

Agricultural Sector Programme Support

HIMA Marketing Study

TANZANIA

Final Report

R/1/cons/00/1

This Report Contains Restricted
Information and is for Official Use Only
J.nr. 104.Tanz.203-5

January 2000





ANNEXES/LIST OF TABLES	ii
LIST OF ABBREVIATIONS	iii
EXECUTIVE SUMMARY	iv
1. INTRODUCTION	1
2. BACKGROUND	1
3. THE AGRICULTURE AND LIVESTOCK SECTOR	2
3.1. INTRODUCTION	2
3.2. TRANSFORMATION OF THE ECONOMY FROM 1980 TO DATE	2
3.3. PERFORMANCE OF THE AGRICULTURAL SECTOR (1970 - 1998)	3
3.4. OBJECTIVES OF THE AGRICULTURAL POLICY	4
3.4.1 Specific Policy Statements regarding Agricultural Information and Marketing Sub-sector	5
3.4.2. Levies on Agriculture Produce and Products	5
3.4.3. Trade Liberalisation in the Agricultural Sector	5
4. THE MARKETING ANALYSIS	6
4.1. SUPPLY AND DEMAND ANALYSIS	7
4.1.1. Market Size	7
4.1.2. Demand Analysis	7
4.1.3. Supply Analysis	17
4.1.4. Marketing Mix of Agricultural Produce and Livestock	26
4.1.5. Price Analysis	26
4.2. MARKETING SYSTEM ANALYSIS	29
4.2.1. Subsistence Crops and Produce	29
4.2.2. Surplus Food Crops and Produce	30
4.2.3. Cash Crops	33
4.2.4. Livestock and Livestock Products	39
4.3. MARKETING CHANNEL CONSTRAINTS	41
4.3.1. The Policy Framework	41
4.3.2. The Marketing Channel	43
4.4. SWOT ANALYSIS FOR AGRICULTURAL MARKETING	47
5. ACTION PROGRAMME	48
5.1 HIMA MARKETING TASK FORCE	48
5.2 THE REGIONAL AND DISTRICT ADMINISTRATIONS	52
5.3 THE PRIVATE SECTOR	53

The HIMA programme has been operating in Iringa for several years and today includes projects in all five districts in the region with Mufindi and Ludewa districts being included into the programme in 1998. The projects are working towards a common objective, which has been summarised by HIMA as: "Farmers in priority villages are able to practice a diversified and sustainable agriculture and agroforestry including conservation and sustainable use of natural resources".

The HIMA programme has mainly focussed on natural resources conservation and land use management. However, since 1996 more attention has been given to issues relating to agricultural development including soil and water conservation, improved soil fertility by using several methodologies of organic farming, introduction of new crop varieties and training farmers in improved husbandry. Most of the areas being supported by HIMA in these fields are showing improved agricultural production results.

As Tanzania has been moving from a centrally planned economy to a liberalised, free market economy, the dynamics of the marketing of agricultural produce and livestock products have changed drastically. Previously farmers were assured of established price mechanisms and secured markets through various crop marketing boards and co-operative societies. However, it was a marketing system with many deficiencies and mal-practices, resulting in low prices being paid to the farmers and in some case with delays up to several years and in extreme cases no payment at all for produce delivered. Today, mainly private traders and transporters, who are operating in a competitive environment regulated by the government, dominate the marketing system. The small-scale farmers have to market the surplus food crops, cash crops, and livestock products under the new dynamics of the market forces dealing with private traders and suppliers.

Under the new framework, production must mainly be demand driven, as the state no longer is offering secure markets. Today, access to useable information and knowledge as well as access to marketing channels are key success factors in agricultural production and marketing. This is putting considerable demands only not on the farmers, but also on the government in the form of providing training, extension services, road and communication infrastructure as well as an efficient and effective regulatory framework for the sector. Furthermore, the paradigm shift from a centrally planned economy to a liberalised, free market economy requires new initiatives and approaches of the private sector.

In 1997, the contribution of the agriculture sector to Tanzania's Gross Domestic Product (GDP) by export earnings and employment stood at 60% and 84% respectively. Major components of this sector include food crops, livestock, and traditional export crops whose contributions are approximately: 55%, 30%, and 8% respectively of the total agricultural GDP. The contribution of this sector to the economy has been significant for many years and it is likely that in the medium and long-term horizon the sector will continue to play a central role in Tanzania's economy.

Analysing the demand for agricultural produce and livestock products, it has been increasing steadily mainly due to the population growth factor. Measured in volumes consumed, the major staple food crops are maize, cassava, and millet/sorghum, all of which serve as substitutes in case of scarcity. In 1997/98 Tanzania was self-sufficient and even over supplied (by 8%) with food crops. However, due to weather vagaries recently the national

- Levies collected on agricultural produce and livestock are considered to be mainly an indirect tax on the small-scale farmers as the price setting principles applied normally are cost-based
- The high interest rates for investment loans, around 20% as compared to an annual inflation of around 8%, are considered an obstacle for the private sector to invest in agriculture marketing and processing
- No secured market is in place for the farmers after the collapse of major parts of the co-operative movement. The abolishment of the secure market and the introduction of a free market have left a vacuum for the small-scale farmers as the private sector is still not fully playing its anticipated role
- Farmers have limited understanding of marketing mechanisms, resulting in low prices being obtained from traders, opportunity costs, losses and generally creating numerous frustrations. For farmers to be able to fully exploit the benefits of a free market environment they will have to understand the mechanisms at play. They will have to understand the concept of competition and how supply and demand in the market is affecting the trading prices
- Farmers have low bargaining power as they are poorly organised, have limited access to market information and knowledge about applying such information in decision making, and limited access to savings and credit facilities
- Lack of farmers' organisations is resulting in low bargaining power and constraints in the availability and affordability of farm inputs. When farmers are not organised into groups or associations it becomes difficult to negotiate with traders who are taking advantage of negotiations with individual farmers, and it is difficult to buy farm inputs in bulk and to organise joint transportation
- Farmers have limited access to savings and credit facilities making it difficult to establish a routine of making provision for having sufficient funds to take advantage of speculating in storing the crops and selling after the harvest season, when low supply is resulting in higher prices
- Insufficient private sector involvement in the trading and distribution of agricultural produce and livestock products and in farm inputs is resulting in low competition to the disadvantage of the small-scale farmers in particular. It furthermore results in the marketing channel not operating optimally

An action programme has been developed to address the constraints in the marketing systems with the aim of developing interventions, which can contribute to improving the economy of small-scale farmers.

The interventions have been divided into actions relating to improving the marketing systems available to small-scale farmers and to an improved understanding among farmers of how the marketing mechanisms operate under a liberalised, free market economy and how to gain from the opportunities available. Furthermore, they address the role of HIMA, the regional and districts administrations and of the private sector in improving the marketing systems for the small-scale farmers.

One of the driving forces in the implementation of the action programme will be to take advantages of the framework and resources already existing in the HIMA programme. It is recommended that HIMA establishes a Marketing Task Force (MTF) under the Regional

Programme Management Unit (RPMU) to guide and support the implementation of the action programme in close collaboration with the regional and district administrations as well as with private sector players.

The concept of para-professionals has successfully been applied by HIMA in the areas of improving environmental protection and in improving agricultural production. It is only natural that the concept of para-professionals is expanded to also address the important issue of improving agricultural marketing. Thus, it is recommended that HIMA introduces the concept of marketing para-professionals. The role of the marketing para-professionals will be to train and assist farmers in areas which can improve their financial gains from agricultural and livestock production and marketing. They will be selected, trained and operate like the existing para-professionals, however, focussing on improving the marketing of agricultural produce and products. The MTF will train and capacitate the marketing para-professionals. The training will be based on a training needs analysis for small-scale farmers, which will form the basis for the design and development of standardised training packages for marketing para-professionals.

The role of the MTF should not be restricted to training, but it should, partly through marketing para-professionals, serve as change agent in all aspects relating to improved marketing. This may include the promotion of farmers' groups or associations, to explore possibilities of establishing market places and to utilise the godown facilities in the region for storage and marketing activities. The MTF will furthermore collaborate with the Private Sector Support component under the Danida Agriculture Sector Programme Support in order to promote access to the facilities under the component for small and medium size entrepreneurs, and for farmers intending to form groups or associations. MTF will also conduct an analysis of the transport sector with the aim of developing training packages for marketing para-professionals and entrepreneurs engaged in agricultural marketing. Finally, it is proposed that the MTF develops an export information package with information on export opportunities and practical guidelines on how to approach the export markets.

A key role identified for the district administrations is to address the issue of improving access to the agricultural and livestock production areas. As the districts' resources are limited, two guiding principles should be applied in this connection. Areas with high potential for improved agricultural production should be given higher priority than marginalised areas when designing the maintenance and improvement schedules. Secondly, the road maintenance should give priority to access, connectability and networking of the road infrastructure. It is important that traders and suppliers can get access throughout the year to the hinterland even if the ride may at times not be very comfortable. It is furthermore important that the maintenance approach is considering an integrated strategy focussing on connecting different roads to create a network, which is ultimately linked up to the trunk roads.

The private sector should be encouraged to invest in agro-based industries, processing plants, transportation and trading. Such investments call for an enabling environment for the private sector, including access to land, water, sewerage, power, communications, legal systems, business licenses etc. The district councils together with the local Chamber of Commerce and Industry and financial institutions should play a proactive role in attracting and facilitating new investments.