# Tanzania – Why a Potential Food Exporter is Still Importing Food*

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- Tanzania could be a major food-exporting country but currently struggles to meet its own food requirements due to low productivity and the predominance of subsistence farming.
- To achieve the transformation of agriculture, the business environment in general and for agriculture in particular has to be improved.
- Making food crop production profitable is the biggest challenge and requires a significant scale enhancement.

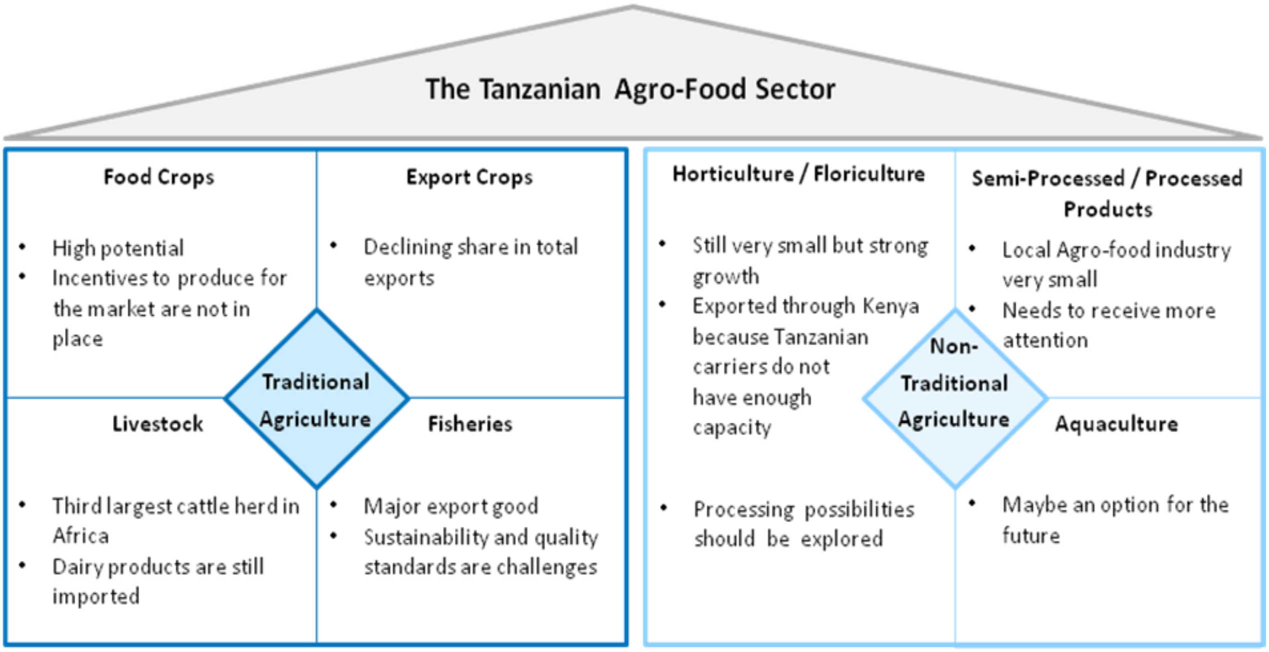
***Tanzania's Agricultural Sector – A Sleeping Giant…***

Agribusiness is still in its infancy in Tanzania and commercial ventures are found mostly in traditional export crops such as coffee, tea, cotton, cashews, tobacco and, on a much smaller scale, cloves and sisal. Due to declining world market prices for agricultural commodities and rising mineral exports, traditional agricultural exports accounted for only 20 per cent of total merchandise exports in 2006, down from over 55 per cent in 1995/96. Tanzania's horticultural sector (vegetables, fruits and cut flowers) is still very small and contributes little more than 1 per cent to total merchandise exports. Recently Tanzania's most important non-traditional agricultural export has become fish and fish products which earned half as much as all traditional agricultural exports in 2006 (USD 138.6 million).

Higher food prices, driven by higher energy costs and rising consumption in developing countries, provide Tanzania with ample opportunities to develop its agro-industry to tap into regional markets. Food exports are a promising option for Tanzania which shares borders with eight African countries (Burundi, Democratic Republic of Congo, Kenya, Malawi, Mozambique, Rwanda, Uganda and Zambia), as the country has abundant natural resources. While arable land is estimated at 44 million hectares, only about 10 million hectares (23 per cent) are currently under cultivation. The planted area has been stable for several years so land expansion could be a major source of agricultural growth. Tanzania also has the third largest cattle herd in Africa, after Ethiopia and Sudan.

But food production remains dominated by smallholders whose productivity is low. The average food crop productivity in Tanzania is 1.7 tonnes per hectare, whereas good management and optimal fertiliser use should result in yields of 3.5-4.0 tonnes per hectare. Only 15 per cent of all farmers use fertilisers. The use of hand tools and the reliance upon traditional rain-fed cropping methods and animal husbandry further hamper productivity.

So at present Tanzania does not appear fit to take advantage of its agribusiness opportunities and is far from being a major food exporter. Agricultural imports have been increasing, with food imports, including wheat, rice and dairy products, taking the largest share (80 per cent) of total merchandise imports. Since the 1999/2000 season, the Food Self Sufficiency Ratio (SSR), which compares the volume of domestic food production against the food requirements of the country's population, has fluctuated between a low of 88 per cent (2003/04) and a high of 112 per cent (2006/07). Furthermore, significant variations in food security between different regions and districts have been experienced.




*Source:* OECD Development Centre 2008.

So what needs to be done to unleash Tanzania's agricultural potential? On the one hand, Tanzania needs to further improve its business environment in general, and for agriculture in particular. On the other hand, the more severe challenge is how to move beyond subsistence farming in food production.

***Tanzania Needs to Tackle Three Classic Constraints: Infrastructure, Finance and Property Rights***

Since the late 1980s Tanzania has been pursuing structural reforms in a more or less consistent manner, which has led to increasing private sector participation and macroeconomic stability. However, in the World Bank's Doing Business Ranking 2008, Tanzania is placed only 130th out of 178 countries surveyed and is still falling behind its East African Community neighbours Uganda (118) and Kenya (72). Three constraints are particularly hindering commercial endeavours in the agricultural sector: insufficient infrastructure, lack of access to finance and insecure property rights.

*1. Insufficient infrastructure*

A large proportion of the agricultural harvest is lost because farmers cannot get their produce to the market and/or are unable to store their products after harvest. According to the Board of External Trade, 40 per cent of the fish catch from Victoria Lake is lost before processing because of insufficient storage. Cold-storage facilities are practically non-existent or subject to unstable electricity supply. Of Tanzania's road network of 85 000 kilometres, only 4 000 kilometres are paved and some parts, primarily in the south, are impassable during the rainy season.

Tanzania also faces considerable challenges with respect to its trade-related infrastructure. The port of Dar es Salaam accounts for approximately 70 per cent of Tanzania's foreign trade but many businesses have moved their shipping operations to Mombasa, Kenya to avoid severe congestion and tedious bureaucratic procedures. Two main agricultural exports, fish from Lake Victoria and cut flowers from the north of the country, currently travel by truck to Nairobi, from where they are shipped to Europe because Tanzania's carriers do not have sufficient capacity.

Under the US-funded Millennium Challenge Compact (MCC), the government of Tanzania is putting a strong emphasis on infrastructure development: of the USD 698 million compact, USD 206 million is to be spent on energy sector projects, USD 66 million on water projects and the largest part, USD 373 million, will be invested in transport infrastructure. However, it remains to be seen if agricultural infrastructure will receive the special attention it deserves.

*2. Lack of access to finance*

Tanzanian agribusinesses are not able to obtain the financial means to buy productivity-enhancing inputs, such as seeds, fertilisers, chemicals and pesticides, or intensification technologies. Agricultural lending is negatively viewed by Tanzania's financial institutions, so few banks are located in rural areas. Only 3 per cent of agricultural households have access to credit. Even medium- and large-scale commercial farmers and agricultural investors face major financing constraints, and they therefore refrain from larger-scale investments in the agricultural sector.

*3. Insecure land rights*

The Tanzanian Investment Centre (TIC) identified difficulty to acquire land as one of the 11 greatest impediments to attracting foreign investment. Land titling is permissible for surveyed land, but to date most rural land has not been surveyed, and so titling is rare. The inability of farmers to use a formal land title as collateral severely limits their access to credit. Tanzania has recently begun experimenting with several types of movable property as collateral, including the use of future crops, livestock and warehouse receipts. However, provisions for movable property are still insufficient to be reliable.

***The Challenge of Moving from Subsistence to Profit***

One of the major problems is that smallholder farmers in Tanzania principally maximise food self-sufficiency instead of their profits, according to Andrew Temu, Professor of Agricultural Economics at Sokoine University. Two major constraints keep Tanzania's farmers in subsistence farming: the lack of incentives to produce for the market and the absence of economies of scale.

*1. Incentives to produce food crops for the market are not in place*

In Tanzania the incentives to produce food crops for the market are simply not in place. According to the Agricultural Sector Review 2006 by the Tanzanian Ministry of Agriculture, Food Security and Co-operatives, existing taxation (e.g. high corporate tax, import duties on agro-processing equipment) discourages the production of food crops in general and for the market in particular. The Tanzanian government should consider promotion schemes for agriculture similar to those existing in tourism and mining (e.g. tax reductions, special loan facilities).

*2. The scale problem*

In Tanzania, the average plot size currently ranges from 0.9 to 3 hectares. So far, agricultural commercialisation has meant the diversification into high-value products, such as horticulture and spices, where economies of scale are attainable while maintaining small-size farm units. However, low-value bulky agricultural commodities, which form the majority of traditional crops, only become profitable when produced at high volume.

Therefore, the intensification of agriculture – by increasing use of fertiliser, seeds and water – will not necessarily be enough to commercialise food crop production and has to be accompanied by scale enhancement. Currently, scale enhancement is mainly pursued by organising smallholder farmers into larger groups, e.g. associations or co-operatives. However, for high value crops (e.g. coffee, cashew) association-building has proved much easier than for food crops (e.g. maize), as they provide a better income base. So facilitating the establishment of larger scale agribusinesses might be a more efficient way of increasing food crop production.

Finally, it should not be forgotten that the current unstable and insufficient supply of agricultural produce is also the major impediment to developing a viable agro-processing industry. Achieving the necessary economies of scale, either through larger units of production or the grouping of smaller units around larger entities, is therefore also required as a first step towards agro-industrialisation.

***Conclusion***

"Agriculture is not rocket science!" said M. Lyimo, Permanent Secretary of the Ministry of Agriculture, Food Security and Co-operatives during a seminar organised by the OECD Development Centre in co-operation with the African Development Bank in Dar es Salaam in July 2008. Nevertheless, the complexity of the agricultural sector should not be underestimated. Particularly, there is a need to focus more efforts on the commercialisation of food crops, even though this may be much more demanding than the promotion of high-value export crops.

*Further reading*:

OECD DEVELOPMENT CENTRE (2008), *Business for Development: Promoting Commercial Agriculture in Africa*, OECD Development Centre, Paris.

USAID (2008), Tanzania's Agenda for Action, February 2008, Dar es Salaam.

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