *op. cit.*

172 Humphrey J, *op. cit.*

173 Weatherspoon DD & T Reardon, *op. cit.*

enhancement, and facilitate their active participation in understanding the demands and constraints of the marketplace can contribute towards their growing participation.

There is a real need to translate policies into action at a grassroots level, to use investment and PPPs to grow the sector and incorporate smallholder and rural farmers into enlarging value chains in order to ensure their own socio-economic growth. Thus far farmers have not been able to successfully move up the value chain and, in many instances, their ability to become rent seekers is stultified by infrastructural challenges over which they have little control. Consequently, smallholder farmers require access to better training, affordable agricultural inputs, and consultation processes from the government that make a real effort to understand their concerns and needs. An analysis of existing legislation and the various policies in place shows that the Tanzanian government fully understands the structural challenges facing smallholder producers, as well as some of the measures that need to be implemented in order to address and resolve these challenges. However, it needs to dedicate concerted efforts towards streamlining existing legislation, avoiding duplication and unnecessary red tape, and ensuring that policies are both investor and development friendly.

Evidence shows that PPPs can be harnessed for incorporating smallholder farmers into value chains and facilitating their socio-economic development and larger role within the system. SAGCOT is a new initiative, and it remains to be seen how successful it will be. So far, however, the Tanzanian government appears aware of the need to strike a balance between investments that benefit the private sector and those that enhance the development of local communities. It is essential that this is followed through on during implementation. The government and the private sector both have a role to play in enhancing systemic approaches towards efficiencies. Providing affordable inputs and access to financing, and reforming the tax regime to be less onerous on smallholder farmers are all policy changes that must be explored further in the coming years.

There is an urgent need to move beyond policy to practice, and for the Tanzanian government to harness the current interest in its growth and development to the advantage of its citizens. In the absence of improved quality and quantity, continued access to quality feed and inputs, better farming methods and market knowledge, smallholder farmers in Tanzania struggle to move beyond being simply rent seekers within the agricultural industry.

The initiatives detailed in this paper show that some progress is being made in using investment as a tool to include smallholder farmers into larger value chains and PPP initiatives. Although these projects are not without their flaws, they are an important step forward, and their developmental concerns appear to be incorporated into the Tanzanian government's national strategies for economic growth. In order for farmers to truly become agents of their own inclusion they need to become involved in agribusiness initiatives and have access to regular and continued training, skills development and knowledge building. The first step would be to develop local agro-processing industries to meet domestic and regional needs, and then work on accessing larger markets through upskilling and improved productivity and efficiency.

## RECOMMENDATIONS

- 1 Existing agricultural input measures such as quality seed and fertiliser must be further developed, and farmers need to be familiarised with these to ensure regular and cheaper access to agricultural inputs that will help to address farmers' quality restrictions in the long term.
- 2 An overhaul of the current tax and VAT regime is needed urgently. This includes removing red tape and unnecessary administrative burdens, and providing comprehensive financial services for smallholder farmers, including through micro-financing and mobile banks and/or money transfers, in remote areas.
- 3 A greater degree of interaction between the private sector and state is required in order to 'harness the institutional knowledge and experience of the formal financial sector'<sup>174</sup> and distribute this information to smallholder producers so that they understand how financing works, and what products would suit their needs best. The TADB's services and capacities will need to be improved if it is to offer comprehensive services to all farmers, regardless of their size and collateral. For example, the TADB could offer longer repayment periods and recognise alternative forms of collateral.<sup>175</sup> Another possible idea is to implement something similar to Malawi's FDH Bank's specialised agricultural division, which provides financing to agribusinesses in the form of four types of agricultural loans: seasonal loans for working capital; harvest loans; asset loans; and bridge financing.<sup>176</sup>
- 4 Implementing better farming methods through research and innovation and disseminating this knowledge among smallholder producers should be undertaken regularly through workshops based in rural areas or at locations most convenient to farmers. The Tanzanian government should ensure that farmer organisations become involved in project preparation and implementation via investment, as opposed to simply being included only through advocacy organisations or donor-led initiatives.
- 5 Cross-sectoral relations must be improved: communication between researchers, policymakers and the government is essential for understanding farmers' needs. The government needs to adopt a consultative approach, particularly because mega-PPPs have been met with an outcry from civil society actors over asymmetrical relations and power dynamics between multinational agribusinesses and smaller producers.
- 6 The Tanzanian government should gradually reduce its reliance on donor support for the viability of agricultural projects. Donors cannot be the drivers of projects and investment in Tanzania, and the government should provide clear guidance in this regard. This could be done through improved linkages between policy design/decision-making and policy implementation, and regularising the current ad-hoc nature of government policymaking.<sup>177</sup>

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174 SAIIA, *op. cit.*

175 *Ibid.*

176 *Ibid.*

177 New Alliance, *op. cit.*

- 7 Even at the farm-gate level, farmers struggle to be competitive owing to the lower prices of similar products from rival countries, and labour costs in Tanzania are relatively high when compared to those in Asian countries.<sup>178</sup> The government must work on helping farmers to enhance their productivity and decrease labour costs. This could be done through greater volumes of production and working in a co-operative, where hiring labour for harvesting would become cheaper.
- 8 Non-protectionist policies could be implemented that harness the producing potential of smallholder farmers through their inclusion in domestic value chains. This would help facilitate their entry into regional markets. Once they have linkages to regional markets, smallholder farmers will be better placed to understand the importance of producing high-quality produce for export, as that will derive higher profits. Developing infrastructure and addressing quality and quantity restrictions are essential for this end-goal.
- 9 Together with the TIC, farmer associations and the Ministry of Agriculture need to create and implement comprehensive monitoring and evaluation processes that include consultations with farmers, in order to ensure that lessons learnt inform local communities and encourage them to develop. These should also ensure that there is up-skilling and skills transfer, and that farmers move up in the value chain. Ultimately, investment in Tanzania's agricultural sector must be used for the benefit, inclusion and upliftment of smallholder farmers.
- 10 It is necessary to improve the quality of legislation and policy coherence across the tax regime, land administration and investment regulations. For example, the PPP Act of 2014 contradicts certain provisions of the Public Procurement Act of 2013. This has affected the private sector's ability to design and implement PPPs.<sup>179</sup>
- 11 More attention must be directed at incorporating traders and rural agents into existing value chains, particularly where these actors are positioned to facilitate smallholder farmers' entry into and participation in larger markets. A 2014 evaluation report found that some of the best outreach and upgrading results were reported in scenarios that involved rural agents, who are able to provide scaled inputs to match smallholders' cultivation areas, and are also a better match for their limited cash flows.<sup>180</sup>
- 12 In order to better incorporate smallholder farmers into supermarket chains, supermarkets should adapt to local taste and cater for local consumer preferences.<sup>181</sup> Adapting their supplies to the demands of the local market can help to better incorporate smallholder farmers as regular suppliers of produce, particularly in urban areas. The inclusion of these farmers is equally dependent on the cost-effectiveness of outgrower schemes, the regular supply of produce at guaranteed quality levels, and expediency.<sup>182</sup>

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178 Interview, World Bank agricultural specialist, 18 May 2016.

179 New Alliance & Grow Africa, *op. cit.*

180 Dunn E, *op. cit.*

181 Humphrey J, *op. cit.*

182 *Ibid.*



- 13 Opportunities to expand regionally and within the African continent must be explored. Expansion policies must be balanced against producers' capabilities to satisfy stringent requirements, and ensure that farmers do not become overly reliant on singular markets for their produce – diversification is key to help mitigate market fluctuations.
- 14 There is scope for the Tanzanian government to systemise incentives to promote more inclusive business models among large investors.<sup>183</sup> Partnerships must be equitable and strike a balance between investors' needs and goals and the development aims for smallholder farmers. PPPs such as the SAGCOT initiative show great potential at leveraging the strengths of private sector involvement for smallholder farmer development, and this must be followed through as the project is implemented. Investment measures must not foster over-reliance on donors and technical aid from the private sector. PPPs must be designed to ensure that farmers receive the necessary knowledge and skills transfer, so a project's completion does not disadvantage smallholder producers.

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183 Arias P *et al.*, *op. cit.*

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