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Policy Brief

Institutional Innovations and Barriers to Competitiveness: Case Studies of Smallholder Farmers in Tanzania

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Introduction

Tanzania's policy path has been characterized by institutional reforms aimed at increasing efficiency and productivity in key sectors of the economy. This book examines the potential of various forms of institutional innovations in building competitiveness of smallholder agriculture in Tanzania. Evidence used in the book shows that while some policies and interventions after independence contributed to the poor performance in export crop production, structural adjustments and trade liberalisation did not reverse performance as envisaged. The core argument is that a combination of market and non-market institutions is crucial in addressing market failures and other policy and institutional rigidities that impede the competitiveness of smallholder farmers in agricultural production.

Scope and thrust of the study

The research used an interdisciplinary approach through an in-depth inquiry of three case studies involving smallholder production of cash crops namely the sisal, sugar and coffee subsectors. The cases represent a diversity of crop characteristics, historical evolution, institutional setups, and the current organisational practices and outcomes on various elements of competitiveness.

Methodology and framework

The study combined a variety of strategies for enquiry, drawing from a historical analysis from review of literature, archived records and secondary data collected from various sources. Interviews were carried out with officials of various state and non-state institutions and intermediaries, other knowledgeable informants and smallholder sisal growers. The analysis of institutional history and empirical context in the book shows how the structure of production and the character of institutions bring to bear on competitiveness of the export crop subsector and shows that in the three historical periods of policy implementation from a mixed economy (1961-1967) through the period of Ujamaa socialism (1967-1985) to structural adjustment and adoption of market oriented policies from 1985 to date, reforms undertaken to create effective institutions for increased productivity and competitiveness in the agriculture sector have been constrained by several factors outlined below.

Innovations and farmer integration in various sub-sectors

In the coffee subsector while the evolution in the pattern of global production and consumption of coffee has led to the bifurcation of markets, Tanzania failed to position itself within a particular segment of the market mainly due to the evolution of its policies and organisation of production, which deconstructed institutions that were crucial to the production and export of high-quality coffee. In the sisal subsector, the integration of smallholder farmers in sisal production by private companies did not lead to fundamental transformation of smallholder integration because it was based on unequal partnership with the company's full control of all key resources, including land, processing facilities and output marketing. In the absence of countervailing powers mediated in non-market institutional settings, this form of integration could not promote the competitiveness. In the sugar subsector even as the intermediary organisations of cane out growers played significant roles in reducing transaction costs and promoting market linkage and access to credit markets, an increase in productivity required for competitiveness was limited by the character of its production and limited collective actions through horizontal coordination. The findings from the three case studies suggest that improving export crop competitiveness, smallholder producers require strategies to promote coordination at the meso level, directed at eliminating binding constraints specific to the relevant subsectors.

Thin financial markets and limited access to credit

Thin financial markets and limited provision of credit in rural areas affected productivity because without access to financial services, adoption of new technologies and efficiency in the allocation of resources became difficult for poor smallholder farmers.

Ujamaa socialism and its impact

The state centred economic policy and mechanisms for implementing socialism between 1967 and 1985, led to stagnation in economic growth and macroeconomic instabilities leading to an economic crisis characterised by acute shortages of essential goods, inefficient public corporations, low productivity in agriculture and industry, fiscal deficits and balance of payment deficits. The monopoly of input supply and marketing of agricultural produce led to decline in farmer incomes and productivity.

Structural adjustment

Structural adjustment policies were designed to substitute state interventions in economic activities with market mechanisms. Although they led to real changes in exchange rates, the liberalization of crop marketing and increased room for access to finance by farmers through various public and private institutions, these same adjustments created new problems such as reduction in real wages and real expenditures on social services, removal of subsidies on agricultural inputs and increased uncertainty among the poor and peasants and as a result the intended export driven production and the enhanced performance in agricultural exports fell short of expectations.

Reorganization of marketing boards and Institutional instability

Reforms also included changing the institutional structures of marketing boards which were given powers to control commodity prices, areas where the private sector could operate and volumes of crops private traders could purchase from farmers. They increased taxes on produce and this was compounded by cooperative unions which in some areas treated private traders as enemies and barred them from operating without going through them. Table 1, shows that in spite of the intensive reforms the contribution of the agriculture sector to the GDP in 2015 was almost half of its share in 1961

Table 1: Shares of GDP by sector at current prices, 1961, 2009, and 2015

Sector	1961	2009	2015
Agriculture, hunting, forestry & fishing	58.9	24.6	29.0
Mining and quarrying	2.8	3.3	4.9
Manufacturing and handicrafts	2.8	8.6	5.1
Electricity & water supply	0.6	2.1	1.3
Construction	3.0	7.9	14.0
Wholesale and retail trade, restaurants and hotels	11.4	14.1	11.7
Transport, storage & communication	4.4	7.1	6.3
Finance, insurance, real estate & business services	4.3	10.7	7.8
Public administration and other services	10.6	11.7	13.2

Source: Bank of Tanzania (1983) table 2 and United Republic of Tanzania. (2010) table 2. Author regrouped the 2009 & 2015 sectors into the 1961 classification

Persistence of the subsistence sector

The reforms also failed to transform the agriculture sector. As Table 2 shows, a large proportion of agricultural output was for domestic consumption, and 14% for exports. Smallholder farmers produce 92% of the total agricultural output. Nearly half of all agricultural exports were produced by the smallholder farmers, and slightly more than half by plantations.

Table 2: Social structure of crop production, 1992

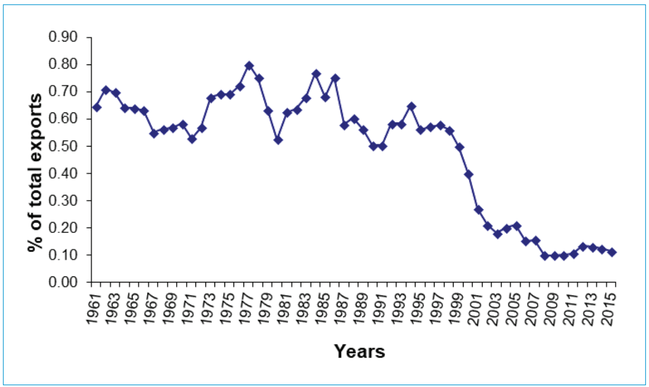
Form of production	Domestic consumption		Exports	Total
	Non-marketed	Marketed		
Small-holder peasantry	51.00%	34.10%	6.40%	92%
Plantation/ large farms		0.90%	7.50%	8.40%
Total	51.00%	35.00%	14.00%	100%

Source: O'Laughlin (2004: 4)

Decline in the share of cash crops in total exports

With the institutional reforms the share of agriculture in total exports was expected to grow but instead it declined. Similarly the contribution of traditional exports crops to total goods exports took a deep dive between 1961 and 2015 as can be seen in Figure 1.

Figure 1: Share of traditional export crops in total

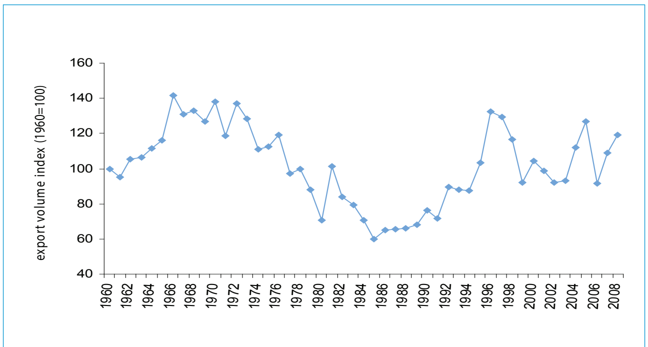


Sources: Bank of Tanzania (1983: 286-87); United Republic of Tanzania., The Economic Surveys (1989, 1995, 2002, 2005, 2008, 2010), BOT 2016.

Trends in the production of major export corps

In the book, the overall general decline in crop production is demonstrated by the trends in production of six major export cash crops, namely cotton, cashew, coffee, sisal, tea and tobacco. The index of export volume for these six major crops in figure 2 shows that agricultural export volumes declined dramatically during the 1970s and throughout the 1980s, increasing slowly but unsteadily during the mid-1990s.

Figure 2: Index of export volume for major export crops, 1960-2008 (-base 2006)

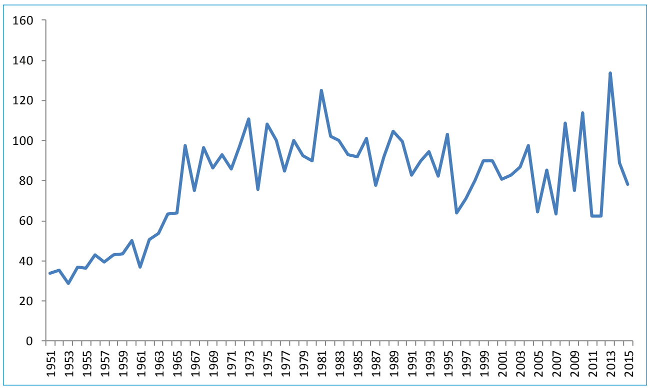


Data Source: *Marc Wuyts 2008; Bank of Tanzania (1983), Review of Political and Economic Performance (1961-1981); Economic Surveys 2007, 2008, and 2009.*

Weakening of intermediary institutions

The decline in the quality and output of crops such as coffee for example, occurred in an environment of weakening intermediary institutions, particularly the cooperative unions and primary cooperative societies. Institutional changes led to the collapse of the system of central primary processing organized by these grassroots organizations leading to decline in both quantity and quality. This happened in the production of all the six traditional export crops. An example of trends in coffee are indicated in Figure 3.

Figure 3: Trends in coffee production, 1951-2015 (in

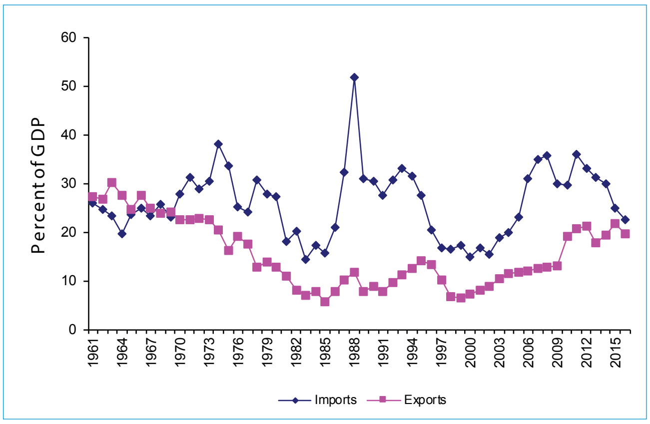


Sources: Tanzania: Selected statistical series 1951-1994, The Economic Surveys 1999, 2000, 2002, 2004, 2006, 2009, 2012, 2016

Exports versus Imports

The trade surplus for most of the 1960s was very high while in the 1970s both exports and imports declined sharply until the mid-1980s. Since the 1970s the share of imports in GDP remained above that of exports, with a widening gap except for a short period in the mid-1990s. However, from the mid-2000, both exports and import grew but the trade gap has narrowed down significantly towards 2016, as imports declined.

Figure 2: Exports and imports as a percentage of GDP, 1961-2016



Data Sources: Bureau of Statistics, Presidents Office-Planning Commission (1991); United Republic of Tanzania, The Economic Surveys (1995, 2002, 2007, 2010)

Conclusions

It is clear from the study that the major cash crops in Tanzania are still produced by smallholder farmers and if production, productivity and the contribution of agriculture to GDP has to become significant, the following need to be taken into account. First, there is a need to balance the market and non-market institutions without leaving smallholders at the mercy of either the market mechanisms or state enterprises and cooperatives.

Secondly, introducing changes that seek to integrate farmers into markets while retaining heavy bureaucratic and high cost institutions defeats the purpose of integrating farmers into the market. Third, institutional innovations involving farmers succeed better if their institutions are retained, nurtured and made launch pads for change. Finally institutional innovations that focus on the processes rather than outcomes of change are not likely to lead to the desired outcomes.

Recommendations

Based on the results of the study, it is recommended to the Government to:

Assess present and past policies and their implementation and identify where they have succeeded or failed and chart out a policy path that will increase policy outcomes and avoid mistakes of the past.

Revive and revitalize farmers' organizations by increasing their autonomy and participation of their members in their decisions on governance, distribution of inputs, contracts, taxes on produce and access to credit.

Review and assess the role of crop marketing boards and cooperatives and design a framework which strengthens their facilitative role and reduces their monopoly over marketing of produces and distribution of farm equipment and other inputs.

*Increase incentives for the private sector t*o increase its participation in large scale agriculture and contract farming enabling the emergence of a balance between small, medium and large scale farming activities.

Enable farmers to access credit more easily without exclusively depending on marketing boards and cooperatives.

Design frameworks that ensure a favourable increase in the contribution of cash crops to the GDP and create a good balance between export earnings and expenditure on imports.

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