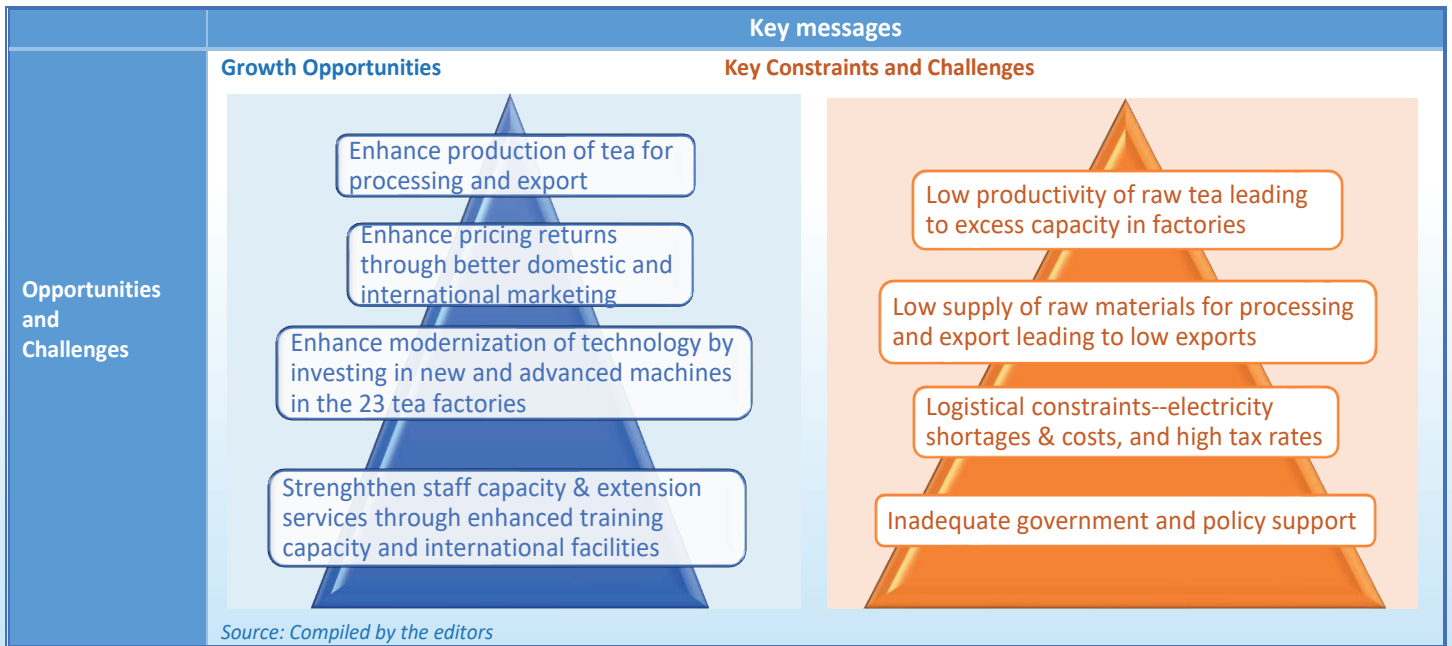


Building productive capacities - opportunities and constraints in the tea sub-sector

By Ahmed Ndyeshobola and Donald Mmari



Objectives	➤ To explore the underlying opportunities and constraints for enhancing the expansion of productive capacities in the tea sub-sector.
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Baseline definitions on productive capacities and productivity growth are drawn from the relevant multilateral agencies:

Baseline Definitions – Productive Capacities and Productivity Growth	
UNCTAD	Defines productive capacities as <i>the productive resources, entrepreneurial capabilities and production linkages which together determine the capacity of a country to produce goods and services and enable it to grow and develop.</i>
NEPAD	Defines productive capacity as <i>the ability to produce goods that meet the quality requirements of present markets and to upgrade in order to tap future markets—to ensure a sustainable participation in the new global production system based on production networks.</i>
World Bank	Defines productivity growth as <i>the key driver of sustainable income growth and poverty reduction—the efficiency with which societies combine their people, resources, and tools—and is the central driver of the development process.</i>
UNIDO	Defines productivity as <i>the ability to transform inputs into outputs—a key to poverty reduction as it generates skilled jobs which are sources of income and social participation.</i>
OECD	Productivity is considered <i>a key source of economic growth and competitiveness.</i>

THE SIGNIFICANCE OF THE TEA SUB-SECTOR

Tea is among Tanzania's main agricultural export products, a generator of wealth and employment to rural areas, and supports the wellbeing of over 50,000 families in Tanzania. Tanzanian tea is grown under two systems: by smallholders—on plots averaging less than a hectare, and on large estates—which often exceed 1,000 hectares per farm.

The Tea Authority promoted smallholder tea production, typically on plots of about a third of a hectare. Smallholder production increased considerably, accounting for about a quarter of Tanzania's tea production during the early 1980s and as much as 29 per cent in the 1985/86 season.

	TEA	- The Southern Highlands -- the Njombe, Tukuyu, and Iringa districts	<p>Much of Tanzania is too dry for tea and only 22,000 hectares of the total land area is under tea cultivation, equivalent to around one tenth of the area under tea cultivation in Kenya.</p> <p>➤ There are three main tea planting areas in Tanzania:</p>
	TEA	- The Plantations of the East Usambara in the Tanga region close to the coast	
	TEA	- The North-West zone around the Southern & Western shore of Lake Victoria	

Despite its apparent success, as early as the mid-1980s there were signs of trouble in the smallholder tea sector, and by the early 1990s smallholder tea production was falling rapidly. By the mid-1990s its share had dropped below 10 per cent and by 1998 it had fallen to 5 per cent, the lowest level since tea was introduced as a smallholder crop in Tanzania.

➤ **Contributing to the decline were:**

- Low prices and late payments by the Tea Authority;
- Inefficient processing factories;
- Inadequate use of inputs;
- Rundown transport equipment and roads connecting farms to tea factories (feeder roads);
- Declining yields because of a failure to switch to high-yielding varieties.

TANZANIA'S TEA SUPPLY CHAIN STRUCTURE AND MARKETING SYSTEM

Most of the smallholder tea leaf went to the eight Tea Authority-owned factories for processing, and the rest to factories owned by the estates as per Table 1 that lists the existing tea processing plants by location.

Region		Tea Processing Plant	Region		Tea Processing Plant
Tukuyu	1	Wakulima Tea Company	Kagera	11	Maruku Tea Factory—Bukoba
	2	Mwakaleli Tea Company—Lugomba		12	Kagera Tea Company Ltd. – Bokuba
Njombe	3	Unilever Tea Tanzania	Tanga	13	Dindira Tea Factory – Hakaro, Usambara
	4	Lupembe Tea Factory – Mfrika			
	5	Luponde Tea Factory – Luponde			
	6	MLANGALI TEA ESTATES—Ikondo			
Iringa	7	Unilever Tea Tanzania Ltd, Lugoda Factory, Mufindi	Dar es Salaam	14	Tanzania Tea Blenders in Dar es Salaam
	8	Kibwele, Unilever Tea Tanzania Ltd.—Lufuna		15	Chai Bora—Dar es Salaam
	9	Kilima, Unilever Tea Tanzania Ltd—Lufuna		16	AFRITEA & COFFEE BLENDERS 1963 Ltd – Dar es Salaam
	10	Dabaga Factory—Ilula		17	TATEPA – Dar es Salaam

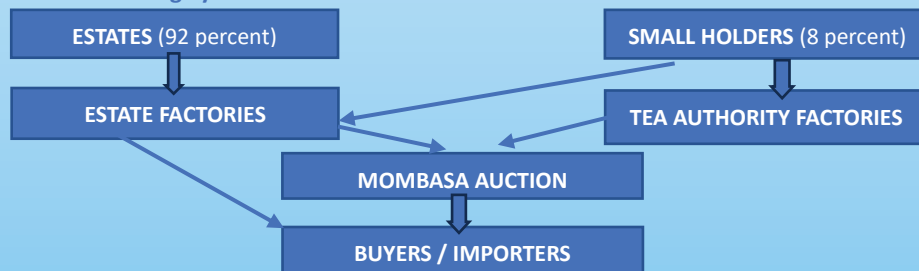
Building productive capacities through the Block-Farming Model—the Unilever, The Wood Foundation Africa (TWFA) and Gatsby Africa (GA) established a farmer services company – *the Njombe Out-growers Services Company (NOSC)* under the Chai Initiative—to provide farmers with patient capital as well as ongoing agronomy support, access to inputs and logistics support. The joint venture—the **Njombe Block Farming Model** aims at transforming the Tanzanian tea sector.

To that end, it has **three key pillars:**

1. Farmers providing a supply of green leaf to Unilever at requisite quantities and quality;
2. Unilever in turn providing a guaranteed market and committing to pay farmers based on quality;
3. The Chai initiative supporting the relationship through the provision of professional services to farmers.

It also demonstrates how credit, alongside professionally delivered farmer services may overcome traditional barriers for entering tea production, such as the logistics associated with fragmented supply, capital, and affordable access to inputs and services. **The block farming model** employed by NOSC provides a potential blueprint for structuring smallholder farmers production that allows for improvement in terms of productivity, quality, and efficiency.

Figure 1: The Marketing System in the Tea Sub-Sector in Tanzania



Currently, Tanzanian tea is sold at the Mombasa auction at an estimated amount of between 5,000 and 8,000 tonnes per year, depending on the harvest season and weather in key production areas. **Figure 1** summarizes the marketing channel for Tanzanian tea exports.

Source: John Baffes, *Reforming Tanzania's tea sector: a story of success?* Development Southern Africa, 2005

Most of Tanzanian tea is exported, and the trends in exports between 1995 and 2021 is shown in **figure 2**, indicating an upward trend between 1995 and 2015, followed by a declining trends to-date. Three major direct importers are Kenya (33 per cent), the UK (19 per cent) and Pakistan (15 per cent)—as per **figure 3** below. Currently, smaller importers include South Africa, the Russian Federation, United Arab Emirates and Egypt. Most of the remaining tea goes through the Mombasa Tea Auction.

Fig. 2: Tanzania's Tea Exports, in Mn US\$

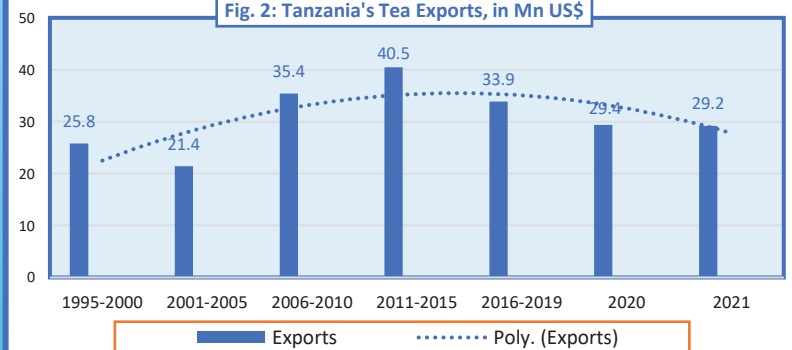
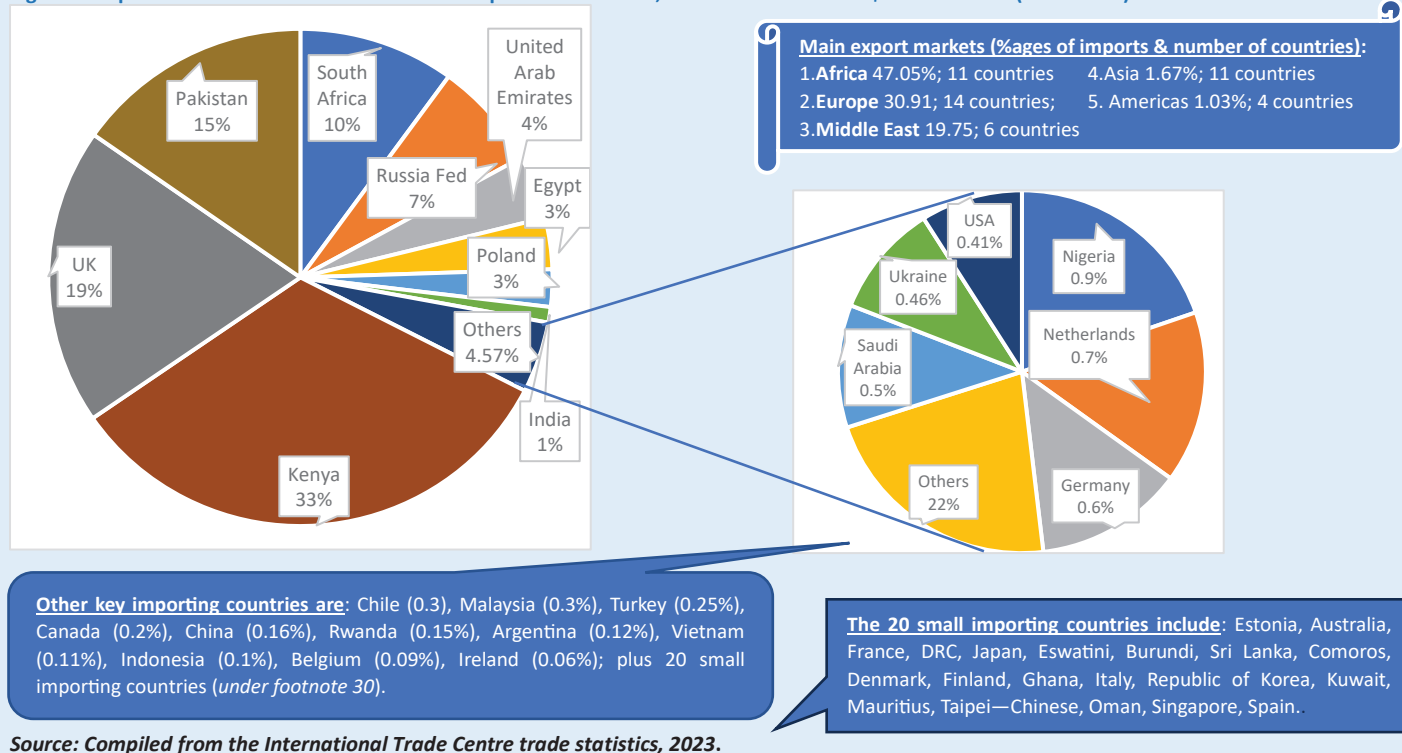


Figure 3: Export markets for Tanzania's Tea for the period 2017-2021; with total value of US\$ 204.1 Million (for 5 Years)



Opportunities for productivity growth in the tea sub-sector

Table 2A summarizes the opportunities for productivity growth and raising the share of tea in national exports.

Category	Opportunities
a. Productivity enhancement	The authorities are targeting to raise production and productivity of tea and tea products; Improvement of extension services, supply of quality seeds, distribution of pesticides and insecticides are among the Government's targeted measures.
b. Expansion via the Block-farming model	The block farming model employed by NOSC provides a potential blueprint for structuring smallholder farmers production that allows for improvement in terms of productivity, quality and efficiency; The Njombe project has the potential to deliver truly sustainable change in the livelihoods of smallholder farmers and provide a replicable model in other regions and sectors.
c. Other initiatives	The Chai initiative is also supporting a pilot block irrigation scheme to explore a feasible solution for smallholder tea irrigation which can be scaled up and replicated to further improve productivity capacities; Chai partners and NOSC trialled mechanised harvesting, as well as providing workforce incentives and training programmes to overcome the labour challenge.
d. Marketing systems	Enhancement of Tanzania's tea marketing systems is targeted by the authorities with the view to raising prices and incomes of the farmers; The enhanced tea marketing systems will also enable farmers and traders to effectively penetrate the domestic and foreign markets; The authorities have also established sales warehouses in Dar es Salaam for bulk tea storage ahead of the planned launching of the country's auction.

Underlying Constraints and Challenges

Underlying challenges to address include, *inter alia*: improving productive capacities of all farmers and processing plants; improving the economics of tea for farmers relative to other crops; stimulating investment in a sub-sector that requires significant upfront costs and long payback periods; issues regarding labour conditions; and service efficiency issues related to coordinating and managing smallholder supply. Table 2B summarizes the main constraints to the tea sub-sector:

a. Inputs and price levels are main challenges for farmers	The main challenges tea farmers face in relation to the supply of agricultural inputs such as fertiliser and herbicides: they are (too) expensive, not available or not supplied on time; Processors are not receiving the necessary and sufficient green tea raw materials to operate efficiently, minimise costs and sustain productivity levels; The ability of the processors to offer premium prices to farmers is limited.
b. Competing land use	In the key tea growing areas there are competing land use demands for forestry, tourism, avocado, mining and subsistence agriculture – this signify that land use planning will be vital in securing land for future tea cultivation;
c. Lack of access to credit	The average cost of borrowing through a local Savings and Credit Cooperative Association (SACCO) is around 20% per annum; at this rate, it is not feasible for farmers to borrow from SACCO to invest in tea; Given these financing challenges, there is an overarching issue of insufficient resources and investment in smallholder tea farmers; the difficult question is where the additional funding should come from.
d. Infrastructure is inadequate	Poor infrastructure and/or high transportation costs is an overriding constraint in this sub-sector; The lack of access to mechanised irrigation systems is one of the biggest challenges facing smallholder farmers in this sub-sector.
e. Agricultural practices	Tanzania also suffers from poor agricultural practices in many cases because of shortage of extension services and technical support; and shortage of skills among farmers for better agricultural practices.
	A lack of effective oversight has allowed a secondary market to be sustained that undermines the government's goal of achieving high levels of quality across the entire value chain;

f. Practice of side-selling	For instance, tea rejected by NOSC is still finding its way to factories in nearby markets despite this practice being illegal under current tea industry regulations.
g. The complex and high tax structure	An excessive and complicated tax regime is a continuing & growing concern to the tea industry;
	The tax structure is too complex, with too many taxes and rates that are too high;
	Taxes on the tea sub-sector include a district produce cess of 5 per cent of the farmers' price, stamp duty of 1.2 per cent 'free-on-board' (fob), withholding tax of 2 per cent fob, 3.5 per cent Tea Board and research fee, corporate tax, property tax, Value Added Tax, and a service levy of 0.3 per cent of VAT net turnover, an alternate tax on loss-making businesses, etc. etc.;
h. Lack of public support for growth of the tea sub-sector and market	Taxes such as, payroll levy, education levy are eroding the income from the activities of the tea industry by raising tea production costs, thereby affecting the performance of the tea industry.
	Government has become too involved in the tea market (overregulation), contributing to its inefficiency;
	Despite restructuring, the Tea Board and the Ministry of Agriculture are still too powerful, sometimes impairing market driven incentives;
	The administrative challenge of attracting and managing disparate farmers and deal with local dynamics is significant;
	Hence, the tea sub-sector lacks a policy champion, who can raise the profile of tea and further attract resources to develop the sub-sector beyond the block-farming model.

CONCLUSION AND POLICY RECOMMENDATION

The above and several other underlying challenges, if resolved, could bridge this productive capacity gap and break the cycle of low investment, prices and yields for smallholders and the tea estates. As also indicated under table 2A (above), bridging the productive capacities gap, and breaking this vicious cycle can be addressed by:

- Improving the economics of tea for farmers relative to other crops, also through the block farming model;
- Structuring appropriate financing to address the significant risk, upfront costs and long payback periods;
- Reducing taxation and streamlining the tax code;
- Addressing service efficiencies related to coordinating and managing smallholder supply;
- Limiting the power of the respective authorities to collecting and disseminating market information, statistics, etc.
- Revising trade policy to allow effective build-up of conducive trade and business environment, and emergency of a strong policy champion for the tea sub-sector.

It is recommended that this framework of analysis is adapted to inform policy analysts, private sector practitioners, and decision makers in the public institutions responsible for promoting economic growth, industrial development, investments, trade expansion, private sector development, and providing the requisite policy champion for the tea sub-sector. It is the ability of these actors to address the various constraints to productive capacities enhancement that Tanzania can sustain its growth momentum, realize its development potential, and achieve significant poverty reduction.

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