Strengthening Agriculture Systems for Promoting Industrialization in Tanzania

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Overview of Presentation

- The background and context of agriculture and industrial sector;
- The historical background of agricultural systems in Tanzania;
- The agricultural policy frameworks (*policy shift*) for agriculture transformation;
- Success cases from East Asian Countries to derive "best-practices" lessons on strengthening systems on agriculture;
- Lesson from large-scale investment in Tanzania;
- The challenges facing the agriculture sector and agro-industries; and
- Recommendations as way of strengthening the agricultural systems to back the industrialization in Tanzania.

Brief background and context of agriculture sector in Tanzania

- Agriculture is Tanzania's economy mainstay - 80% of population live in rural areas and about 67% involve in farming activity.
- The sector is contributing USD13.9 billion to the country's GDP (about 30%), and 65 % of raw materials for the country's industries.
- Over a decade now, the government has been making efforts (TV2025, ASDP, Kilimo Kwanza, BRN, TAFSIP, FYDP) to ensure that the sector is transformed to contribute substantially to industrial development in the country.
- However, the strong linkage between agriculture and industrial sector in Tanzania is missing, which impact to the entire value chains of agricultural commodities;
- This lack of complementarity is to some extent attributed to major impediment to a change to agricultural systems that appear to be political-institutional complex created under weak legal framework.
- ANSAF believes that strengthening the agricultural systems which function well, will significantly promote industrialization process in Tanzania.

Background of Agricultural Systems in Tanzania: Reasons of Failure? 1960-1990s

- Tanzania after independence: adopted the socialist mode of economic management characterized by strong regulations on markets.
- Policies frequently used to eliminate private traders from the marketing channels of agricultural commodities involved governmental monopoly organizations called 'marketing/commodity boards' or 'parastatal'.
- According to(Hayami, 2001), these interventions not only fostered inefficiency and corruption, but also were a means of exploiting agriculture for sake promoting industrialization.
- Furthermore, scholar assert that the monopoly purchase of agriculture goods and the sale of farms inputs by government marketing agencies worked as a mechanism to exploit farmers through lower product prices and higher input prices than border prices.
- Sahn and Sarris(1994) pointed out that the exploitation mechanism was augmented by other policies for industrial protection, such as overvalued exchange rates, tariffs on manufactured commodities and export duties on agricultural commodities. This made the smallholder farmers to suffer most.

Policy Shift for Agricultural Transformation in 2000s:

No	Program/Initiative	Policy Focus
1.	Tanzania Development Vision 2025	Improving livelihoods, food security, building a strong and competitive economy by raising agricultural productivity, engaging in commercial undertakings in value chain
2.	National Development Plan (NDP) 2006-2011	Transforming agriculture for food self-sufficiency, developing irrigation in key areas (SAGOT region), promoting value chain
3.	Kilimo Kwanza 2009	Public Private Partnership (PPP) in speeding up agenda for the modernization of agriculture to uplift growth to 10% within timeframe of the vision 2025
4.	Agricultural Sector Development Programme (ASDP) I 2006-2013	Establishing an enabling to attract and encourage private sector investment in Agriculture
5.	Tanzania Agriculture and Food Security Investment Plan (TAFSIP) 2011-2021	Enhancing resources allocation to achieve annual growth of 6% in agriculture sector, reduce rural poverty and improving household food and nutrition security
6.	Agricultural Sector Development Programme (ASDP) II 2015-2020??	Transforming the substance smallholders into sustainable commercial farmers by enhancing and activating sector drivers and supporting smallholders farmers to increase productivity of targeted commodities within sustainable production systems and forge sustainable market linkages for competitive surplus commercialization and value chain development.
7.	Five Year Development Plan 9FYDP) II 2016-2021	Promoting industrialization – agro-processing!!!

Exploiting Agriculture for Industrialization: Lesson from East Asia

Case 1: Taiwan

- success in achieving the world's highest land productivity in agriculture as a basis of health industrial development, the government monopolized the supply of fertilizers and forced farmers to barter rice for fertilizers at much less favourable terms than those in the international market from the early development stage.

Case 2: Thailand

- used the export duty (called 'export premium') on rice as an important source of government revenue. The revenue was accumulated as savings, which in turn were invested in infrastructure as a catalytic.
- Although, these countries exploited agriculture, they continued to make necessary investments in irrigation and agricultural research to increase productivity.
- Also, as compared to Africa, which compensated agriculture exploitation by distributing subsidized credits and inputs, Asia supplied public goods which benefit a large number of farmers indiscriminately (Hayami,2001).

Exploiting Agriculture for Industrialization: Lesson from East Asia…

Case 3: China (2000s) *- Zhong & Kong, 2014*

- Improved agricultural product quality; invested in agriculture research and technology; farmland quality improvement; protection of arable land.
- Emphasis on climate smart agriculture, transition from traditional to modern farming through innovation technology, irrigation and water conservancy systems, rural power and rural roads.
- Abolished all taxes on special agricultural products to reduce the farmers' burden and make the product cheaper for industry purchase;
- Transfer agricultural surplus to industry through the '*price-scissors*'.
- Industry nurturing-city supporting countryside –giving more, taking less and loosening control.
- Improving rural financing technology, and establish rural insurance (disaster compensation)
- Collective ownership of rural lands and other means of production
  - Family contractual operation, land contractual management rights
  - Support various types of cooperation with farmers.
- Developing the mechanism of urban-rural linkages.

Large Investment in Agriculture Production: Upstream and Downstream

- Large scale investment aimed to facilitate the access to inputs, advisory services, mechanization and other services to the small-scale farmers, via contract farming or out-growers' schemes (Sutton, 2012).
  - ❖ The model of contract farming has been operational in sugarcane and tea plantation, but, it has not helped much the small-scale farmers to gain economic of scale, reach the markets and leave poverty (FAO, 2012).
  - ❖ However, the research conducted in 2015 by (ECDPM) pointed out that the approach of SAGCOT with emphasis on large-scale investments, provide opportunities for local farmers to earn large returns from partnerships with foreign investors.
- Also, the approach can create jobs for the poor and also produce positive spill-over effect which in turn benefit near-by small-scale farmers (Notle, 2016).
- In addition, establishing group farming and collective market is vital-strong and collective power and voice for demanding their rights.

Large Investment in Agriculture Production: Upstream and Downstream …

Kinyondo and Mmari (2016) from REPOA argue that intermediary coordination is important for industrialization because it bridges the gaps between macro and micro levels.

- The model enhance vertical and horizontal coordination that organizes and links actors at different segments in the value chain, which reduces the transaction costs.
- The approach consolidates resources (e.g. land) to achieve economies of scale and joint investment under appropriate management structure.
- Horizontal coordination enhance productivity and efficiency through:
  - ❖ Timing and reliability of supply;
  - ❖ Uniform application of farm practices;
  - ❖ Promote investment in collective infrastructure; and
  - ❖ Aggregate production systems.
- Linkages between primary and secondary processors is inevitable -increase supply of inputs (raw materials) and create jobs through value addition chains.

Challenges facing Agriculture Sector Transformation: Policy Formulation and Implementation (1)

- Developing strong systems for agric-transformation depends on involvement of key players (NSAs, Farmer Representatives, Public sector, Traders, etc.) in agricultural policy life cycle (NEPAD, 2014)-JSR:-Tanzania case-
  - ❖ Participation of NSAs is through stakeholder workshops and meetings- this does not mean that they can influence decisions (Beghin, 2015).
  - ❖ The consultation of NSAs/Private sector is very little and often too late in formulation process (Gabagambi, 2013).
  - ❖ There is information gap on what is and was ought to be on budget policy implementation (ANSAF, 2015).
- Agriculture policy framework is not clearly centred in the small-scale farmers:
  - ❖ Evidence:- low level of productivity and high prevalence of poverty exist.
- Policies are sometimes difficult to implement due to :
  - ❖ Infliction by inefficient political decisions;
  - ❖ Lack of adequate and predictable policy instruments (e.g. laws, regulations);
  - ❖ Weak coordination among public agencies and with the NSAs/private sector; and
  - ❖ Mutual accountability (e.g. clear set responsibilities of each player).

➢ These contribute to weaken the agricultural systems

Challenges Facing Agric Sector Transformation: Policy (1)....

- ASDP calls for an equitable participation of men and women in the production of goods and services in agriculture; however
  - ❖ specific measures to advance the equitable participation men and women to access land and other resources are largely missing.
- The policy measures to attract large-scale agriculture investments are sometimes further disempowering women.

Challenges that deter Agric-industries in the Country (2)

Forward and backward linkages

- *Unfair competition*
  - ❖ Porous borders and corruption – smuggling of industrial goods and
    - ❖ counterfeit products - sold at lower prices which distorts market prices.
  - ❖ Unequal play ground - foreign companies and the local ones,
    - FDIs- zero rated capital goods and equipment for mining/gas sector; while local- are required to justify the use of spare parts bought for farm machineries.
    - ?How are Tanzanian agro-products protected ? - law?
      - ➢ Tanzanian industries , which are at development stage need support from government. Especially, at the products where Tanzania has a comparative advantage-(*Japan-Convoy system during industrialization process & EU subsidies to farmers/traders*)
- *Taxes*
- ❖ High level of taxes & mandatory contributions – Compare with EAC Member States.
- ❖ Huge & multiple taxes, long and cumbersome procedures –fertile grounds for corruption.
- ❖ VAT charged on inputs like packaging materials (boxes, plastic bags) and dairy equipment and dairy products (liquid milk)-(ACT, 2016).
- ❖ Weak enforcement of the tax laws example sugar imports *Visa-Viz* local production

Challenges for Agri-industries (2)….

- *Regulatory*
  - ❖ Over-regulating manufacturing sub-sector & multiplicity of regulatory institutions. For example, (TFDA, TBS, fire, OSHA, etc.) - have duplication of functions such as conducting inspections and approving services or products.
    - ➢ Increase transactions
- *Legal framework*
  - ❖ Unpredictable fiscal policy and law difficult to plan for medium & long term.
  - ❖ Short-term fiscal policy review impacts on the enterprises' performance and investments-reduce competitiveness.
  - ❖ Less involvement of stakeholders in reviewing and designing laws and regulations .
- *Other cross-cutting issues*
  - ❖ *Energy:-* Lack of quality, affordable and reliable supply of power costs industry extremely – affects productivity and competitiveness.
  - ❖ *Macroeconomic factors:-* depreciation of the nominal exchange rate adversely affects the cost of imported inputs/machines/equipment; stringent conditions from lending institutions dearly affect the agri-industries growth;
  - ❖ *Quality of labour supply and stereo-type skilled workers:-*

Recommendations-

- Invest in climate smart agriculture (e.g. irrigation and water conservancy construction) for sustainable agriculture development;
- Improve the product quality and increase supply for raw materials to feed for the agro-industries (Cotton, Coffee –idle due lack of inputs);
- Adopt Taiwan *Model* –Barter system (exchange between commodity and inputs) to enable smallholder farmers access inputs at low prices;
- Harmonize taxes and regulations to reduce the burden for farmers/manufacturing industries. Also, abolish all taxes on special agric-products, including livestock – cheaper products for processors;
- Develop soft (e.g. strategic policy) and hard (rural power and rural roads) drivers to attract investment (micro, small, medium and large) agro-processing;
- Review curricula for learning schools (VETA, Colleges/Universities) to equip the youth with agro-processing skills; also, advocate for change of mind set;
- Allocate more fund in R&D to support accredited institutions for quality agricultural inputs development - *high yields*;
- Encourage and mandate foreign and local enterprises partnership for agro-industries development-*spill-over effects*;
- Facilitate soft credit access for the agro-industries, especially agri-industries to enable them invest in the areas of their comparative advantage;

Recommendations …

- Support infant agro-industries at their early stage of development until they become competitive;
- Promote Science, Technology & Innovation (STI) for enhancing industries competitiveness.
- Allocate the resources garnered from agriculture revenue (e.g. Crop cess, export duties) to agriculture infrastructure development and R&D;
- Sensitize the public and political readiness to support agricultural transformation;
- Encourage partnership between NSAs and public sector in planning and implementing the policy;
- Shift from European and American market – look on Africa region market; and
- Develop linkages and support coordination of key players along commodity value chain–i.e. farmers, processors and traders in order to promote synergy and complementarity between actors.