



RURAL INFRASTRUCTURE AND
AGRO-INDUSTRIES DIVISION

Country case studies

Africa



AGRIBUSINESS
PUBLIC-PRIVATE
PARTNERSHIPS

**A country report of
the United Republic
of Tanzania**





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Jeremia R. Makindara

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**A country report of
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Preface

It is recognized that high levels of investments are required to unleash the potential of agriculture for sustainable development and poverty reduction in developing countries. However, in recent decades, many countries have decreased their relative budget allocations to the agricultural sector, yet at the same time, the expected increase of private sector investments and the associated efficiency improvements have not been forthcoming. The high risk (actual and perceived) of doing business in agriculture often deters private sector participation in agrifood sector investments. Against this backdrop, public private partnerships (PPPs) are being promoted as an important institutional mechanism for gaining access to additional financial resources, sharing risks, and addressing other constraints in pursuit of sustainable and inclusive agricultural development.

While various forms of collaboration between the public and private sector have existed for some time, there is limited systematic information available about the current experiences and best practice for using PPPs to initiate agricultural programmes. In addition, despite a surge of interest in PPPs in the agricultural sector in recent years, there remains significant variation in the type of partnerships involved; and poor documentation of the real potential for PPPs to deliver on commonly stated objectives associated with rural employment and income generation, food security and increased agricultural competitiveness.

In 2010, FAO initiated a series of appraisals of PPPs implemented in 15 countries in Africa, Asia and Latin America. The primary objective was to draw lessons that can be used to provide guidance to member countries on how to partner effectively with the private sector to mobilize support for agribusiness development. On this basis, a specific sub-set of PPPs were selected which conformed to two key criteria: each PPP must involve an agribusiness enterprise; and a formalised relationship between specific public and private partners must be in place. There should also be an expectation of positive societal impacts as a result of the partnership.

Seventy individual case studies have been profiled and details provided on the circumstances that led to their formation, management and performance to date. The partnerships analysed cover different topics and intervention areas and involve different types of arrangements and actors. Particular attention was given to the identification of specific roles and functions for each of the partners, including roles in governance, implementation and monitoring. Key results of the study include identification of the factors that influence success or failure in the development and implementation of PPPs, and best practices for creating an enabling environment for increased investment in agriculture through the PPP mechanism.

FAO is publishing this series of case studies of agribusiness PPPs as a contribution to enriching knowledge and sharing information on this type of mechanism for informed decision making on investment promotion for engendering agrifood sector development.

Executive summary

This paper appraises the development of Public-Private Partnerships (PPPs) in the United Republic of Tanzania in terms of trends, policies and programmes. The original study selected four PPP ventures in the country, namely, at the Kibaha Sugarcane Research Institute; the Tanzania Agrodealer Support Program; the Tea Research Institute of Tanzania (tea research programme); and private forestry. In each case study, characterization, development, management and operation, and future developmental outcomes of the PPPs were specifically assessed.

The methodology employed includes interviews with key informants and questionnaires. Findings show that all PPPs assessed were established to address inefficiencies that existed in the previous system of service delivery and the dissatisfaction experienced by beneficiaries. The old system was unable to attain the desired goals of providing better research and extension services; better and timely input to meet the expectations of stakeholders; and the overall goal of increasing farmers' and producers' incomes from agricultural and forest production systems. Moreover, research and extension services were provided by the Government of Tanzania, which found it more and more difficult to meet its financial obligations in support of these ventures.

After the establishment of PPP arrangements, particularly in the tea sector, service delivery improved considerably, resulting in the establishment of similar PPPs for other crops such as coffee, when the Tanzania Coffee Research Institute (TaCRI) came into being. It is therefore recommended that PPPs be established in areas where service delivery is purely public, and where other stakeholders are ready to contribute for the mutual benefit of the industry and the sector in general.

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The PPP case study framework was originally designed by Doyle Baker. A team, formed by Eva Gálvez-Nogales, Nomathemba Mhlanga, Alexandra Röttger and Marlo Rankin, and coordinated by Pilar Santacoloma, provided technical supervision to the authors of the country case monographs through the study.

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Acronyms

AFRODAD	African Forum and Network on Debt and Development
AGRA	Alliance for a Green Revolution in Africa
ASDP	Agricultural Sector Development Programme
ASDS	Agricultural Sector Development Strategy
CNFA	Citizen's Network for Foreign Affairs
EAAFRO	East African Agricultural and Forestry Research Organization
EAC	East African Community
FDI	Foreign Direct Investment
FSDT	Financial Sector Deepening Trust
GDP	Gross domestic product
GOT	Government of Tanzania
GRAS	Green Resources AS
HLC-3A	High-Level Conference on African Agribusiness and Agro-Industries
MAFC	Ministry of Agriculture, Food Security and Cooperatives
MITM	Ministry of Industry, Trade and Marketing
MNRT	Ministry of Natural Resources and Tourism
NFP	National Forest Programme
NGO	Non-governmental Organization
NMB	National Microfinance Bank
NSGRP	National Strategy for Growth and Reduction of Poverty
NWFPS	Non-wood forest products
PES	Payments for environmental services
PMO	Prime Minister's Office
PPP	Public-private partnership
SBT	Sugar Board of Tanzania
TaCRI	Tanzania Coffee Research Institute
TAGMARK	Tanzania Agricultural Market Development Trust
TIC	Tanzania Investment Centre
TRIT	Tea Research Institute of Tanzania
TSh	Tanzanian shilling
UNECA	United Nations Economic Commission for Africa
USD	United States dollar

Chapter 1

Introduction

1.1 PROBLEM STATEMENT FOR OVERALL APPRAISAL

Two of the major constraints to agribusiness development in Africa are the high risks involved in doing business in the agricultural sector and the scale of investment required. These constraints are further compounded by the undeveloped agricultural services sector, less than optimal farm size, and business investment climates that are not overly conducive to private sector investment. An important institutional mechanism for mitigating the risks facing agribusiness enterprises – both productive enterprises and service providers – is public-private partnership (PPP). Analytical work to characterize and appraise PPPs is not new. FAO has commissioned and published an Occasional Paper on PPPs to support rural infrastructure development. The United Nations Economic Commission for Africa recently held a workshop to characterize and appraise PPP in Africa. There are several research and academic publications on the subject. Most of the available information, however, focuses on the characterization of PPP arrangements and conditions and/or making a general strategic case for the role of PPPs in development.

It is an opportune moment to accelerate efforts to develop agribusiness PPPs in Africa. Many ministries of agriculture have prepared and endorsed strategic plans that call for closer working relationships with the private sector in order to increase competitiveness, value addition and employment generation. African economies are growing at more than 5 percent and cities are continuously expanding, both trends leading to enhanced prospects for agribusiness development. The Declaration of the High-Level Conference on African Agribusiness and Agro-Industries (HLC-3A) in March 2010 in Abuja, Nigeria called for concerted efforts to accelerate this development. The key challenge now is to translate general principles into practical guidance for technical officers of ministries of agriculture, as well as those in the ministries of commerce and finance dealing with the agribusiness sector. In order to develop practical guidance, it is desirable – even necessary – to

learn from the field. Specific questions need to be asked and issues investigated in order to develop the comparative perspective needed for the preparation of sound practical guidance. This is not possible from *ex post* case studies and secondary appraisals. It requires interaction with stakeholders in ongoing but relatively advanced PPPs. This study therefore explores the status, arrangements and operation of specific agribusiness PPPs in the United Republic of Tanzania, focusing on those that are ongoing and relatively advanced.

1.2 PURPOSE OF CROSS-COUNTRY APPRAISAL

The purpose of this study in the United Republic of Tanzania was to:

- appraise the national development context, trends and policies as influencing the relevance of and need for agribusiness PPPs;
- characterize and appraise four specific agribusiness PPPs;
- gain insight on and draw lessons from challenges and specific issues to be considered in the development and implementation of agribusiness PPPs; and
- prepare a country report on agribusiness PPPs.

1.3 OBJECTIVES OF THE STUDY

The main objectives of the study were to:

- characterize PPP arrangements;
- assess the development of PPP arrangements;
- assess the management and operation of PPP arrangements; and
- assess the performance and development outcomes of the PPPs.

1.4 RATIONALE FOR COUNTRY SELECTION

The United Republic of Tanzania occupies an area of 945 087 km² and had an estimated population of about 40.7 million in 2009 (URT, 2010). Agriculture occupies an important place in both the lives of Tanzanians and in the national economy. It provides full-time employment for over 70 percent of the population and also provides most of the food. It contributes about 45 percent to the gross domestic product (GDP).

It also contributes approximately 66 percent of foreign exchange and provides the bulk of the raw materials for local industries. The country's economy is heavily dependent on a combination of subsistence and commercial agriculture. The main export crops are traditionally cotton, coffee, tobacco, cashew, tea, pyrethrum and sisal. However, other non-traditional exports attracting foreign markets include fruits, vegetables, cut flowers, cardamom, oilseeds and fish products (MAFC, 2011).

Since the mid-1980s, the United Republic of Tanzania has been reforming its economy by adopting several policies from the Economic Recovery Programme of 1986 to the formulation of the Tanzania Development Vision 2025. These programmes prioritized agriculture as the vehicle for economic growth in the country. The reforms started to bear fruit and, in 2004, the agricultural sector grew by 6 percent compared with 3.4 percent in 1999–2000 (MAFC, 2011). Despite these developments, the agricultural growth rate was considered inadequate since it failed to improve the livelihoods of rural people whose major occupation is agriculture. Low productivity; underutilization of available land, water and human resources; and low incomes and profitability have remained the key features of Tanzanian agriculture (MAFC, 2011). Consequently, because of the challenges faced by the agricultural sector, the involvement of the private sector in agricultural production and service delivery was considered essential for accelerating agricultural development in the country. Therefore, more policy reforms were undertaken, including liberalization of agricultural trade, commercialization of agriculture, creation of a favourable business environment to attract private players and foreign direct investment (FDI). Land reforms were also undertaken. All of these led to the establishment of competitive and profitable agribusiness companies in the country. These experiences may be emulated and adopted in both poorly performing agricultural sectors and in other developing countries.

1.5 STRUCTURE OF THE REPORT

This introduction presents a problem statement for overall appraisal of the study, its purpose and objectives. Chapter two gives an overview of the economic, agricultural and agribusiness environments in the United Republic of Tanzania. It also describes the privatization processes and policy environment in the country as well as PPPs, and agriculture and forestry policies.

Chapter three characterizes the PPP arrangements in the four case studies, while Chapter four presents the development arrangements of the PPPs and Chapter five the management and operation arrangements. Chapter six describes the performance of the PPPs and development outcomes. The final chapter seven gives an appraisal and draws conclusions.

Chapter 2

Background and overview

2.1 DEVELOPMENT OF PPPS IN THE UNITED REPUBLIC OF TANZANIA

The Government of the United Republic of Tanzania, conscious of the need for investment in agribusiness activities and the many investment opportunities existing in agribusiness and the agricultural sector, particularly in the area of technical assistance and the development of infrastructure and marketing, established a PPP policy and a specific Act, in order to involve private sector participation. The PPP development programme was launched in 2009 under the Prime Minister's Office, a measure of the degree of commitment shown by the government.

2.1.1 PPP policy and legal framework

The government recognized the role of the private sector in bringing about socio-economic development through investments. PPP frameworks are significant in attracting investments. Indeed, PPP arrangements have been identified as a viable means to address effectively the constraints of financing, managing and maintaining public goods and services. They can enable the government to fulfil its responsibilities in the efficient delivery of socio-economic goods and services by ensuring efficiency, effectiveness, accountability, quality and outreach services (URT/PMO, 2009).

By definition, the PPP concept entails an arrangement between the public and the private sector whereby the private sector renovates, constructs, operates, maintains and/or manages a facility in whole or in part, in accordance with specified output and specifications (URT/PMO, 2009). It assumes the associated risks for a significant period of time and, in return, receives benefits and financial remuneration according to agreed terms. PPPs constitute a cooperative venture built on the synergy of expertise of each partner that best meets clearly defined public needs through the most appropriate allocation of resources, risks and rewards.

However, the implementation of PPPs in the United Republic of Tanzania was clearly challenged because of the following:

- lack of comprehensive policy, and of legal and institutional frameworks providing clear

guidelines and procedures for the development and implementation of PPPs;

- lack of realistic and comprehensive technical, socio-economic and commercial feasibility analysis, leading to poor project design;
- An inadequate enabling environment, including lack of long-term financing and appropriate risk-sharing mechanisms; and
- Insufficient capacity of negotiations, procurement, implementation and management of PPPs (URT/PMO, 2009).

Thus, in 2009, the Government of the United Republic of Tanzania through the Prime Minister's Office (PMO) launched a National Public-Private Partnership Policy as a guideline for the formulation and implementation of PPP projects in the country. The objective of the policy is to contribute to the reduction of national poverty through competitive and sustainable PPPs, with the main goal being to promote private sector participation in the provision of resources in terms of investment capital, managerial skills and technology (URT/PMO, 2009).

Specifically, the policy aims to:

- develop an enabling legal and institutional framework to guide investment in PPPs in the United Republic of Tanzania;
- implement effective strategies showing specific obligations and rights for various stakeholders;
- introduce fair, equitable, transparent, competitive and cost-effective procurement processes for PPPs;
- adopt operational guidelines and criteria for PPPs;
- attract resources for the development of PPPs;
- develop institutional capacities for technical analysis and negotiation of PPPs and associated contracts; and;
- enhance efficiency and quality in the implementation of PPPs (URT/PMO, 2009).

The Tanzanian Government subsequently passed a supplemental bill to the Public-Private Partnership Act 2010, which was published in the *Gazette of the United Republic of Tanzania* on 18 June 2010 (URT, 2010), thus making PPP

operations in the United Republic of Tanzania legally recognized. This marked another milestone towards the promotion of PPPs in the country.

2.2 PPP COOPERATION IN THE AGRICULTURAL SECTOR

Development of PPP arrangements in the United Republic of Tanzania started only recently, once market reforms and liberalization policies had been implemented in the country. The first PPPs were in the service delivery sector, particularly in agricultural research. Such research was a public good, financed by the government. But, after the economic hardships of the late 1970s and early 1980s, government support to research diminished. This meant a new arrangement and so the PPP option was chosen, primarily for tea and sugar research. PPPs were considered appropriate because they created a modality whereby the private sector could supply inputs to farmers under the PPP guarantee. The agrodealer support programme was subsequently initiated to promote agriculture production mainly on a small and medium scale. Similarly, for plantation forestry and forest products, a change in forest policy was necessary, to allow involvement of the private sector in the forestry industry through PPPs. Nevertheless, these PPPs operated through sectoral agreements between partners with no national PPP policy or strategy to guide the sectors legally until 2010 when the PPP Act was passed. It is expected that the launch of the PPP policy and its supplemental bill, together with sensitization of stakeholders, will act as a catalyst for attracting more investment in the agricultural sector and more agribusiness in the United Republic of Tanzania.

2.2.1 Economic performance

The Government of the United Republic of Tanzania has been implementing socio-economic reforms aimed at stimulating high rates of economic growth for the achievement of poverty reduction goals, resulting in significant economic performance (URT/PMO, 2009). These reforms include fiscal and monetary policies, privatization of state-owned enterprises, trade liberalization, an enabling business environment and investment climate, and strengthening of public financial management (URT/PMO, 2009).

Results of the ongoing reforms have been encouraging. For instance, the country experienced a steady economic growth recovery of 2 percent per annum from 1990 to 1995; and of

4 percent during the period 1995–2000. Macroeconomic performance from 2001 to 2008 was also impressive. GDP growth rate during that period was 7 percent per annum while the inflation rate averaged 6.5 percent (URT/PMO, 2009). However, in 2009, the GDP growth rate decreased to 6 percent (URT, 2010) while the inflation rate rose to 12.1 percent as a result of rising fuel prices, drought and the global financial crisis (URT/PMO, 2009). The growth rate in the agriculture and natural resources sector decreased to 3.2 percent from its previous 2008 level of 4.6 percent. The growth rate in crop production also declined from 5.1 percent in 2008 to 3.4 percent in 2009.

In terms of investments (agriculture, mining and tourism), the United Republic of Tanzania experienced an increase in investments from 17.6 percent of GDP in 1995 to 26.3 percent in 2008. The sector that attracted most investment was commercial building construction, followed by tourism and the transport sector. Agriculture is one of the sectors that attracted least foreign direct investment (FDI) in 2009 (URT, 2010). In absolute value terms, FDI increased from USD150.86 million in 1995 to USD7 17.7 million in 2008, before it went down to USD650 million in 2009 (URT/PMO, 2009; URT, 2010). Moreover, credit to the private sector has maintained an upward trend from 4.6 percent of GDP in 2001 to 13.8 percent in 2007. The household budget surveys of 2000/01 and 2007 showed a small decline in income poverty levels in all areas (URT/PMO, 2009); per capita income of Tanzanians increased at a rate of 10.3 percent from TShs 628 259 in 2008 to TShs 693 185 (URT, 2010).

2.2.2 Agricultural sector

The agricultural sector is the mainstay of the Tanzanian economy as enshrined in the Tanzania Development Vision 2025 and the National Strategy for Growth and Reduction of Poverty (NSGRP) 2005. The sector comprises the crop, livestock, forestry and hunting subsectors. Smallholder farming dominates agricultural production; a large portion of this is subsistence farming with key input from women. It contributes significantly in terms of aggregate growth, exports, employment and linkages with other sectors. Between 1999 and 2006, the crop and livestock subsectors contributed approximately 35 percent of foreign exchange earnings. In 2006, they contributed about 75 percent of employment and 26.2 percent of GDP, according to

the revised national accounts estimates for the Tanzanian mainland, using the base year 2001 (URT/MITM, 2008).

A mainstay for achieving the medium-term target of poverty reduction under the NSGRP was growth in agriculture of a least 5 percent by 2003. In general, this was achieved in 2001 and 2002, when agriculture grew by 4.9 percent (URT/MITM, 2008). Agriculture is still the main source of livelihood for the majority of the population and its performance determines the overall improvement in people's living standards and development of the economy (URT/MITM, 2008).

Because of the importance and potential of agriculture in the United Republic of Tanzania, agribusiness has emerged as an important element in the economy. Opportunities for agribusiness¹ are high, since most crops are marketed in their raw state, thus losing possible higher earnings through value addition and employment creation (URT/MITM, 2008). However, the agribusiness sector, especially agroprocessing, is faced with many challenges, including high operational costs, inefficient logistic systems, unavailability of appropriate agroprocessing and value addition technologies, and limited knowledge in operating and managing these technologies (URT/MITM, 2008). With the emergence of agribusiness ventures and agricultural innovation systems (Mpagalile et al., 2009), some of these difficulties can be reduced or eliminated, so that the agroprocessing industries may operate commercially, efficiently and competitively.

2.2.3 Agribusiness environment

Agribusiness includes everything that is required to bring food to consumers. It is a complex system beyond the farm, involving input provision, processing, transportation and sale of finished products (Sufian, 2011). In the United Republic of Tanzania, agribusiness comprises a diverse group of commercial operators engaged in production, processing, transportation, storage and/or warehousing and marketing of inputs, crops, fisheries and forest products. Agribusiness activities contribute enormously to the economy, although it is difficult to separate this contribution from that of agriculture in general (MAFC, 2011). The agribusiness setup involves all partners in the

value chain from the producers (farmers), transporters and processors to the consumers (markets), and encompasses farming equipment, machinery, chemicals and supplies, and human resources. The characteristics of the agribusiness sector depend on the scale of operations and its vertical and horizontal integrations, as well as its running in a true business sense (Sufian, 2011).

The Tanzanian agribusiness sector is being shaped by growing and diversified global demands; expanded global production; consumer expectations; scientific and technological innovations; and government policies (Sufian, 2011). These issues create enormous opportunities for agribusiness development in the country where development potential is high, with about 44 million ha of arable land divided into seven agro-ecological zones suitable for a wide range of agricultural activities. Supporting policies, such as the 2002 small and medium enterprise (SME) policy, have been formulated, together with strategies to involve the private sector in agricultural production, e.g. the Kilimo Kwanza (Agriculture First) Initiative. Nevertheless, the involvement of the private sector in agricultural production is still limited and opportunities for partnership are available. Most of the successful private sector investments in agriculture and related industries have been in export-oriented crops such as tea. In the local market, sugar has attracted some private sector investments. In conclusion, agricultural and agribusiness performance in the United Republic of Tanzania is still limited compared with other countries in sub-Saharan Africa.

2.2.4 Private sector

As a result of the economic reforms undertaken by the Tanzanian Government since the mid-1980s, the roles of the government and the private sector have been redefined (URT/MITM, 2008). The government has retained its regulatory and public support functions, i.e. policy formulation, economic management, provision of infrastructure, legal and regulatory framework and maintenance of rule of law. It is also involved in selected PPP areas with the aim of improving the business environment and raising investor confidence (URT/MAFC, 2009; Mongula, 2004; NORAD, 2002). The private sector on the other hand has been geared towards production, processing and marketing functions. This policy orientation has and continues to have a profound impact on the agricultural

¹ In this context, agribusiness refers to aspects of production, processing and supply of agricultural goods for agroproductivity.

sector – agricultural input and output prices have been decontrolled and the monopolies of cooperatives and commodity boards in agricultural marketing eliminated (MITM, 2008). However, boards still remain, such as the newly created Cereals and Other Produce Board. As a result of reforms, together with a review of economic policies to enable the private sector to be involved in economic development, privatization was initiated.

The privatization process

Privatization is the term often used for the sale of government-owned enterprises to the private sector or for joint private-government ownership with the private sector having the majority of shares and management decision-making (Mongula, 2004; Twaakyondo, Bhalalusesa and Ndalichako, 2002). Most of the government-owned enterprises in the United Republic of Tanzania had not been operating at a profit, causing a severe drain on limited government resources, so that the need to privatize became evident. The incentives for privatization are that private firms will operate more efficiently, no longer require government subsidies and scarce foreign exchange for inputs and investment, but will remit corporate tax revenue to the government (Twaakyondo, Bhalalusesa and Ndalichako, 2002). Private firms are expected to allocate human and capital resources more efficiently, be more vigorous in finding markets, and further a more competitive economy (Due, 1993; Due and Temu, 1998). In short, privatization is expected to:

- improve efficiency;
- increase capacity utilization;
- provide new employment opportunities;
- enhance production;
- bring new skills and technology;
- open up foreign markets for products;
- increase government revenues through taxes and dividends; and
- cut public losses incurred through the parastatal sector (PSRC, 2000).

Privatization is the most evident form of partnership existing in the United Republic of Tanzania. It reduces government ownership in publicly owned companies and parastatals and forms a partnership whereby the government (public) has its own shares as well as the private sector. Control of the management and board is also shared while activities are carried out jointly (Twaakyondo, Bhalalusesa and Ndalichako, 2002). AFRODAD (2007), on the other hand, defined

privatization simply as the transfer of all or any of three kinds of property rights from the state to the private sector, i.e. ownership, operating and development rights.

The Government of Tanzania has created policies to attract investors in all economic sectors, including banking and insurance. Special efforts have been directed towards the tourism, mining, construction, energy and agricultural sectors (Mongula, 2004; Twaakyondo, Bhalalusesa and Ndalichako, 2002). The government has also taken several initiatives to create a favourable environment for privatization. These include the formation of the National Investment (Promotion and Protection) Act of 1990; establishment of the Presidential Parastatal Sector Reform Commission (PSRC); and strengthening collaboration with the private sector (Twaakyondo, Bhalalusesa and Ndalichako, 2002). In chronological order, the key policies and strategies are summarized below.

National Investment (Promotion and Protection) Act

This Act was enacted in 1990 (and revised in 1997) to create the Tanzania Investment Centre (TIC). The role of TIC is to explore investment opportunities and encourage investors to come to the United Republic of Tanzania. The Act provides investment incentives, identifies priority areas for investment and gives safeguards to protect private investors against expropriation.

Presidential Parastatal Sector Reform Commission

PSRC was established in 1993 and charged with the divestiture of the nearly 400 public enterprises and various state assets. The major role of PSRC was to coordinate the implementation of the government's economic reform efforts in the form of privatization. By December 1999, more than 295 (about 74 percent) public enterprises were divested (Mongula, 2004; Twaakyondo, Bhalalusesa and Ndalichako, 2002).

Strengthening collaboration with the private sector

The government developed modalities in the late 1990s for institutionalizing the then ad hoc consultative process with the private sector in evolving appropriate and effective macro and sectoral policies (e.g. through participation in the government tax task force and public expenditure review working groups) (Twaakyondo, Bhalalusesa and Ndalichako, 2002). Similarly, the private sector itself has evolved institutional

mechanisms of interactions and consultations with the government through umbrella organizations such as the Tanzania Chamber of Commerce, Industry and Agriculture (TCCIA), Confederation of Tanzania Industries (CTI), Tanzania Private Sector Foundation (TPSF) and Tanzania National Business Council (TNBC), which was launched in April 2001. TNBC provides the main forum for public-private sector consultations on strategic issues of economic growth and development (Twaakyondo, Bhalalusesa and Ndalichako, 2002).

2.2.5 Privatization in the agricultural sector

The privatization process in the United Republic of Tanzania took the form of either outright sale to local and foreign investors, leases or liquidation (Mongula, 2004; Twaakyondo, Bhalalusesa and Ndalichako, 2002). The process involved small, medium and large enterprises wholly owned by the government, such as the Air Tanzania Corporation, and those involved in agricultural production, such as the Tanganyika Planting Company and Kilombero Sugar Company. However, some of the activities undertaken by parastatals or the government, such as research in the agriculture sector, were restructured and delivered under PPP arrangements.

Privatization in the agricultural sector in the United Republic of Tanzania involved large state farms under the National Farming Company; agribusiness firms such as the National Milling Corporation, Morogoro Canvas Mill Ltd, Blankets and Textile Manufacturers Ltd, Tanzania Breweries Ltd and input manufacturing companies such as Ubungo Farm Implements. There were some challenges in the privatization of agricultural companies in terms of credibility and capacity of the new buyers or operators (AFRODAD, 2007), but benefits have been experienced in the privatized sugar, brewing and tobacco industries. These industries have been able to attract investors who have brought in new capital and technologies, and are now among the biggest taxpayers in the country. AFRODAD (2007) argued that privatized companies perform better than state enterprises, but the new private companies perform better than both. AFRODAD further argued that privatization has been able to influence the removal of import restrictions, simplifying the procedures to establish business, as well as the removal of entry barriers in a particular industry. Nevertheless, despite the involvement of the private sector in economic

development, some difficulties were still experienced and it was subsequently agreed that some economic activities would work better under PPP arrangements.

2.3 POLICY CONTEXT FOR AGRICULTURE AND AGRIBUSINESS DEVELOPMENT

Several policies and strategies have been formulated to guide agriculture and agribusiness development in the United Republic of Tanzania. The key policy document is the Tanzania Development Vision 2025 (Vision 2025), which stresses that by the year 2025 the agriculture sector in the country should be modernized, commercial, highly productive and profitable (Mpagalile, Ishengoma and Gillah, 2009). It must also ensure sustainable use of natural resources and serve as key to intersectoral linkages. Another important policy document is the National Strategy for Growth and Reduction of Poverty (NSGRP). This focuses on the aspirations of Vision 2025 and recognizes how the agriculture sector can contribute to poverty reduction (Mpagalile, Ishengoma and Gillah, 2009). At this strategy level, the government prepared an Agricultural Sector Development Strategy (ASDS), which also set the agricultural vision for 2002–05 in alignment with Vision 2025 and NSGRP. Following on from ASDS, the 2005 Agricultural Sector Development Programme (ASDP) was formulated, with a focus on the creation of an enabling and favourable environment conducive to improving agricultural productivity and profitability (Mpagalile, Ishengoma and Gillah, 2009).

From an agribusiness and intersectoral perspective, the government formulated a number of policies, such as the Sustainable Industrial Development Policy (SIDP), 1996–2020; Agricultural and Livestock Policy (ALP), 1997; Cooperative Development Policy (CDP), 2002; Rural Development Policy (RDP), 2002; National Trade Policy, 2003; Small and Medium Enterprise Development Policy, 2002; National Livestock Policy, 2006; and the Agricultural Marketing Policy, 2008 (URT/MITM, 2008). However, none of these policies had guidelines, strategies or modalities for engaging PPPs in the development of agriculture and agribusiness in the United Republic of Tanzania and so, in 2009, the development of PPP policy was initiated through the Bank of Tanzania and, in 2010, the PPP Act was established. According to Mpagalile, Ishengoma and Gillah

(2009), certain policies, however, such as the land policy and those related to tax issues have been identified by stakeholders as contributing towards impeding agricultural development in the country.

2.4 POLICY CONTEXT FOR FOREST INDUSTRY DEVELOPMENT

The United Republic of Tanzania is endowed with large and valuable forest resources; it is estimated that about 38.8 million ha or 44 per cent of the total Tanzanian mainland land area is covered by forests (URT/MNRT, 2004). It has also been established that forest-based income accounts for a large share of rural income in the country and forest-related goods and services have significant potential for economic development (URT/MNRT, 2001). Nevertheless, in spite of these huge forest resources and their potential, the country is faced with serious environmental degradation problems. The Tanzanian Government realized that it needed to come up with a more comprehensive approach to managing its forest resources (URT/MNRT, 2001), involving

all sectors interrelated with forests as well as other stakeholders who in one way or another depend on forest resources for their livelihoods. Thus, in 2001, through the Ministry of Natural Resources and Tourism, the government launched the National Forest Programme (NFP) for 2001–2010. The NFP was an instrument for the implementation of the National Forest Policy of 1998 (URT/MNRT, 2001).

The objectives of the NFP include: (i) sustainable and assured supply of forest products and services to meet needs at local and national level; (ii) enhanced national capacity to manage and develop the forest sector in a collaborative manner; (iii) enabling a legal and regulatory framework for the sector; and (iv) increased economic contribution, employment and foreign exchange earnings through sustainable forest-based industry development and trade in forest products (URT/MNRT, 2001). The issue of involvement by both the private sector and community forestry was legally recognized as an income-generating activity both individually or with public participation. These new develop-

TABLE 1
Institutions involved in PPPs covered by this study

Agribusiness PPPs	KSRI	Tanzania Agrodealer Support Program	TRIT	Sao Hill Forest Project
Subsector	Sugar research	Agro-input provision	Tea research	Forest/timber plantation
Location (HQ)	Coast region	Dar es Salaam region	Iringa region	Iringa region
Objective	Partnership between sugar estates and the government to support sugar-cane development and production	Partnership between the government through MAFC, development support partners, private service providers and NMB. Capacity building of agrodealers who in turn will provide agro-inputs to smallholder farmers in their locations	Partnership between tea-producing estates, tea-processing companies and the government to support tea development and production	Partnership between Sao Hill Ltd, Green Resources AS, Green Resources Ltd and the government through MNRT to promote and develop tree growing, management, processing and trade of forest products
Partners involved				
<i>Private sector</i>	Kilombero, Mtibwa, Kagera sugar companies, TPC Ltd, Sugar Board of Tanzania	CFNA/TAGMARK, NMB	Tea estates in Mufindi, Mbeya, Tanga and Kagera regions	Sao Hill Ltd, Green Resources Ltd
<i>Public sector</i>	KSRI and the government	MAFC, AGRA	Tea Board of Tanzania, Wakulima Tea Growers' Association	MFNR, Health Policy Initiative (HPI)
Beneficiaries	Sugar estates and outgrowers, the government (capacity building and training)	Agrodealers and smallholder farmers, the government	Tea estates and outgrowers, the government	Private forestry plantations, farmers, the government

Source: author compilation, 2010

ments in the policy and legal frameworks in the forest sector paved the way for establishing either PPPs or a private forestry subsector.

2.5 OVERVIEW OF COUNTRY CASES

Four PPP cases were studied in different subsectors. These were the Kibaha Sugarcane Research Institute (KSRI); Tanzania Agrodealer Support Program; Tea Research Institute of Tanzania (TRIT) and Sao Hill Forest Project.

These partnerships were chosen because they have been in operation for more than two years and have made a considerable impact on the community, particularly in the case of KSRI and TRIT. Investments in sugar and tea in the United Republic of Tanzania have increased to a large extent, as well as outgrowers' schemes. PPPs have reduced many risks, such as price fluctuations, through these arrangements. The partnerships were also chosen for their advisory boards, composed of the private sector, the government, farmers' associations and PPP management, as well as the investors mobilized to establish them. Additional information about these PPPs is given in the Table.

Chapter 3

Characterization of PPP arrangements

3.1 KIBAHA SUGARCANE RESEARCH INSTITUTE

Problems: low yields, and new varieties required to improve the sector; poor husbandry.

Objectives: develop, build, maintain and operate an efficient sugar industry.

Drivers: private sector and the government.

Beneficiaries: sugar estates, outgrowers and the government (tax).

Partnership: between the private sector and the government.

KSRI is a government research institute involved in sugar-cane research in the United Republic of Tanzania. It was established in 1971 under the East African Agricultural and Forestry Research Organization (EAAFRO) but, in 1977, following the collapse of the East African Community (EAC), the institute was placed under the Ministry of Agriculture and Livestock and funded mainly by the Government of Tanzania. However, as a result of funding crises that emerged in the 1980s, the government decided to involve the sugar estates in supporting sugar research under PPP funding arrangements. The sugar research PPP was formulated after the sugar-cane growers were faced with low-yielding old cane varieties and needed research results to obtain new high-yielding improved varieties that could thrive in different cane-growing areas in the country.

Sugar-cane outgrowers were also faced with the difficulties of poor sugar-cane husbandry; lack of proper irrigation systems; lack of fertilizers; and poor pest management and control. All these needed research for improvement. The objective of establishing a sugar PPP was to develop, build, maintain and operate an efficient sugar industry in the United Republic of Tanzania. The main drivers were investors, particularly those in sugar estates and factories who expected returns on investment from sugar production; cane growers who expected an increase in their income; suppliers (of inputs, machinery and mechanical staff); the cane-growing community that expected improvement in social services such as power provision, health care, water, schools and infrastructure, particularly roads; and the

government that expected increases in foreign exchange and tax revenues in general.

The beneficiaries of the sugar research PPP are the sugar-producing estates (Kagera, Kilombero and Mtibwa sugar estates and the Tanganyika Planting Company) and the small-scale sugar-cane outgrowers (farmers) around the estates. The sugar research programmes are undertaken by KSRI through a PPP arrangement – the government provides the infrastructure and pays researchers' salaries while the sugar industries contribute research funds. It was agreed that for every tonne of sugar produced, TShs 1 000 would be deducted for research activities. With sugar production estimates in the region of 250 000–300 000 tonnes/year (Manane, 2010), this translates into an average of TShs 275 000 000 being available for research each year. Capacity building in terms of training for M.Sc. degrees and other short courses are further sponsored by contributions from the sugar industries. Funding is at present managed through the Sugar Board of Tanzania (SBT) but, after restructuring, the research funds will eventually be managed by the Sugar Industry Trust. The agreement was formalized through the Permanent Secretary, Ministry of Agriculture, Food Security and Cooperatives (MAFC), who established the Sugarcane Steering Committee in 1991 with the role of approving the budget allocated to KSRI. The Permanent Secretary also set up the Sugarcane Research Technical Committee, which is responsible for approving and monitoring all research activities. The arrangement is that some of the trials are carried out in the sugar estates, which allows them to participate in the studies. Research results are shared with partners and presented at a workshop involving partners and other stakeholders in the sugar industry.

Sugar Board of Tanzania

The public partner in the sugar research PPP on behalf of the government is the Sugar Board of Tanzania (SBT), which is also the regulator of the sugar sector in the country under MAFC. It provides sector policy guidance, and on planning, development and growth. It is also mandated to regulate,

provide and promote a competitive environment in the sugar sector and empower smallholder farmers. SBT has a stakeholder representation that includes consumers, Tanzanian sugar producers' associations, Tanzanian sugar-cane growers' associations, representatives from MAFC and one member who is both knowledgeable and has vast experience in the sugar industry (URT, 2001).

SBT's role in the sugar research PPP includes creation of fair competition among sugar producer stakeholders by creating enabling legal frameworks and streamlining regulatory conditions. It also coordinates donor-funded projects to develop sugar-cane varieties and infrastructure in the United Republic of Tanzania; provides direct financial support to growers' associations; coordinates shared functions such as research and training among stakeholders in the sugar industry; and facilitates negotiations and agreements between millers and sugar outgrowers' associations. In this way, the sugar PPP assists in the creation of local production and marketing by striking a balance between imports and exports of sugar; supports donor-funded projects to enhance infrastructure development, import varieties and block farming; and supports growers' research institutes and training institutes. SBT also provides cars, motorbikes and office facilities, and helps with radio communications and operation managers, as well as supervising and monitoring business agreements among stakeholders.

The private partners in the sugar research PPP are the millers and growers' associations. The millers, i.e. the sugar-processing companies, are involved in establishing harvesting plans in cane business operations, and preparing budgets and business proposals for sugar production and marketing. The growers' associations are involved in business negotiations, implementing agreements with millers and lobbying in the interests of sugar-cane growers. There are also input providers who are contracted by sugar-producing companies to supply inputs/resources and provide services for other partners in the sugar industry.

3.2 TANZANIA AGRODEALER SUPPORT PROGRAM

Problems: unavailability of inputs for smallholder farmers in the rural areas of the United Republic of Tanzania and inadequate extension services, resulting in poor husbandry in the production of staple foods (mainly maize and rice).

Objectives: increase food production and sustainable income of rural farmers.

Drivers: private sector, development partners and the government.

Beneficiaries: farmers, agrodealers and microfinance institutions.

Partnership: between the private sector, microfinance institutions, development partners and the government.

The Tanzania Agrodealer Support Program is a PPP arrangement involving MAFC as a public partner; the National Microfinance Bank (NMB) as a private partner in credit provision; and the Tanzania Agricultural Market Development Trust (TAGMARK) as a private partner in capacity building. The primary beneficiaries are smallholder farmers; other beneficiaries are private agrodealer companies in the United Republic of Tanzania. TAGMARK is a non-profit organization affiliated with the Citizen's Network for Foreign Affairs (CNFA) Inc., a Washington-based entity registered as an international Non-governmental Organization (NGO) that is dedicated to increasing and sustaining rural incomes by empowering farmers and rural entrepreneurs. CNFA/TAGMARK is funded by the Alliance for a Green Revolution in Africa (AGRA).

The objectives of CNFA/TAGMARK involve promotion of enterprise-based agricultural development initiatives designed to improve farmer incomes and productivity by increasing smallholder access to better agricultural inputs and production through the strengthening of a rural agrodealer network. This is done through the Tanzania Agrodealer Strengthening Program and the Tanzania Agrodealer Strengthening Program-Extension (TASP/TASP-E) (TAGMARK, 2010).

CNFA/TAGMARK is also involved in government policy advocacy, business, technical knowledge, finance, and demand creation in the following areas:

- business management and technical training;
- credit and financial services;
- output marketing; and
- association development.

Under the first item above, the programme provides training on working capital management, managing stocks, costing and pricing, sales and marketing, record-keeping and managing business relationships. Technical training covers product knowledge, handling and safe use of pesticides, herbicides and fertilizers, and use of improved seeds, aiming to make the agrodealer a provider of both agri-inputs and extension services (TAGMARK, 2010).

Under credit and financial services, CNFA/TAGMARK supports certified agrodealers by linking them with financial services such as the NMB in order to access working capital and trade credit through a guarantee scheme.

Under output marketing, CNFA/TAGMARK is involved in strengthening the linkages between input and output distribution channels, and using the rural retailer as a link back to cash markets for their farmer customers. The TASP and TASP-E programmes provide agrodealers with matching grants to improve storage and processing facilities and invest in transportation, packaging and handling equipment for farmers' output.

Lastly, under association development, CNFA/TAGMARK encourages and supports the formation of agrodealer associations in order to create an influential voice in policy formation and change (TAGMARK, 2010).

Ministry of Agriculture, Food Security and Cooperatives

The public partner of the Tanzania Agrodealer Support Program is MAFC, on behalf of the government. MAFC operates through the regional and district administrative secretaries to ensure that inputs (fertilizers and seeds) under the programme reach the targeted beneficiaries (farmers). MAFC contracts with CNFA/TAGMARK to undertake its capacity programme with farmers and agrodealers. The Department of Agricultural Inputs at MAFC is the focal point for the public partner in this initiative.

National Microfinance Bank

The other private partner in the Tanzania Agrodealer Support Program is the National Microfinance Bank (NMB). NMB issues loans to agrodealers trained by CNFA/TAGMARK. These loans are issued under the guarantee that the government has in turn received funding from AGRA to support this programme. AGRA receives its funds from different donors, including the Bill & Melinda Gates Foundation. The AGRA and government funds are those used to guarantee agrodealer loans for the purchase of inputs. These funds are channelled through the Financial Sector Deepening Trust (FSDT). FSDT is a fund established by five government donors: Canada, the United Kingdom, Sweden, the Netherlands and Denmark, in close collaboration with the Bank of Tanzania and the government (FSDT, 2011). FSDT's supervisory body comprises representatives from each donor country and from the

Bank of Tanzania. It is headed by the Technical Director, who is assisted by technical, financial and administrative managers (FSDT, 2011). FSDT works with organizations and individuals all over the United Republic of Tanzania, particularly in rural areas. Currently, it is working with microfinance institutions and savings and credit cooperatives (FSDT, 2011)

FSDT's overall aim is to provide greater access for more people to engage with the financial system throughout the United Republic of Tanzania (FSDT, 2011). Therefore, within the Tanzania Agrodealer Support Program, FSDT aims to empower agri-input stockists to reach farmers easily and at relatively less cost to both farmer and dealer. The ultimate goal is to increase input use by farmers and therefore increase production. Input retailers/agrodealers are the direct beneficiaries of the PPP and benefits are in the form of increased working capital and sales turnover. Indirectly, but most important, are the farmers' increased use of agri-inputs and the immediate measurable outcome is at the production level. The nature of the support is through credit guarantee agreement. CNFA/TAGMARK trains and certifies agrodealers so they are credible to apply for loans. Once they have been trained and certified, they then receive loans/credit advances from the NMB. Monitoring of these loans is the function of the bank itself, but CNFA also helps in recovery on request of the bank. AGRA therefore becomes a guarantor and is expected to compensate the bank should any of the agrodealers default.

3.3 TEA RESEARCH INSTITUTE OF TANZANIA

Problems: decline in tea production and of funds for tea research.

Objectives: provision of high-quality, cost-effective technology transfer in the tea industry.

Drivers: private sector (tea producers and processors), development partners and the government.

Beneficiaries: tea estates, outgrowers, tea processors and the government (tax).

Partnership: between the private sector (tea producers and processors), development partners, outgrowers and the government.

This programme is one of the most successful PPPs in the United Republic of Tanzania. It is a partnership between MAFC, the Tanzania Tea Authority, TRIT, tea plantations and tea outgrowers.

TRIT was established in 1996 as an autonomous organization and public company representing the Government of Tanzania and the tea industry.

Its mandate is to support the continued development of the tea industry and both large- and small-scale producers through the provision of appropriate high-quality, cost-effective research and technology transfer to ensure the sustainability of the industry (TRIT, 2010). Research priorities are determined by the stakeholders, represented by a Board of Directors. Specific research proposals and activities are vetted by a technical advisory panel composed of eminent scientists from both within the country and abroad. Their inclusion on the panel is by merit and relevance of their technical experience.

TRIT was funded by a statutory cess (tax), levied on all tea producers, and by grant aid from willing donors until 2006 when the government abolished the cess, opting instead to contribute directly to tea research in lieu of the cess. However, stakeholders continue to support TRIT through a voluntary contribution of TShs 5 for each kg of processed tea. In order to formalize the government's contribution to TRIT, a draft Memorandum of Understanding (MoU) between the government and the private research institutes was prepared and is being formalized. Once signed, the MoU will provide a framework for the financing and ownership of research facilities and results, hence guaranteeing a smooth flow of resources for tea research activities in the country.

Since in the past agricultural research has always been a public good, with the government taking full responsibility for coordination and funding, the involvement of private institutions such as TRIT provides a good PPP model for agro-industry in the United Republic of Tanzania.

The output of TRIT research activities benefits various stakeholders including: (i) smallholder farmers who access new technologies for improving their tea productivity; (ii) large-scale estates that benefit from the developed and disseminated technologies; (iii) tea processors who benefit from economies of scale as a result of improved production of raw materials; (iv) the government from improved sector contribution to GDP and revenue from relevant taxes; and (v) the global scientific community from high-quality publications that add to the body of knowledge on how to grow, process and market tea. TRIT obtains support from the government (public sector) for approximately 70 percent of its staff wages and approximately 20–30 percent of operational costs. Donors, especially the European Union, provide support on specific development activities such as farmer training programmes, smallholder nursery

schemes and tea research targeting infrastructure development. The government has made available to TRIT certain infrastructures (buildings, developed tea farms, vehicles) located at the Marikitan-da Tea Research Station in Lushoto district in the Northern Highlands of the country and the Kifyulilo Tea Research Station in Mufindi district in the Southern Highlands for the sole objective of advancing tea research activities. Staff at the Ngwazi Tea Research Station were subsequently incorporated into TRIT. The private sector, in particular tea producers, continues to contribute voluntarily in support of tea research activities and provide land for infrastructure and research activities. All these contributions are used collectively to support the growth of the Tanzanian tea industry.

The major incentives for both partners are mutual: (i) the private sector obtains full representation and has a say in setting research priorities in order to benefit its businesses directly; (ii) the private sector can also demand high standards in research output since this arrangement gives it adequate control of TRIT activities; and (iii) the government (public sector), on the other hand, enjoys the delegated responsibilities of running the tea research activities since stakeholders themselves take the leading role. The current arrangement provides for collective governance: (i) the Board of Directors, which is the ultimate body in decision-making, consists of members from both the private and the public sector; (ii) accounts are audited annually by professional appointed auditors and the audit reports are presented to and cleared by the Board of Directors; (iii) research activities are guided by the TRIT advisory panel and within the institute a Research Director is responsible for supervising the implementation of the approved research activities; and (iv) for donor contributions special contractual agreements are signed between TRIT and the respective donors, whereby the Executive Director, on behalf of the Board of Directors, is responsible for ensuring implementation of the activities as per the agreed contract.

The idea for the establishment of TRIT first came from private sector representatives who went on to engage their counterparts in the government. The idea attracted interest from donors supporting the initial groundwork; and a task force comprising representatives from the private sector and the government was subsequently formed. This task force provided a legal and institutional framework for the formation of a private company (TRIT)

charged with the task of conducting research (a traditional public service) on behalf of all stakeholders, including the government. Initially, only goodwill agreements existed between the private sector custodians and the government. However, after the initial operations, with experience gained and challenges overcome, it was recommended that a formal MoU be set up, involving other sister institutions based on the TRIT model (such as TaCRI for coffee and TORITA for tobacco). Negotiations are still under way to ensure that the MoU is signed and becomes operational in defining the relationship between private research institutions and the government.

3.4 SAO HILL FOREST PROJECT

Problems: depletion of existing forest resources and ensuring availability of timber and forest resources for the growing timber industry.

Objectives: ensure availability of timber and forest resources and increase participation of the private sector in plantation forestry.

Drivers: private sector, small-scale forestry plantations, development partners and the government.

Beneficiaries: private sector (timber plantations and industries), small-scale plantations and the government (tax).

Partnership: between the private sector, development partners and the government.

The United Republic of Tanzania has an estimated 30–40 million ha of forests and woodland. The Ministry of Natural Resources and Tourism (MNRT), through the Forestry and Beekeeping Division, is entrusted with managing the country's forest and bee resources on a sustainable basis to meet the needs of local and global communities. The Sao Hill Forest Plantation, one of the largest timber plantations in the country, is located in Mafinga, Iringa region, in the southern plateau. Sao Hill was established for timber and pulp production. The Sao Hill plans and projections in the Tanzania Forestry Action Plan aim to expand the forest from its current planted area of about 40 000 to 60 000 ha. It is assumed that half the area will be planted with pine and cypress for sawlogs, while the other half will be planted with pine for pulpwood. The rotation for the two species is 25 and 15 years, respectively. The Sao Hill plantation and its planned expansion will form a mitigation option if implemented properly. The mean annual increment for the two species in cubic metres of biomass/ha/annum is 25 and 17 for sawlogs and pulpwood, respectively.

Since the mid-1980s, the United Republic of Tanzania has been implementing a number of economic and market reforms in order to raise economic growth and improve the performance of different sectors in the country. One of these reforms was privatization of the production sectors, including forestry. Some wood-based industries have been liquidated or sold, while others have entered into joint PPP ventures. Sao Hill is one of the public forestry companies that has entered into PPP arrangements in some of its functions. One of its partners is Green Resources Ltd.

Green Resources Ltd

Green Resources is a plantation, carbon offset, forest products and renewable energy enterprise. It was established in 1995 and is a private Norwegian company with over 60 shareholders, employing more than 3 700 people and operating in Mozambique, the Sudan, the United Republic of Tanzania and Uganda. It is Africa's leading forestation company and has more than 14 000 ha of forest. Trees are grown to generate carbon credits and bioenergy and to manufacture wood products. Green Resources has probably planted more new trees than any other private company in Africa during the past ten years; a record 4 200 ha of new forest was planted in 2008. In addition, the company holds more than 200 000 ha of land for future planting and conservation. It started the first harvest from its own forest in 2008 under the Uchindile Forest Project (GRAS, 2010).

Green Resources is a leader in reducing forestry-derived greenhouse gas emissions and received its first verified carbon credits in 2000. All carbon offset revenues will be reinvested in new carbon offset activities or be used for community developments in Africa, making the credits some of the most attractive in the world. Green Resources' industrial operation, Sao Hill Industries, is East Africa's largest sawmill and one of the largest transmission pole producers in the region; it also has carpentry and joinery plants. It generated more than USD10 million of revenue in 2008 and has several sales branches throughout the United Republic of Tanzania. Green Resources' strategy is based on sustainable development of the areas in which it operates. The company believes that forestation is one of the most efficient ways of developing and improving social and economic conditions for people in rural areas. Green Resources aims to be the preferred partner for local communities in these areas. It also wants to be the favoured African employer within the industry (GRL, 2011).

Green Resources has been involved in creating an enabling environment for the private sector to invest increasingly in timber growing, management, processing and trading. This arrangement is facilitated by institutional and contractual arrangements that benefit all engaged parties, including smallholders and communities for win-win arrangements. The beneficiaries, among others, are community-based organizations, civil societies, NGOs, large- and small-scale farmers, researchers, training institutions and saw millers. The expected benefits include the sale of forest products, non-wood forest products, carbon sequestration and business, environmental conservation and ecotourism.

Funds for developing smallholder forest plantations come from Green Resources itself, savings and credit cooperative society loans, donor agencies and government institutions. Some programmes receive concessions but not for land owned under customary land occupancy, leased land, land bought from landowners or inherited land. Technical assistance is given by paraprofessionals; district council, government and Green Resources technical officials; donor agencies; and farmer-farmer learning protocols. The incentives given are employment and cash incomes. The role of the government on the other hand is to create an enabling environment for private sector investment, assisting contractual approvals and endorsements.

Ministry of Natural Resources and Tourism

MNRT, through its Forestry and Beekeeping Division, coordinates the implementation of the National Forest Programme (NFP) and oversees the development of private forestry in the country. Because of MNRT's central role in PPP development in the forest sector, the author of this study took the opportunity of discussing the status of PPPs in the forest sector in the United Republic of Tanzania with some MNRT officials.

The development of PPP arrangements, also known as private forestry in the forest sector, forms part of the implementation of the National Forest Policy of 1998 which clearly stipulated the involvement of private agents in establishing tree farms/plantations for commercial purposes. Therefore, in 2001, the National Forest Programme in Tanzania 2001–2010 was prepared, which provided guidelines on the establishment of private tree farms/plantations in the country (MNRT, 2001). The beneficiaries of private forest programmes are farmers, individuals, the commu-

nity, investors and the nation in general. However, farmers and communities benefit more in terms of the extension services that are provided by the government to private sector partners in the tree farming business. The government also provides tree seeds from the National Tree Seed Centre and some private partners are given concessions as stipulated in the framework and guidelines for evaluating and awarding forest concessions (MNRT, 2006). Public sector incentives and commitments are the provision of an enabling investment climate (through the Tanzania Investment Centre); capacity building for forestry personnel (Forestry Training Institute in Olmotonyi, Arusha and forestry training for officers at Sokoine University of Agriculture, Morogoro); and advice on tree farming business plans for farmers and communities. The private partners will provide technical assistance through baseline surveys and capacity building as well as in monitoring and evaluation of projects to ensure that they are in accordance with established standards. The private forestry programmes are formalized either through the Tanzania Investment Centre and District Land Offices in issues related to land or through MNRT in issues related to licences. Some contracts are also signed between MNRT and private service providers in the community tree farming businesses.

Heifer International project

Heifer International Tanzania (HIT) is an international NGO registered in the country and working with local and foreign partner organizations in implementing its activities. Most of the local partners are churches, NGOs, district and agricultural livestock development offices, farmers' associations, rural cooperative societies and government institutions. HIT programmes are divided into four zones, namely, the North East Zone with its office in Arusha, the North West Zone in Mwanza, the South East Zone in Dar es Salaam and the South West Zone in Mbeya. Each zone is decentralized and led by a zonal manager who reports to the Country Head Office based in Arusha under the Country Director (HIT, 2010).

The purpose of the Heifer project is to improve the productivity and marketing of forest produce from the producer groups established under the private forestry system. The direct beneficiaries are the primary producers who, through the project, will be assured of a market for their products and maintenance of the quality of their produce.

Project support is both financial and technical from the Kilolo District Council (public partner) and Green Resources. The extension services give additional support in the management and operation of the woodlots of the producer groups. The private partner also provides training on the management of woodlots, creates awareness of the benefits in establishing woodlots, and may sometimes provide facilities for woodlot management.

Other roles of the private partner include capacity building on the management and production of forest products by producer groups and monitoring the performance of the beneficiaries from the agro-enterprises established under the project. The role of the public partner is to facilitate institutional arrangements and ensure that registration by producer groups is done properly. The Heifer PPP project operates through producers' associations that are legally registered.

Chapter 4

Development of PPP arrangements

4.1 KIBAHA SUGARCANE RESEARCH INSTITUTE

Because of increased sugar demand in the United Republic of Tanzania, KSRI convinced stakeholders (sugar plantations and processors) that the necessary sugar research would be successful if supported by a PPP arrangement. The partners agreed to establish a Sugar Development Fund to support sugar research activities.

The government revised the Sugar Act of 2001 and published the Sugar Regulations in 2005 to ensure smooth operation of the PPP.

The development of the sugar research PPP was the result of increased demand for high-yielding sugar-cane cultivars by farmers and estates and the inadequate funding of sugar research by the government. The significant changes taking place nationally and throughout Africa had affected agricultural research in the United Republic of Tanzania (Beintema *et al.*, 2003) – the East African Agricultural and Forestry Research Organization (EAAFRRO) had collapsed following the disintegration of the East African Community (EAC), and the Kagera war had taken place in 1978–79. A further significant change was the reorientation of donor community support from public funding to the private sector. The Department of Research Development at MAFC therefore decided to overhaul its research systems in order to be more holistic and to involve other stakeholders (Beintema *et al.*, 2003). It was proposed that sugar industry stakeholders fund KSRI under a PPP arrangement.

Local and export market opportunities for sugar are still high since 35 percent of sugar used in the country is imported. Current production is unable to meet demand. The negotiations for a sugar research PPP took about ten years to be functional, which gives an idea of the complexity of the process. The contribution of the private sector, the sugar industries, was to establish a Sugar Development Fund of TShs 1 000/tonne of sugar produced; the public sector was to contribute training, land and KSRI salaries. These agreements were drawn up through MAFC. Benefits expected from the PPP were an increase in the efficiency

of productivity of the sugar industry in general (in order to meet local and export demand); creation of employment; increase in government revenue; and reduction in poverty levels among smallholder sugar-cane growers in production areas. A decision-making steering committee with members including stakeholders in the sugar industry – sugar-processing industries, sugar out-growers' associations and the government – was to run the PPP. Progress reports were to be prepared quarterly to assess the performance of the PPP.

The circumstances leading to the development of the sugar PPP were the adoption of privatization policies in the mid-1990s by the government and its withdrawal from business (profit-making) ventures, which necessitated a review of the sugar research system to be operated under a PPP arrangement without relying fully on public support. The main drivers of the PPP were the cane growers' associations (i.e. the suppliers of sugar cane to the private sugar estates); privatized sugar milling companies that ensured constant cane supplies and good working relations with the surrounding communities; and the Sugar Board for the enhancement of fair competition and the creation of a legal framework for a win-win situation among stakeholders and entrepreneurial companies whose direct or indirect involvement served the community around the sugar plantations. The reasons behind the sugar research PPP were the need for a constant supply of raw materials, i.e. sugar cane, for the sugar-processing industries; reducing challenges related to cane harvesting, haulage and transportation; and for the protection of the local sugar market (fair competitive environment).

The procedures used to identify market opportunities included market surveys and a review of associated trade policies. Negotiations were carried out between millers and growers' associations, while the Sugar Board was overseer. The expected costs and benefits were determined through joint negotiating committees of business partners and through the strategic business plan with cost-benefit analysis. Feasibility studies were also undertaken to ascertain the socio-economic

benefits for the enterprises and the community. The policy environments impacting the success of the PPP include the enhancement of the 2001 Sugar Act and the publication of the 2005 Sugar Regulations in the official government gazette with guidelines and subsidiary amendments, review of the taxation regime and investment incentives. Decisions and the assignment of specific roles to each partner were the responsibility of the steering committee in association with operational managers. The formal tools used were the sugar market data analysis and facilitation of the business meetings between millers and growers' associations.

4.2 TANZANIA AGRODEALER SUPPORT PROGRAM

Aware of the direct correlation between input use and crop yields, AGRA convinced financing institutions and the government to establish this programme in order to increase farmers' yields through input provision.

Partners agreed to establish a quarantine fund to provide a guarantee for agrodealers involved in the programme. A guarantee fund of USD1.1 million was thus created and placed with the National Microfinance Bank so as to cushion any risks arising from the programme.

The idea of forming the PPP was based on AGRA's initiative to revolutionize African agriculture. It is true that there is a direct correlation between level of input use and farm production; however, the level of input use in Africa is considered prohibitively low. Therefore, this arrangement was an attempt to solve the problem and eventually increase agricultural production. FSDT agreed to the idea and the NMB was later approached as a collaborator in loan/credit provision. The reasons advanced by the drivers of the PPP were that the programme would lead to increased food self-sufficiency and increased agricultural production in general. For the bank, this was viewed on two levels: first, it would increase the customer base and make profits, and second, it would support government efforts to revolutionize agriculture in the country. Other reasons supporting the adoption of the PPP were the long distances covered by farmers to buy farm inputs in urban centres; low farm productivity because of low input use; and Tanzanian agricultural potential given appropriate production inputs. These factors indicated that the PPP would be likely to succeed.

Input demand analysis was carried out but the size of the guarantee fund was determined by AGRA and FSDT based on their own criteria.

NMB is only allowed to lend up to 4.5 times the value of the guarantee fund (leverage of 4.5). Costs incurred are from AGRA's guarantee fund which earns interest – a cost to the bank while at the same time earning interest on loans. All other costs associated with project monitoring are met by the partners themselves. The public benefits expected are for farmers all over the country who will benefit from the input supply programme, leading to an increase in crop production.

NMB qualified for the agrodealer programme since it has a fully fledged agribusiness department in its organizational structure as well as a large network in rural areas at district level. Decisions made as to the role of each partner are based on the MoU between the partners. Moreover, each partner has its own internal policies and procedures that assist in the management of the PPP. Approval of the PPP was based on several preliminary discussions that took place with representatives from each partner. Thereafter, proposals were sent to each partner's decision-making hierarchy for approval. Tools used in the planning phase were the partners' profiles.

The Tanzania Agrodealer Support Program PPP was established first with the aim of building the input capacity of agrodealers in the areas of business knowledge, extension services and agricultural advisory services. Second, the PPP was to make agricultural inputs available up to village level or area that could not be covered by large-scale input dealers, i.e. since most of the agrodealers are at village level, they can easily reach smallholders. They can also be a good backward link to farmers in terms of input provision. The main driver of this programme was MAFC after the government was faced with providing numbers of quality inputs to farmers in rural areas. Other drivers were AGRA and NMB. FSDT subsequently joined. It was agreed that NMB would issue loans to agrodealers worth USD5 million and the government would provide USD1.1 million as a guarantee to cushion risks.

4.3 TEA RESEARCH INSTITUTE OF TANZANIA

Because of the poor performance of public tea research in the United Republic of Tanzania, there was a desire to improve performance coupled with improved accountability, efficiency and relevance of research outputs.

The partners agreed to establish a tea research fund from tea sales. It was agreed that the initial management of TRIT should be under a management agent. This was Cranfield University in the

United Kingdom, which managed TRIT during the early stages of its operations.

TRIT was set up partly as a result of poor performance by public research establishments that did not satisfy growers from the private sector. The pace at which the private sector expected to receive and use research results was not matched by the rate of results from public research. A desire to improve the performance of tea research services in the country led to the innovative thinking that created TRIT as part of an enabling environment for PPP. The main drivers were the large tea-producing companies (Brooke Bond, Mufindi Tea Company, Tanganyika Wattle Company and East Usambara Tea Company). The management of these companies took the initiative of forming a consortium that initially established their own research unit which conducted tea research parallel to that of the government. The decision to engage the government was logical in order to harmonize the activities of the two parallel programmes. Government officials helped to facilitate the merger. They knew that high-level performance would be achieved by partnering with the private sector which at the time was producing high-quality research output.

The main reason advanced to the private sector for PPP was the possibility of improving accountability, efficiency and relevance of research outputs, particularly because the proposed setup gave control of the activities to tea farmers themselves, who were better positioned to determine research needs. The key reason advanced to the public sector was that the private sector was willing to contribute towards operations and wages for the proposed research institute. It was a win-win scenario that attracted both sectors.

The creation of the research institute to support the development of the tea industry for both large- and small-scale producers with appropriate high-quality, cost-effective research and technology transfer was a kept criterion to ensure access to market opportunities for Tanzanian tea. The process started during the mid-1990s and an agreement was partly reached in 1996 for a mandatory cess (tax). Cranfield University in the United Kingdom was appointed on a competitive bid as the external management entity to set up and run the institute for the first three years.

Further negotiations with the government leading to the formation of TRIT and the transfer of certain public assets were concluded in 1996, paving the way for the start of TRIT operations in November 1998. Initially, the sole source of

TRIT funding was through the mandatory cess and this was unanimously agreed by all stakeholders, having been convinced of the benefits of an effective research institution which they controlled. Since TRIT is a service-oriented non-profit institute, costs and revenues were estimated purely on the basis of the expected actual costs of running approved field trials, experiments and staff wages. The philosophy was to set up a lean and effective research institute with minimum overhead costs and this guaranteed that the industry contribution through cess plus the grants from willing donors were adequate to support approved research activities.

It is difficult to estimate or quantify the benefits of agricultural research. The key motivation at that time was to establish an institute that could deliver more efficient, cost-effective research services that were more relevant to end-users' needs. The expected contribution of the research output was more abstract than a quantified estimate. The obvious expectations of increased yields and quality, leading to increased stakeholder incomes, may be at the base of the estimates.

The daily management and implementation of the agreed measures were left initially to Cranfield University and, after the expiry of its contract, to the Executive Director and his team. They are now responsible at various levels for the implementation of the research programme under TRIT. TRIT is an autonomous organization managed by a board comprising ten members with broad representation from the tea estates, smallholder tea growers and the government (Baffes, 2004). General implementation issues are subject to approved annual budgets. Stakeholders are consulted for their views on management. A financial model has been developed to simulate income/revenue inflows from mandatory cess relating to tea production trends, creating incentives for research on increased productivity; although smallholder tea producers contribute just one-tenth of the cess, one-third of TRIT's budget is earmarked for activities that benefit them (Baffes, 2004).

4.4 SAO HILL FOREST PROJECT

The main problem was the increase in timber and forest products trade, which was considered illegal until 1998 when the government formulated the Tanzania Forest Policy. It was agreed that private players should be allowed to establish forest plantations. Communities should be allowed to establish tree farms. It was agreed that some activities carried out by the government should be transferred to private players.

The development of private forest partnerships in the United Republic of Tanzania was triggered by farmers and other agroforestry stakeholders who were practising forestry but were not legally recognized and by the fact that a legal framework for expansion or operating commercially was lacking. There were, moreover, environmental challenges, an increased need for forest products or forest-based raw materials, community awareness, and changes taking place in the forest sector. Market opportunities and prospects for targeted forest-related business were identified and assessed by stakeholders' meetings and MNRT workshops, surveys and commissioned studies based on the challenges facing the forestry sector. However, most new forest programmes took at least a year to be designed and developed. Financing for PPP in the forest sector came from the government and the donor community, in particular the Governments of Finland and Norway. Other individual contributions came from private players and farmers who were already operating in the sector. There was open participation in the process through exchange of ideas on the MNRT Web site and its newsletter, *Misitu ni Mali* ("Forest is wealth").

Forest PPP arrangements were also based on the development of a spirit of community participation in forest management, particularly focusing on environmental amelioration and the protection and conservation of natural resources in the United Republic of Tanzania. At the inception of this PPP, private investors were considered as development agencies for environmental conservation.

The PPP was developed with the aim of facilitating local communities to benefit economically from private forestry activities taking place in the area. The drivers behind the development of the PPP arrangement were the economic and poverty challenges faced by each community.

Chapter 5

Management and operation

5.1 KIBAHA SUGARCANE RESEARCH INSTITUTE

Management of the PPP leaves all research activities to KSRI. It forms the secretariat in charge of day-to-day operations. A technical committee oversees the progress of the activities. Policy and regulation issues are dealt with by the Sugar Board of Tanzania (SBT) on behalf of the government.

The partners' roles in the sugar PPP are apportioned such that KSRI is in charge of conducting all research and reporting the progress made to the technical committee. Other stakeholders also participate in meetings where progress reports are presented and discussed. KSRI forms the secretariat for overseeing day-to-day operations and managing the resources. The secretariat takes the lead in formulating strategies for sugar research and development activities.

Main responsibilities of the partners are the following:

- SBT ensures fair play among stakeholders, and monitors and ensures compliance;
- investors ensure that results from KSRI are utilized in the enhancement of cane and sugar production;
- growers ensure increased production and supply of sugar cane to the cane mills;
- investors and growers ensure that KSRI is conducting research that addresses the needs of the sugar industry.

The main performance monitoring and appraisal mechanisms are carried out through the following:

- Board operations report on cane supply ;
- routine factory performance report;
- special growers' association operation committees;
- routine operations meeting with sugar estates;
- Medium Term Expenditure Framework implementation activity report; and
- audited accounts reports.

The materials, equipment and infrastructure needed for the sugar PPP include laboratory equipment and chemicals, greenhouses, vehicles, computers, office buildings and staff quarters, as well as staff training outside the country. In this partnership, materials came from suppliers

and technology was provided by agronomists, extension officers, engineers, social scientists and IT specialists. These were procured under agreed contracts based on a tendering system and review/approval by the joint tender committee comprising representatives of the partners. Procurement was based on prepared terms of reference so that in the case of default or disagreement, settlement of the dispute was facilitated.

KSRI has been active in developing technologies, including recommendations on the use of herbicides and fertilizers in sugar-cane production for small-scale producers and the release of two varieties of sugar cane, namely N19 and N25, with the latter released in January 2010. The release of new varieties follows stringent procedures so has been one of the notable achievements of the PPP.

Despite the success so far, the institute is still faced with staff shortages, particularly in the areas of plant breeding, entomology and pathology; as a result, it has had to outsource certain services. Another challenge regards procurement. Since KSRI is a public institution, it uses Tanzanian public procurement procedures to obtain services. These procedures are generally lengthy and may sometimes slow things down as compared with the process in the private sector.

A further risk faced by the sugar PPP is that of non-compliance of some partners to meet their obligations or to meet them with some delay. This may result in shelving certain planned activities until the obligations are fulfilled. The measures taken to mitigate these risks include negotiations, apart from requesting the partner to comply on time. KSRI has also been getting support from outside the PPP from the Common Fund for Commodities, the East African Sugar Development Project, the European Union and the Southern African Development Community (SADC). NGOs such as DAI PESA have also been assisting smallholder sugar producers through training in best sugar-cane production practices and support in infrastructure development. The current challenges facing the institute are lack of human resources and new technologies such as a tissue culture laboratory for the use of tissue culture in

sugar-cane breeding. Other challenges occur when leadership changes in one of the partner institutions and the new management is unwilling to fulfil its obligations.

Other main risks facing the PPP and many smallholder cane growers are weather conditions, such as excessive rainfall or drought, old cane varieties and rainfed agriculture. All these factors tend to hinder progress in achieving the set outputs. Action taken to mitigate the risks includes:

- import of new sugar-cane varieties;
- support to infrastructure development, i.e. farm access roads and drainage;
- initiation of design irrigation system for out-growers;
- district agricultural development projects to support smallholder farmers;
- commercial banks, offering loans to agriculture-related activities; and
- services by other community-based organizations in the cane-growing areas.

To summarize, the key challenges facing the sugar PPP are:

- increasing production costs;
- cumbersome land acquisition procedures;
- investors' headquarters are outside the United Republic of Tanzania so that certain urgent decisions have to wait before action can be taken;
- compliance with regulations; and
- acquiring statistics from companies may be difficult and/or not transparent.

5.2 TANZANIA AGRODEALER SUPPORT PROGRAM

Management is divided among the partners. CNFA/TAGMARK is in charge of training the agrodealers and the support formation of the network. Credit provision is through the NMB and the provision of extension service is left with the government.

The MoU prepared for the PPP defines the role of each partner. A quarterly review session is held to assess progress, identify obstacles and come up with solutions. The team normally includes participants from all partners. Quarterly review reports from each of the partners are also prepared. The main risk to the programme is loan defaults by agrodealers. Aggressive monitoring and recovery have proved to be the best way to reduce any defaults. Good structuring of credit facilities is also key to expected performance. Moreover, apart from the AGRA/FSDT guarantee, every agrodealer who borrows is supposed to have his or her own collateral, together with CNFA/TAGMARK training.

5.3 TEA RESEARCH INSTITUTE OF TANZANIA

TRIT is governed by the Board of Directors. The Executive and Research Directors are in charge of day-to-day operations. Staff emoluments are paid by the government while operational costs are covered by contributions from the private sector and development partners.

The Board of Directors provides broad guidelines whereas day-to-day management and implementation rest with the Executive and Research Directors. Research is implemented under programme leaders. The major specific roles of both private and public partners are centred on providing funding for TRIT. The government contributes towards staff personal emolument and some proportion of operational costs. Stakeholders have agreed to contribute voluntarily to top up the budget deficit and other specific development programmes. This is done by apportioning 1.5 percent of the 2.5 percent levy on the net sale value of made tea (Baffes, 2004).

TRIT is a service-oriented institute whose task and mandate is to generate and disseminate information on recommended best tea management practices. There are no incoming procurements or delivery to third parties.

Personnel numbers at the institute were determined by identified and prioritized research over a specific period. Initially, some staff from the existing government research stations at Kifyulilo and Marikitanda and also from the privately run Ngwazi Tea Research Unit were deployed to form TRIT. Additional staff were recruited from the job market to fill positions that required specific skills. To emphasize the importance of experts, the institute was initially managed by professional managing agents from Cranfield University in the United Kingdom. Where in-house experts are not available, short-term consultants are called in and paid for by TRIT. The institute has developed a comprehensive financial and administrative manual that provides guidance on all procedures for outsourcing and subcontracting. Specific limits have been set to define the various administrative levels at which decisions can be made without referring to the higher authorities. There is usually a provision for an annual staff appraisal meeting to enhance the individual performance of researchers and other institute staff. The appraisal outcomes have been used to promote staff as well as forming a basis for punitive measures including termination of employment when necessary. The main risk for a stakeholder in service provision is the possibility of failing to meet the expectations

of other stakeholders. Consequently, TRIT has been liaising with its stakeholders through board, advisory panel and other informal meetings to ascertain whether its actions are in line with the expectations of the diverse stakeholders.

The other risk area is funding, particularly because the government contribution forms an important source of revenue. TRIT has experienced inadequate and erratic disbursement. To mitigate this situation, it has extended its sources of revenue to include more donors and self income-generating projects. TRIT is still far from being self sufficient but plans are in place to achieve this goal. Donor support comes from various agencies; the most prominent development partner has been the European Union. TRIT has also received material support directly related to technical assistance for specific research areas; for example, the International Atomic Energy Agency (IAEA) is supporting the institute in conducting research on the safe use of nuclear technology to study plant water use for agricultural purposes. TRIT also receives support from stakeholders within the tea industry for conducting specific activities such as extension services, soils and plant analysis.

TRIT reported that there was a cultural and mindset variability between both public and private sector officials during the initial stage of the formulation of the PPP. These differences were slowly smoothed over thanks to continuous dialogue and experience-sharing during the implementation of pilot projects. The private sector is generally output-oriented and would rather take a short cut to ensure that the job and the goals are achieved in time, whereas the public sector is more bureaucratic and its priority is to follow guidelines even sometimes at the expense of the outputs. Trust can be difficult to establish between the private and public sector so the partnership may constantly face tensions. Yet these difficulties are being resolved and the situation is improving with both the establishment of a formal forum to discuss these issues as well as the existence of the contractual agreement in the form of a MoU.

5.4 SAO HILL FOREST PROJECT

Management and operation of the project are divided among the partners. The public sector is involved in capacity building, awareness creation and formalization of the enterprise. The private partners are responsible for support and backstopping of the formalization process and capacity enhancement on the technical issues.

A Project Manager is in charge of all managerial activities.

The role of each partner is stipulated in the agreements formalized in each private forestry programme and will vary from one area to another depending on the type of forest business. However, the risks that might affect the timber business are fluctuations in timber prices of smallholder tree farmers; destruction of biodiversity (through destruction of grasslands for tree farming); and fire hazards that might affect long-term investment in forestry. The key challenges faced by public and private officials in the implementation of a private forestry programme are: (i) convincing local communities to shift from subsistence to commercial tree farming; (ii) landownership in the United Republic of Tanzania where land is owned by men but women are those more interested in commercial tree farming; and (iii) poverty levels of the communities are such that they can contribute little to the partnership. Most communities depend on the government to implement everything in the partnership. The challenge therefore is to change the attitudes of these people so that they can enhance their contribution to the partnership. Another challenge regards the forest products industry which will, if not performing well, affect the tree farms that supply the raw materials. Help is needed to improve the forest products industry to ensure that it is able to provide good products that are supportive of commercial tree planting.

Taking tree growers' associations as an example, planning of activities is carried out by tree growers while Green Resources is responsible for activities that need services such as training, market research, seed procurement and capacity building. However, there are some activities that tree growers have to do, such as raising seedlings, planting them in the field and managing forests. To do this, they need materials – seedlings, fertilizers, hoses and watering-cans. Technologies delivered to villagers dealing with tree growing are training on nursery and woodlot establishment, management and harvesting. The service provider is therefore responsible for linking tree growers with seed suppliers and market research, which entails the creation of both forward and backward linkages.

Forward planning in natural resources development and management expertise is essential to ensure that stakeholders participate in the whole process. Another area of essential expertise is that of estimation of products for marketing, for example carbon, wood products and value addition in wood products. Thus, interested parties to work as service providers/outsourced partners

have been sought. Short-listed companies were interviewed and those qualified were outsourced. The main criteria for selection were competence and experience in natural resources management.

Procurement of materials, technology and services takes place according to the agreed terms of the role of each partner. The expertise required in the implementation of the project includes quality improvement, managerial expertise in woodlots and business management of the entire enterprise. There were no specified managerial procedures for outsourcing and subcontracting as each partner has its own arrangements.

The development of socio-economic baseline data at the onset is fundamental for subsequent performance monitoring and appraisal of the project and its impact. Results will pave the way for better performance and/or improved implementation. Monitoring and appraisal are carried out through visits to project sites, comparing activities implemented with the initial strategic plans and data; and through progress reports, regular meetings and workshops of the project partners. Other monitoring instruments include pre-designed monitoring checklists on performance. The main risks of the project are sustainability and consistency of the partners in implementing the various enterprise activities according to the plans. It is not feasible for all stakeholders to be available at regular forums to discuss project progress but they should be consistent in their planned activities and in the timely availability of finance to implement these activities according to prepared schedules. Synergy is essential in maintaining an equilibrium of responsibilities in the implementation of the project.

Chapter 6

Performance and development outcomes

6.1 KIBAHA SUGARCANE RESEARCH INSTITUTE

The sugar PPP has meant an increase in the output of sugar cane from 25–30 tonnes/ha to 40–55 tonnes/ha under smallholder sugarcane production. From the perspective of the sugar estates, productivity has increased from 70–90 tonnes/ha to more than 100 tonnes/ha. This was also attributed to a change in field management proposed by KSRI and the introduction of improved varieties. The PPP is helping to develop the Ifakara Research Station, which will be used as an open quarantine field for work on the new sugarcane varieties introduced such as N19 and N25. New culture practices for the control of scales and white stem borers have also been introduced.

As regards trade in sugar and sugar-based products, unregulated sugar imports are the main factors damaging the sugar industry in the United Republic of Tanzania. This is also affecting the PPP since members from the private sector are directly affected by these unregulated imports. The adoption of new technology is also a problem in terms of fertilizer application. Fertilizer prices in the country are too high for smallholder sugarcane growers to afford and credit availability is scarce. The release of new sugarcane varieties is exacting so that the number of new varieties is limited.

Forward and backward linkages exist between the sugar-processing factories and the smallholder sugarcane growers. As to the sustainability of the PPP, the new MoU between the stakeholders helps to solve some of the deficiencies experienced to date. The PPP has led to an increase in rural incomes – the number of sugarcane outgrowers has increased and cash paid to farmers has also increased, contributing to a reduction in the poverty levels of the outgrowers. Furthermore, the capacity of the sugar-processing industries has expanded and since sugar price volatility is low, profit margins have increased. It is through the PPP that the long-term societal goals of reducing poverty levels among smallholder sugarcane growers can be achieved.

Increments brought about by the sugar PPP are the following:

- production of sugar has increased yearly from 190 120 tonnes in 2003 to 279 850 tonnes in 2009;
- the industry contributes about TShs 24 billion (USD16 million) to government revenue (about 1.35 percent total tax revenue); and
- foreign exchange and savings amount to USD28 million per year.

Additional investment was stimulated through automation; development of irrigation infrastructure; provision of new sugarcane varieties; advances in information and communication technologies; and through capacity building for local technicians. Innovations include:

- a refinery in Kilombero to produce refined sugar for Tanzanian industrial consumers such as the soft drink industries; and
- bagasse (from crushed sugar canes) produces electricity and excess power is supplied to the national grid.

The PPP ensures a constant and reliable supply of cane to the mills. It has improved rural incomes since it has led to an increase in outgrowers who supply about 50 percent of the cane being processed by the factories. There has been an improvement in construction of seasonal roads; infrastructure, block farming and other plans are under way to establish irrigation systems for outgrowers. MAFC is helping with inputs, and banks such as CRDB Bank PLC and NMB are providing loans. These have all contributed to the increase in outgrowers' income and to reducing the poverty levels of the cane-growing communities. For example, the Mtibwa Sugar Estate Outgrowers' Scheme has enabled its members to form savings and credit cooperative organizations (SACCOs), and their cane production had increased from 22.7 to 32 percent by the year 2006 (Matango, 2006). In addition, the number of members grew from 25 to 5 000 in 2006 and their minimum revenue was TShs 240 000, which was higher than the minimum wage in the United Republic of Tanzania of TShs 80 000 in 2006 (Matango, 2006).

6.2 TANZANIA AGRODEALER SUPPORT PROGRAM

The performance of the programme is extensive and often long term. There is an increase in credit portfolio for the NMB and an increase in input use for farmers, resulting in increased agricultural production. The number of traders involved in agribusiness has increased. For example, by 2009, 2 626 agrodealers had been trained and 228 of them had been helped with inputs worth USD2.5 million to be sold to farmers (CNFA/TAGMARK, 2010). In addition, the agrodealers have placed collateral worth USD750 000 while CNFA/TAGMARK has proffered USD440 000. The programme has made some innovations, although from the agribusiness point of view NMB still has one product, which is made available to farmers by the banking sector. Further research is necessary to develop more products to be used by the agricultural sector. The PPP has also stimulated forward and backward linkages since some of the agrodealers have also become produce buyers. Hence, both farmers and traders benefit from the PPP.

6.3 TEA RESEARCH INSTITUTE OF TANZANIA

TRIT has generated significant development in terms of increased planting of tea areas by smallholder farmers with more than 3 000 ha planted. The development and dissemination of new recommended management practices through a continuous farmer training programme organized by TRIT have contributed to a further improvement in productivity – in some areas such as Mufindi from an average of 500 kg/tonne to more than 1 300 kg/tonne/ha-1). These improvements have led to additional employment in the tea sector (pluckers in tea farms and workers in the factories). In the tea industry, increased production always leads to additional demand for processing capacity. As a result of increased production, the processing plants have expanded the capacity of existing factories; constructed new factories, and invested in green leaf transportation facilities (trucks).

A number of major innovations as a direct outcome of this partnership revolve around the new research recommendations generated. These concern recommendations on fertilizer use and soil conservation; irrigation and water use; and new clones and propagation methods. The structural arrangement of the partnership has been copied by other sectors, resulting in the establishment of a similar institute for coffee, the Tanzania Coffee

Research Institute (TaCRI) and for tobacco, the Tobacco Research Institute of Tanzania (TORITA). There is also an institute in the pipeline for sugar. Risks that have been averted include those of production losses resulting from unreliable weather patterns that have increased the intensity of drought in tea-growing areas. Systematic irrigation has been introduced and adopted by some growers to avert disaster.

The introduction of secondary schools in rural areas, which is an extremely positive move in itself, has however reduced the supply of farm labour to the tea industry. This has been minimized through the introduction of harvesting shears and motorized harvesting machines. Research results have, to a great extent, informed policy-makers as to realistic business possibilities and helped to negotiate with stakeholders on reasonable and fair tax regimes. This process has been effective within the tea industry through the Tea Association of Tanzania. Although potential production results have sometimes been wrongly used to estimate business turnovers, in-depth and formal consultation between the private and the public sector has helped to regulate some of these excesses.

The decision to abolish the mandatory cess (tax) did not help TRIT's financial stability. It was meant to reduce the burden on growers who were contributing to support research activities, but in the end the lack of regulatory framework for government direct support and the voluntary stakeholders' contribution led to unstable financial inflows that ultimately impacted on the quality and timing of the delivery of research outputs. MAFC has been responsible for facilitating the relationship between TRIT and the government. Two senior members from the ministry are members of the TRIT Board of Directors and one senior official from the Department of Research and Development is a member of the Technical Advisory Panel. Not only have these arrangements helped to forge a strong PPP arrangement but the involvement of TRIT in other technical bodies such as the TaCRI Advisory Panel and the Agricultural Sector Development Programme (ASDP) Task Force has helped to strengthen horizontal integration between the private and public sector.

Major improvements can mostly be attributed to improved quality as a result of adopting research recommendations, which ultimately has led to an increased income for growers. For example, tea production increased from 20 000 tonnes in 1990 to 26 000 tonnes in 2001/2002 (Baffes, 2004).

The partnership can be considered as commercially viable because it involves production of public goods (agricultural research outputs) by a private institution (TRIT). This arrangement benefits both the private and the public sector and thus draws support and commitment from both quarters. The prospects for backward and forward linkages already exist and appear to be realistic. There are significant expectations for increased rural income and employment as already demonstrated in a few pilot areas where activities have been implemented through the PPP arrangement.

Key stakeholders are counting on the potential of TRIT to deliver expected results under the current PPP. These include the prospect of improving the livelihoods of tea growers and their dependants, especially women, leading to poverty alleviation. This is in line with the national medium- to long-term development goals as spelled out in the Tanzania National Strategy for Growth and Reduction of Poverty (NSGRP) and the Zanzibar Strategy for Growth and Reduction of Poverty (SGRP) (known in Kiswahili by the acronyms MKUKUTA and MKUZA), as well as helping to meet the millennium goals.

6.4 SAO HILL FOREST PROJECT

Since the private forestry initiative is a recent phenomenon in the United Republic of Tanzania, no performance studies have yet been commissioned for an economic analysis of the venture. There have, however, been innovations such as the establishment of modern furniture industries by Green Resources and the Kilombero Valley Teak Company. The government has also reviewed the taxation system in the forest business from taxing the standing volume to taxing the finished product (timber). The National Forest Policy of 1998 is also under review in order to improve some of its objectives based on the current issues developing in the forestry industry. Private forestry is also complementing the agriculture sector by providing income to households for purchasing food as well as using marginal areas that are not suitable for food crop production.

The market performance of the forestry industry in the United Republic of Tanzania is currently good and there is a feasibility study under way. The commercial viability of private forestry is also high and people are aware of the benefits accrued from tree plantations. The backward link that needs to be strengthened is the tree seed supply system. The forward link to the furniture and construction industry has good prospects.

There is, however, competition with the plastics industry for certain similar products. These plastic products need to be discouraged in any case because of the environmental pollution they cause.

Private forestry expectations are an increase in smallholder farmers' income, reduction of poverty through business in forest products, and creation of employment by private tree plantations as well as by others in the forest products value chain. The expected societal developments from private forestry as a fully fledged business include carbon trading business development, increased sales of timber and wood products and the establishment of tree farming outgrowers' schemes, together with contract tree farming in designated tree production villages and communities.

Despite the difficulties, forestry investments have increased enormously because many ventures such as those of carbon business and environmental protection are promoted by international agencies and donor funding organizations. Tree growers' associations have also been introduced in several districts throughout the country. However, the certification process for carbon business, for example, is exacting for normal tree growers since they often fail to comply with the criteria established by these associations. Moreover, poverty as a result of poor agricultural arable land and climate change affects the success of the enterprises. New tree planting for the carbon business would mitigate these effects, together with training and awareness raising.

Private forestry faces another hurdle in the form of tax, which reduces the amount of revenue accrued by investors even though it adds to the national income. Free trade between countries positively affects the sale of forest products from the United Republic of Tanzania. Traders come from all over East and Central Africa to buy timber products. This means that many policies need to be amended to accommodate community participation, benefit sharing and land acquisition procedures in a more simple way than in the past. This would compensate for the non-existence of payments for ecosystem services in the country.

It is currently not possible to assess investment increments but farmers/beneficiaries of the project have increased investment in new forestry plantations and are continuing to establish new ones. Through these new plantations, business in forest products should increase in the near future. Poor communities that had no resources before the project was initiated can look forward to market assurance for forest products as well as

benefiting from demand analysis and long-term business investment. From the trade, tax, land and policy perspective, the project has influenced the appreciation of land in the area and, through an expected consistent supply of timber, trade is assured in the project villages.

The regulatory framework that has influenced the benefits of the partnership is the decentralization programme. This policy has led to a delegation of responsibilities to individual partners and thus to increased efficiency in service delivery to the project beneficiaries. An improved performance has also been experienced though increased market efficiency in the forest products trade. Key to the commercial success and sustainability of the project are farmers, extension officers and forest products group enterprises. Forward and backward linkages are forged as farmers sell timber to furniture industries in the district as well as to timber traders who transport timber to Morogoro, Dar es Salaam and Zanzibar. Increased incomes have resulted, particularly for farmers who are beginning to be paid their carbon credit revenues (GRL, 2010).

Chapter 7

Appraisal and conclusions

This study has assessed the experiences of PPP programmes in the United Republic of Tanzania in the areas of sugar cane and tea research, agro-input supply and private forestry. The specific PPPs were those involving the Kibaha Sugar Research Institute (KSRI), the Tea Research Institute of Tanzania (TRIT), the Tanzania Agricultural Market Development Trust (TAGMARK) representing the Tanzania Agrodealer Support Program and the Sao Hill Forest Project representing the private forestry subsector. The study assessed the characterization of the PPPs, their development, management, operation and future development outcomes. The findings of the study are presented below.

7.1 OVERALL EFFECTIVENESS OF PPP ARRANGEMENTS

The PPPs under study were established after experiencing service delivery difficulties resulting from inadequate funding and increased demand from target groups. The sugar PPP, with KSRI as the main public partner, was established because of the low sugar-cane yields experienced by growers and the sugar estates. They needed improved varieties, good farming practices and better input prices in order to increase productivity. It was not possible for the government alone to deliver these services and hence the involvement of the private sector resulted in the development of improved varieties and an increase in extension services. In addition, the PPP was involved in capacity building of sugar research staff which, in turn, led to increased quality in service delivery. The PPP also enabled KSRI to update its research facilities.

The Tanzania Agrodealer Support Program was established as a result of the low productivity experienced under smallholder farming through lack of inputs. Before privatization, input provision, extension and marketing services were the responsibility of public institutions and cooperatives. Because the government was unable to deliver the inputs and extension services required by farmers, the involvement of the private sector was necessary. Thus, the programme was designed to improve farmer incomes and productivity by increasing smallholder access to better agricul-

tural inputs and production practices. It involved microfinance institutions such as NMB in order to increase agrodealers' access to finance and increase their working capital.

TRIT was established in order to provide adequate research and technology to meet the development requirements of the tea subsector. As for other agricultural produce, tea research and technology transfer was being carried out mainly by the government. Undercapacity and inadequate funding necessitated the formation of PPPs in tea research so as to deliver the services needed by the tea farmers in a more efficient and cost-effective manner. TRIT was to accelerate the development of the tea industry in the United Republic of Tanzania under both large- and small-scale production systems, resulting in increased tea production for the processing industries and for export. TRIT is also involved in capacity building of researchers working in the tea industry. These efforts result in increased farmers' incomes as well as in government revenues accrued from tea exports. All these improvements were made possible by the PPP arrangements.

The Sao Hill Forest Plantation has been a public forest since its establishment in the early 1970s to 1990s, and is managed through MNRT (GRAS, 2010). It is the main supplier of wood for the Sao Hill Industries' sawmills, Mufindi Paper Mills and other small sawmillers in the district (GRAS, 2010). Because of changes in government policy and liberalization of trade, private forestry was introduced, which necessitated restructuring the activities carried out under the Sao Hill Forest Project. The project had 12 forest reserves with a total area of 136 000 ha but had to release some of these for private management. The surrounding communities that relied solely on wood and timber from Sao Hill forests needed to be trained and to establish their own tree plantations under PPP arrangements. Consequently, the supply of timber to different players along the wood value chain no longer depends entirely on the Sao Hill Forest Plantations. Green Resources Ltd has furthermore developed a project that utilizes wastes generated from the plantation to produce energy for the sawmilling industry.

The outcomes of these four PPPs have been positive, particularly in the cases of TRIT, KSRI and the Tanzania Agrodealer Support Program, although the main difficulty for agrodealers is the small coverage of their services versus high demand. In the case of Sao Hill, the PPP is still very new and therefore it is not yet possible to establish the real benefits. However, the availability of tree seedlings and the extension services already show some positive effects.

7.2 KEY ISSUES TO BE CONSIDERED IN DEVELOPING AGRIBUSINESS PPPS

The study gathered information from the main participants in the PPPs regarding the general consensus on the key issues necessary to form their respective agribusiness PPPs. Overall, the key issues to be considered include:

- market analysis of the product to be produced or services to be offered;
- clearly defined roles and contributions of each partner, including preparation of MoUs;
- monitoring and evaluation of PPP performance;
- involvement of development partner(s);
- duration of the PPP; and
- understanding clearly the possible risks of the PPP and how they can be mitigated.

The KSRI, Tanzania Agrodealer Support Program and TRIT PPPs were established after the government was unable to support research and extension services and called upon private partners to collaborate. In the Sao Hill case, it was failure of the government to support the industry, especially in continuing to establish tree plantations, the sustainable supply of wood and timber and the increasing demand for timber products. The success and survival of a PPP mean putting in place not only the key issues mentioned above, but also how the PPP will be organized, managed, operated and financed, particularly in the initial investment stages when products are not yet ready for sale.

7.3 LESSONS LEARNED AND PITFALLS TO AVOID

Each PPP was formulated for specific reasons and has its own unique objectives. Partners also have their own expectations. The lessons to be drawn from the assessment are from the way the PPPs have been arranged and managed. TRIT, for example, has been well managed and has led to the establishment of a similar PPP in the coffee industry – the Tanzania Coffee Research Institute

(TaCRI) was established in 2000 as a company limited by guarantee and became operational in September 2001 (Carr *et al.*, 2003). In the case of the agrodealers, the challenge was market failure in input provision and undersupply to the rural-based target farmers. Agrodealers were also not creditworthy and their capital was small. By merely building up the capacity of agrodealers in rural areas in terms of agricultural and business knowledge as well as their creditworthiness, agricultural production increased. This arrangement is also a good lesson in the agricultural support arena.

As regards Sao Hill, the involvement of the private forestry has resulted in reducing pressure and demand for forest products from public plantations and has given smallholder farmers an area to diversify in order to increase family incomes in the provision of fodder to agroforestry-related plantations. The Sao Hill experience has shown that PPPs require persistence since the expected results may take time.

7.4 HOW BENEFITS FOR ENTERPRISES AND RURAL DEVELOPMENT CAN BE FURTHER ENHANCED

Since most PPPs aim to boost agricultural productivity, the involvement of local communities in terms of supplying raw materials is essential. The early stages of value addition should also be carried out at farmer level. Once the PPP policy has been drawn up, sectoral strategies need to be formulated depending on the specific products or commodities to be produced under the PPP arrangement. These strategies will guide issues such as labour requirements and how local communities and small enterprises can participate effectively in the PPP. This will ensure the sustainability of the PPP and the development of the rural community in general.

7.5 POTENTIAL FOR REPLICATION AND ESSENTIAL REQUISITES

Within the United Republic of Tanzania, the TRIT model can be replicated in so-called traditional cash crops such as cotton, cashew and sisal. It has already been replicated in coffee and is performing well. PPPs in these traditional crops can be established but the nature of marketing arrangements and the extension service requirements need to be considered. The KSRI PPP could also be restructured into a TRIT model. In the case of the Tanzania Agrodealer Support Program, expansion of support areas is needed since demand for

services is high. It is too early to comment on the Sao Hill Forest Project because of the time it takes for the trees to mature and for benefits to be realized. Nevertheless, the provision of tree seedlings and extension services under the PPP arrangement can be replicated in other regions of the country such as Kilimanjaro, Arusha and Tanga where communal private forestry could be established.

7.6 POTENTIAL FOR ACCELERATING AGRIBUSINESS INVESTMENT AND DEVELOPMENT

The establishment of PPPs can be used as a tool for developing agribusiness investment and development in the United Republic of Tanzania and in other developing countries. A good example is the KSRI PPP, which has resulted in the formation of well-organized sugar-cane outgrowers who are being provided with new technologies by the PPP arrangement and market their cane to the sugar-milling companies also in the PPP. If price deals are good, the outgrowers are assured of a market for their produce and are thus able to continue to produce sugar canes.

The Tanzania Agrodealer Support Program can also help accelerate agribusiness investment and development through a PPP. Where farmers are assured of inputs, then expansion of their farms is not an issue. What is required is a market for the farm produce and value addition at the village or rural level. The latter could be established under the PPP arrangement by involving private partners in processing and value addition. Many of the PPPs improve the previous systems of service delivery with better research and extension services, better and timely input provision, and the overall goal of increasing farmers' and producers' incomes from agricultural production. They also fulfil other stakeholders' expectations along the chain, thereby contributing towards creating mutual benefits for all participants in the industry and the agricultural sector.

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APPENDIX

People contacted in the United Republic of Tanzania

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- Dr Emmanuel Simbua, Research Director, TRIT, Mufindi.
- Ms Anna-Leena Simula, Chief Technical Advisor, Private Forestry, Ministry of Natural Resources and Tourism, Dar es Salaam.

AGRIBUSINESS
PUBLIC-PRIVATE
PARTNERSHIPS

A country report of
the United Republic
of Tanzania



Public private partnerships (PPPs) are being promoted as an important institutional mechanism for gaining access to additional financial resources, sharing risks, and addressing other constraints in pursuit of sustainable and inclusive agricultural development. While various forms of collaboration between the public and private sector have existed for some time, there is limited systematic information available about the current experiences and best practice for using PPPs to initiate agricultural programmes.

In 2010, FAO initiated a series of appraisals of PPPs implemented in 15 countries in Africa, Asia and Latin America. The primary objective was to draw lessons that can be used to provide guidance to member countries on how to partner effectively with the private sector in order to mobilize support for agribusiness development. The outcome of FAO appraisals is presented in this series of Country case studies as a contribution to enriching knowledge and sharing information on PPPs mechanisms for informed decision making on investment promotion for engendering agrifood sector development.