



THE UNITED  
REPUBLIC OF TANZANIA

# RURAL GROWTH AND POVERTY REDUCTION IN TANZANIA

Produced by the Research and Analysis Technical Working Group of the MKUKUTA Monitoring System Ministry of Planning, Economy and Empowerment

## BRIEF 3 POVERTY AND HUMAN DEVELOPMENT REPORT 2005

Significant poverty reduction in Tanzania will depend on higher growth rates in the rural economy, particularly in the agricultural sector. This brief is a summary of the development constraints faced by smallholder producers and the broad trends in production of food and cash crops. The Poverty and Human Development Report 2005 (PHDR) suggests that the promotion of integrated production schemes should be considered as a promising strategy for overcoming constraints. These involve coordinated access to improved inputs, extensions services, transportation, processing and marketing. The report also stresses the critical role that producer associations play in promoting and protecting the interests of smallholders in such integrated schemes.

### The Current Status of Smallholder Agriculture

The National Sample Census of Agriculture (2002/03) estimates that there are 4.8 million smallholders cultivating about 44 million hectares in Tanzania. Cultivation is mostly with family-based labour and production is not high yield; it is mainly for subsistence. Smallholder households have mainly young members under 20 years of age (53%). 31% of the heads of the households have no education, while 63% have some level of primary education, though only 20% have completed Standard Four.

In terms of productive outputs, the vast majority of smallholders rely on a single crop as their main source of livelihood. Crop production is the main activity for about 50% of the smallholder households. About 70% of smallholders have one or more off-farm income sources. The majority of crop growing households consume what they produce, yet 70% also sell some portion of their produce. There are very low levels of processing and storage of crops beyond the household level. Market access is a challenge and there are institutional constraints relating to government regulatory boards, trade unions, farmers' associations and cooperatives.

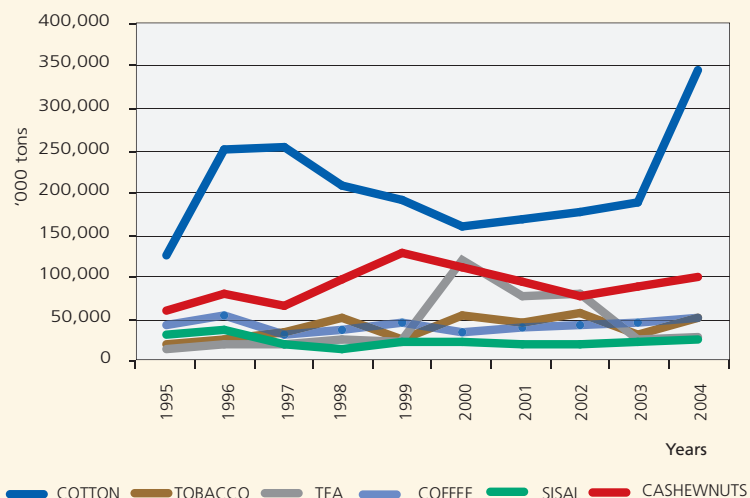
In terms of inputs for production, 63% of households reported using all the land available to them. Overall land availability varies widely across regions. Most smallholder households cultivate using traditional hand hoes – fewer than 40,000 smallholder households own a

tractor, and these are used by about 140,000 smallholder households overall. Irrigation is rarely used by smallholders (8%), with only approximately 125,000 hectares under irrigation.

26% of the smallholders use manure for soil improvement and fewer than 20% use any form of inputs (including compost). Modern inputs such as fertilizers, pesticides and improved seeds are scarcely used. Fertilizer use remains low in most areas of the country; the exceptions are in the Iringa, Mbeya, Ruvuma, and Kilimanjaro Regions, where about 30% of households are reported to be using fertilizers. The first three of these regions are among the big four producers of maize.

Only 3% of households use credit to finance their farming operations. Of those few who borrow, about a third borrow from cooperatives and another third from family, friends or relatives. Most of this borrowing is for fertilizer, agro-chemicals and seeds; very little is for tools, labour or irrigation. Few households manage to generate savings to invest in assets or new production technologies.

Only about 35% of smallholders received extension advice during in 2002-03, but there were wide regional variations. The majority of this advice came from the Government (93%).



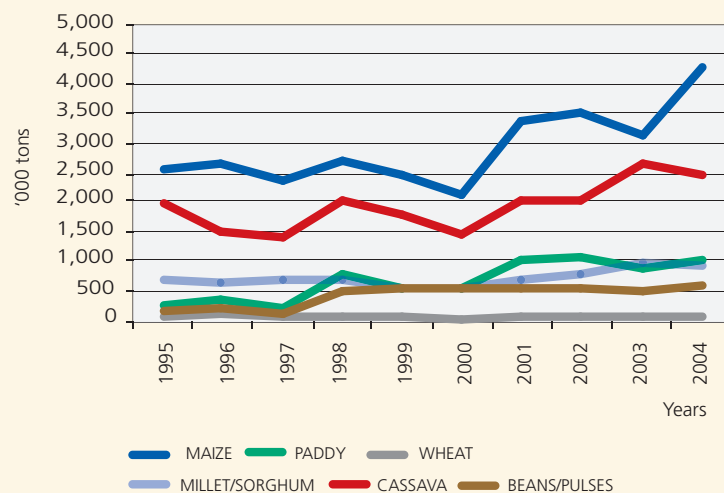
**FIGURE 1: TRENDS IN THE PRODUCTION OF MAJOR CASH CROPS, 1995-2004**

Source: URT, Economic Surveys, various years

### Production Trends

The production of food and cash crops overall has fluctuated around low levels for the last decade, with the production of some crops actually declining. This output comes from both smallholders and large scale farmers. In summary, the production of tea, tobacco, sisal and coffee has fluctuated at around 50 million tons per year; while paddy, beans/pulses, and millet/sorghum have fluctuated at around half a million tons per year. Maize and cassava has been on an upward trend since 2002. At the same time the production of cotton, cashews and sugar cane has recorded significant jumps, with sugar cane production increasing significantly since 2001. This is due to the privatisation of sugar cane estates and the adoption of the out-grower model of production, which began in early 2000.

Improving the quality of export crops from Tanzania also presents a challenge. It is interesting to note that Tanzanian and Kenyan coffee fetched the same average price before 2000, but subsequently the price for Tanzanian coffee has dropped far below that for Kenyan coffee. Tea yields from smallholders have also been consistently lower than from estates since the mid 1970s to 2005; with productivity of tea estates increasing during the mid to late 1990s while that of smallholders plummeted. This is also the case for other crops, with production of maize by smallholders (2002/03) being 0.73 tons/hectare and of sorghum 0.43 tons/hectare which compares poorly with production by large farmers of 4.0 tons/hectare of maize and 2.7 tons/hectare of sorghum.



**FIGURE 2: PRODUCTION TRENDS IN MAJOR FOOD CROPS, 1995-2004**

Source: URT, Economic Surveys, various years

### Increasing Rural Growth

The present agricultural system is predominantly individualised, uncoordinated and inefficient, with low levels of investment. What is needed is a system that is integrated, efficient, responsive and cohesive. Smallholders need support to increase productivity, improve quality and to be able to respond to challenges in local and international markets. The goal is to transform the agriculture sector into one with high labour productivity and high quality outputs. This involves re-thinking the approach to agricultural production – especially for smallholders.

### Integrated Producer Schemes

Integrated producer schemes may be one way forward for some areas. They are characterised by their coordinated approach to improved inputs, extension services, transportation, processing and marketing. They develop the capacities of smallholders through the provision of extension services and close monitoring of production and quality.

Integrated producer schemes have been expanding for about five years in Tanzania, mainly in the form of out-grower schemes. Expanded areas of cultivation, increased production and productivity, and improved quality have resulted. For example, in Rungwe, the annual green leaf production of tea has increased fivefold in the last four years - from 3,774,912 kg per hectare during 2000/01 to 15,285,451 kg per hectare during 2004/05. The average yields of green leaf from smallholders linked to the scheme have also increased

consistently from around 1,000 kg/hectare in 2000 to around 5,000 kg/hectare in 2004, while the overall quality of tea from smallholders is reported to be above the standards set by the promoting company, Wananchi Tea Company.

Integrated producer schemes vary in detail but the basic framework involves a closely coordinated system of production, extension, transportation, processing and marketing. The schemes typically involve technical assistance from foreign or local private companies, and have collection centres that provide links between the farmers, processors and markets. They provide farmers with the incentives and mentoring support to increase production and quality.

The key characteristics of three Tanzanian integrated producer schemes are summarised below using the examples of Wananchi Tea Company, Katani Ltd (sisal) and Kilombero Sugar Company Ltd:

- All activities from production through to marketing are elements of each of these schemes. This is important for quantity and quality control, and for communication between the company and smallholders. Activities include: production, extension services, transportation, processing and marketing.
- Organisational structures vary. Producers can be entirely or mostly smallholders with little involvement in the promoting company. Or, smallholders can be shareholders of the company and/or have representatives on the board of directors of the promoting companies.
- Outsourcing does occur, mostly for extension services and transportation, rather than in areas of processing and marketing. This provides for opportunities to build public-private partnerships.
- Smallholders' retention of land use rights is a very important factor for each of these schemes.

Successful integrated systems provide incentives and rewards for all stakeholders, because they rely on each other to ensure profitable outcomes. The value added along the product chain should benefit all those involved, although the strength of the bond between the

stakeholders will depend on the relative size, strength and organisational structures of the smallholders and of the promoting company. This is in contrast to production processes which are not integrated, and where the incentives for independent stakeholders rest outside the production – processing - marketing system as a whole. Furthermore, production is increased and improved without negatively affecting smallholders' rights to land, or converting them into agricultural labourers.

### **Challenges Facing Integrated Producer Schemes**

Integrated production schemes are spreading into various crops and may have relevance for sectors such as dairy production. Nonetheless there are challenges. Producers might sell to buyers outside the scheme because they can get a better price from the 'free riders' (those not associated with the company and who have not invested in the improved production processes). Another attraction is that by selling to a third party the grower may avoid repayment of money borrowed from the scheme. Solutions to this problem could include legal contracts - although these can be difficult to enforce, and voluntary compliance based on the greater benefit of staying inside the scheme.

Another challenge is that the scheme might become monopolistic and the promoting company might overcharge for inputs or offer low prices for produce. Solutions to this problem will depend on the relative strengths of the different parties, the relative contribution of the production of smallholders to the overall enterprise and how well organised they are. Stronger legislation and regulations could also help to protect the interests of smallholders.

### **Producer Associations**

Strong producer associations are needed in integrated schemes to ensure smallholder labour rights, land use rights and equitable shares in the benefits of increased production. Cooperatives are the dominant form of producer associations in Tanzania although increasingly other legal structures are being established. Associations can enable access to inputs such as technology and credit, and can reduce costs through supply chain linkages and competitiveness.

Cooperatives may have many advantages when there is genuine participation of the members. Through cooperatives, smallholders can enhance their access to inputs, to markets, ensure product standards and gain access to information, extension services and credit. Cooperatives can be vertically integrated to permit them to operate as part of integrated production schemes.

The cooperative movement was strong in the 1960s in Tanzania and the recent attempts to revive it can be seen as a step in the right direction. Reforms are being made in an environment where, in several parts of the country the institutional framework for democratic cooperatives has collapsed, the cooperative movement has lost legitimacy from its members, and they are financially weak and ill prepared for global competition.

This presents three main challenges for the cooperative model to succeed: firstly it must be a viable and beneficial option to smallholder farmers, and those farmers must have their confidence restored in the cooperative model. Secondly cooperatives must ensure the integration of production, transport, processing and marketing to be able to take advantage of the supply and demand value added integrated system. Lastly, cooperatives must continuously introduce knowledge and innovations in a cost effective way and ensure that this information reaches the members in an accessible and easily understood form.

## Conclusion

Overall, current levels of agricultural production are not enough to meet MKUKUTA targets. Significant poverty reduction will depend on the agricultural sector achieving a sustained growth rate of 6% per annum. This growth must be broad based, and strategies to achieve this must be developed and implemented.

The promotion of integrated schemes of production involving access to inputs, technology and extension services, transport, processing and marketing can increase rural growth. These components must be timely, modern, easily accessible, and appropriate to the product and producer. This will ensure the increased output and improved quality of product.

The Government's role in ensuring an enabling environment for the promotion and operation of such integrated schemes of production, including supporting the promotion of producer associations is crucial.

This brief is a summary of chapter 3 of the Poverty and Human Development Report 2005 which provides key information on poverty levels and trends in Tanzania; with comparisons to targets from the Millennium Development Goals, the Poverty Reduction Strategy (PRS) and MKUKUTA (National Strategy for Growth and Reduction of Poverty).

The report is available in electronic copy, and the printed report can be obtained from:

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