CONTRACT FARMING: STATUS AND PROSPECTS FOR TANZANIA

Study commissioned by Ministry of Agriculture Food and Cooperatives (MAFC) -
Participatory Agricultural Development and Empowerment Project (PADEP)
Conducted by Match Maker Associates Limited (MMA)

FINAL REPORT

September 2006

Acronyms

ADP	Area Development Project
AMCO	Agricultural Marketing Cooperative
AMF	Access to Market Framework
AMP	Agricultural Marketing Policy
AMSDP	Agricultural Marketing System Development Programme
ARI	Agriculture Research Institute
ASDS	Agricultural Sector Development Strategy
ASPS	Agriculture Sector Programme Support
ATTT	Association of Tanzania Tobacco Traders
BADEA	Arabic Bank for Economic Development in Africa
BBT	Brooke Bond Tanzania Limited
BDS	Business Development Services
BEST	Business Environment Strengthening for Tanzania
CAMARTEC	Centre for Agricultural Mechanization and Rural Technology
CBOs	Community Based Organizations
CBT	Cashew nut Board of Tanzania
CF	Contract Farming
CFC	Cooperative Finance Corporation
CIF	Custom Insurance and Freight
CLUSA	Cooperative League of the USA
COMESA	Common Market in East and Southern Africa
CORDAID	Dutch Funding Agency
CPU	Central Pulpery Unit
CRC	University of Rhode Island's Coastal Resource Centre
CRDB	CRDB Bank Limited
DALDO	District Agriculture and Livestock Development Officer
DANIDA	Danish International Development Agency
DED	District Executive Director
DoS	Roman Catholic Diocese of Shinyanga
EAC	East African Community
EPOPA	Export Promotion of Organic Products from Africa
EU	European Union
FAO	Food and Agriculture Organisation
FAST	UDSM – Faculty of Aquatic Science and Technology
FBG	Farmer Business Group
FERT	Formationpour Liepanonissement Et Le Renduveau [French NGO]
FERT	Italian NGO
FGD	Focussed Group Discussion
FIDHUSCO	Fidahussein and Company Limited
FMT	Farmer Managed Trial
FOB	Freight on Board
GAPI	Sociedade de Gestão e Financiamento para a Promoção de Pequenos (FI)
GDN	Goods Delivery Note
GDP	Gross Domestic Product
GEL	Gomba Estate Limited
GRN	Goods Received Note
HACCP	Hazard Analysis and Critical Control Points
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immune Deficiency Syndrome
IMS	Institute of Marine Science

ISO	International Standards Organisation
KFA	Kwabada Farmers Association
KNCU	Kilimanjaro Native Cooperative Union
LGA	Local Government Authority
LVIA	Lay Volunteer International Agency
LZARDI	Lake Zone Agricultural Research Institute
MAFC	Ministry of Agriculture, Food Security and Cooperatives
MALI	Muleba Association for Agriculture and Local Industries
METL	Mohamed Enterprises Tanzania Limited
MGK	McLaughlin Gormley King Company
MIS	Market Information System
MITM	Ministry of Industry, Trade and Marketing
MKUKUTA	Swahili acronym for National Strategy for Growth and Reduction of Poverty
MMA	Match Maker Associates Limited, PSD - Consultants
MMP	Mangroves Management Programme
MOA	Mtibwa Outgrowers Association
MOU	Memorandum of Understanding
MRHP	Mwanza Rural Housing Programme
MVIWATA	Mtandao wa Vikundi vya Wakulima Tanzania [Network of farmers]
MVIWATA	Swahili acronym for the national network of farmers organisations in Tanzania
MWACIBA	Mwanza City Butcherers' Association
NEMC	National Environment Management Council
NGO	Non Government Organisation
NGOs	Non Government Organisations
NNC	New Northern Creameries Limited
NSA	Non State Actor
NSGRP	National Strategy for Growth and Reduction of Poverty
NWDCS	Nronga Women Dairy Cooperative Society
PADED	Participatory Agricultural Development and Empowerment Project
PASS	Private Agricultural Sector Support Limited
PASS	Private Agricultural Sector Support Limited
PBT	Pyrethrum Board of Tanzania
PCN	Purchase Contract Note
PCS	Primary Cooperative Society
PMG	Producer Marketing Group
PPP	Public Private Partnership
PSD	Private Sector Development
R & D	Research and Development
RAA	Regional Agriculture Advisor
RAS	Regional Administrative Secretary
RC	Roman Catholic
RDB	Refined, Deodorised and Bleached
RFSP	Rural Financial Services Programme
SACCOS	Saving and Credit Cooperative Societies
SBS	Sub sector Business Services
SBT	Sugar Board of Tanzania
SBU	Strategic Business Unit
SCA	Sustainable Competitive Advantage
SEEGAAD	SHF Empowerment Economic Growth Agriculture and Association Development
SELF	Small Enterprises Loans Fund
SEMMA	Sustainable Environmental Management through Mariculture Activities

SHF	Smallholder Farmer
SIDO	Small Industries Development Organisation
SNV	Netherlands Development Organisation
SPS	Sanitary and phyto-sanitary
SSA	Sub Sector Analysis
SSG	Small Scale Growers
SSS	Sub Sector Selection
SUA	Sokoine University of Agriculture
TAFIRI	Tanzania Fisheries Research Institute
TAFU	Tanzania Fishers Union
TBS	Tanzania Bureau of Standards
TBT	Tea Board of Tanzania
TCB	Tanzania Coffee Board
TCCIA	Tanzania Chamber of Commerce, Industry and Agriculture
TCFB	Tanzania Central Freight Bureau
TCLSB	Tanzania Cotton Lint and Seed Board
TCMP	Tanzania Coastal Management Partnership
TDCU	Tanga Dairy Farmers Cooperative Union
TDL	Tanzania Diaries Limited
TFDA	Tanzania Food and Drugs Authority
TFL	Tanga Fresh Limited
THA	Tanzania Harbours Authority
TICMO	Tanzania Integrated Coastal Management Office
TIN	Trader Identification Number
TOR	Terms of Reference
TOSCI	Tanzania Official Seed Certifying Institute
TPB	Tanzania Pyrethrum Board
TPPMCL	Tanzania Pyrethrum Processing and Marketing Company Limited
TRA	Tanzania Revenue Authority
TSB	Tanzania Sisal Board
TShs	Tanzanian Shillings
TTB	Tanzania Tobacco Board
UDSM	University of Dar es Salaam
UNICEF	The United Nations Children's Fund
UNIDO	United Nations Industrial Development Programme
USA	United States of America
USAID	United States Agency for International Development
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
UTT	Unilever Tea Tanzania Limited
UWAMI	Umoja wa Wanenepeshaji Mifugo wa Mwanza (Traders association Mwanza)
UWAMU	Umoja wa Wafanyabiashara wa Akiba na Mikopo Uyole (SACCO)
VECO	Vredeseilanden Country Office
WVI	World Vision International
WVT	World Vision Tanzania

Acknowledgements

This assignment would have not been completed without support from various people. We would like to thank all who provided us much valuable information for this study.

We wish to thank and acknowledge the cooperation of the Ministry of Agriculture Food Security and Cooperatives and Ministry of Livestock Development that are the hosts of this study and who seconded key staff to be counterparts to the consultants in this study. The heads of departments of Crop Promotion Services, Cooperatives and Legal Services in the ministry provided a lot of policy and practice insights into the subject matter of contract farming in Tanzania. Their input and interest in the study is acknowledged. **Mrs Adah Mwasha, Mr George Mandepo** and **Mr Mathias Ndungi** from MAFC and **Mr Eliasikia Mngulwi** from MLD participated from fieldwork to the analysis phase with a lot of enthusiasm and professionalism. Without them this study would not have taken the shape it has. We would like to sincerely acknowledge and commend their contribution in this study.

We are indebted to PADEP Management and the entire team that was devoted to supporting this assignment. In particular we would like to thank Barney Laseko (Project Coordinator) and Terry Swai (Project Officer) for their tireless support in providing leadership and organization of various facets of the study processes.

We thank and acknowledge cooperation from staff of various public and private sector organizations that responded to our interviews and provided valuable insights to their field activities. We would like to specifically acknowledge those smallholder farmers who responded well to our interviews.

Last but not least, we are indebted to all participants of validation workshop (whose list is attached in annexes) for their critical comments on the preliminary findings of this report.

Executive Summary

The Ministry of Agriculture, Food and Cooperatives in collaboration with the Ministry of Livestock Development has initiated contracting farming study in Tanzania, with financial support from PADEP Project. The motivation behind this study is the widely shared view in PADEP project and agricultural led ministries that Tanzania is yet to optimally benefit from opportunities brought about by well-articulated contract farming arrangements. The agricultural sector is the largest sector of the economy of Tanzania, contributing more than 40% of GDP, 70% of employment and a large share of foreign exchange earnings; hence any intervention to make optimal development and contribution of the sector is welcome. Contract farming is one of the approaches that is expected to involve the private sector on win-win arrangements with smallholder farmers.

Contract farming is a wide subject engulfed with a continuous debate. The definition of contract farming is often confused because there are so many different types of contracts and actors (private sector firms, public sector firms and parastatals, international aid agencies). The supporters of contract farming argue that CF has the potential to substitute for the state in the wake of reforms in the agrarian sector. As the state disengages from the provision of inputs, extension services, credit, and price supports, private firms can enter to fill the same roles, and do so more efficiently. Those who criticize Contract farming, view it as a tool through which multinational agro-industrial firms can exploit unequal power relationships with growers. The terms of reference has been built around these different views in a bid to contribute to thorough understanding of the situation in Tanzania.

The objectives of this study therefore are three fold:

- To <u>review the status</u> of contract farming in Tanzania in terms of its contribution to livelihood of smallholder farmers and to agribusiness and economic growth.
- <u>To test hypotheses</u> surrounding CF (power imbalances (price taker, price setter) and legal system enforcement.
- To develop a set of recommendations based on study findings of <u>key preconditions / elements</u> for successful and sustainable CF schemes in Tanzania, with particular emphasis on the roles and responsibilities of the public sector.

Match Maker Associates Ltd, a private sector development consultant firm was commissioned to carry out the study with active participation of counterpart staff from the two ministries. The study was conducted in the months of June and July 2006. The study methodology was essentially qualitative and participatory in nature, which entailed intensive secondary / literature review and extensive field study. The sectors covered included agriculture, livestock and mariculture.

In this study FAO definition of Contract Farming has been adopted; "*Contract farming is defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity".*

Contract farming is therefore not a new phenomenon in Tanzania as it has been practiced since the colonial era. However, in order to better understand the situation a practical working definition was crafted, which concluded that Tanzania is currently practicing four different types of CF arrangements, namely

- PUBLIC SECTOR LED-Outgrower Schemes. These schemes essentially used to be run by state agencies in the past and have now been privatized. They have focused on traditional cash crops (sugar, tea, coffee, cashew etc) and most of them are regulated by a Crop Board.
- NON STATE ACTORS LED. These are more recent schemes mainly for high value commodities and championed by Market Linkages Facilitators. Commodities covered include but not limited to paprika, oil seeds, artemisia, flower and vegetable seeds etc
- PRIVATE SECTOR EXPORT MARKET LED- Few large corporate exporters of non traditional high value crops are involved in this category. Typical commodities include sesame, chickpeas, Nile perch etc. This category is often reluctant to enter into formal contracts with growers.
- SMEs- TRADER LED- This category focuses on local and regional markets. The contract farming arrangements are essentially verbal agreements involving food and perishable commodities sold to urban and to small extent regional markets.

Around these schemes field study was organised that covered 31 cases (commodities), 14 written agreements and 12 regions, interviewing all key actors.

The status of contract farming was examined from two angles. One was to review the extent to which a number of key parameters are met. The parameters included:

- Extent of smallholder farmer involvement in contract negotiations including price setting
- Presence of essential services to support farmers and buyers
- Evidence of clear role of Local Government Authorities
- Evidence of regulatory role for that particular crop, and
- Impact of the scheme to socio-economic improvement of smallholder farmers.

The second angle was examination of a number of contract documents to judge the extent to which they meet the essential legal elements of contract. This is followed by an assessment of the legal and regulatory environment for contract farming in Tanzania.

Main findings regarding above mentioned parameters include the following:

- Small holder farmers, livestock keepers and fisher folk are generally the takers of price and other contract terms. With upcoming of market linkage facilitators, the degree of involvement is increasing, however still the buyers are the ones who set terms including price. Increasing capacity of smallholder farmers to take farming as business is therefore one of the most critical issue. Almost all contract documents are developed by buyers and given to farmers directly or via facilitators for signing. Buyers are still anticipated to be the initiators of the contract documents due of their level of understanding of the market requirements.
- CF arrangements are influenced by type of crop (labour/input intensive, tree crop, short term crop, high value crop) and assets of smallholder farmers (technical skills and financial resources and organisation). Where farmers are more organised and financially stable (mainly through SACCOS), they don’t have to rely solely on inputs from buyers and this influence the nature of CF arrangements.
- There is a strong correlation between service package offered and the impact to small holder farmers but also the success of the CF arrangement in most of the cases that were reviewed.
- The role of the Local government Authorities (LGAs) is not well articulated in facilitating contract farming. It is not clear where LGAs focus should be. Some are active in extension, some in regulations (by laws), and some are into endorsing and monitoring of CF arrangements. The issue of specialised capacity, extent of involvement, and often LGA being left out by the non-state actors were observed.
- Regulatory roles have essentially focused on buyers (licences, permits, levies etc) and less on the producers / farmers. There are also a lot of incidences of conflict of interest which seems will be lessened with the fact that from this year the government will be funding from Treasury the running of Crop Boards.
- The impact of CF in agricultural development and well being of smallholder farmers is generally positive for cases that have been reviewed. Smallholder farmers in CF schemes with a comprehensive package

have gained not only on market driven prices but also from increased production and productivity. There is definitely a room to improve.

On the legal side of contract reviewed, the following conclusions have been arrived at:

- There are no clear guidelines as to how contract farming should be framed. Different contracts use different formats, cover different aspects, different duration as the parties deem fit.
- On the legality of contracts, the review shows that most contracts have taken into account most of the essential elements of contract. However, a very pronounced missing element in most of the contracts reviewed is the agreement on penalties and bonuses and also arbitration clause.
- The general observation from the field was that despite these formal contracts, incidences of non-adherence are rampant. Side selling is one of the main cry from the buyers but for the farmers it is about certainness of terms especially price and pricing arrangements. Enforceability of CF agreements is therefore cumbersome under these circumstances.
- Contracts should in principle serve as a means to enhance negotiations and build relationships. The language to be used is very crucial. Most contract agreements are written in English. In Tanzania when dealing with smallholder farmers Kiswahili should be used as a matter of principle.

On the policies and regulatory framework, the following was observed:

- Present agricultural related development policies are generally supportive to contract farming. Few have explicit policy statements, whilst many others are thorough implied statements. The issue lies more on the implementation rather than policy per se.
- Some crops regulated by Boards (sugar, tobacco, tea) have specific regulations guiding contract farming clearly stipulated. Non-traditional crops are basically left out of any regulatory framework.
- There is no uniformity on the essential issues to be taken up in contract farming arrangements nor are there clear provisions for arbitration in case of disputes.
- Policies and legislations are scattered in various initiatives. There is no clear reference point for the whole subject matter of contract farming in Tanzania. Most policy statements are general and lack cohesive approach to contract farming as highlighted in this study.
- Although most countries have no legislations that specifically regulates contract farming, there are a few countries like Malawi (Guidelines for CF), Canada (Arbitration council as a reference point for CF), and Kenya (Regulations for Tea), India (separate Act /law and regulations for CF, USA (Producers protection Act) have justified the need for specific regulatory instruments to promote CF. India is ahead in CF as an explicit policy and has specific legislations.

Positioning Contract Farming within Access to Market Framework

Having analysed the status of CF in Tanzania, the authors are proposing to use Access to Market Framework (AMF) to guide future design, management and monitoring Contract Farming in Tanzania. AMF is a tool used to analyse and visualise the context (actors, factors and forces) under which contract farming occurs. The framework recognises that contract farming programme goes beyond the sales agreement between the seller and buyer. The framework emphasises that smallholder farmers and buyers (market) require a comprehensive package and not only sales agreement (contract) or few components. It is necessary to note that the buyers (local and international) too may require some of the services in order to play their role effectively.

A distinction is made between service providers in the different components and facilitators (essentially the capacity developers of service providers). The service providers could be from primarily private sector, but also from government and specialised NGOs. The facilitators have an option, if desirable, to intervene at the market side in order to understand how markets function so as to avoid distortional effects and be able to develop markets for services. The ultimate vision in this framework is that farmers and buyers will eventually work on business principles as trust and business experience develops.

What then are the key elements for successful and sustainable CF in Tanzania?

- Careful enterprise choice. The choice of any CF arrangement should at minimum demonstrate that the business venture would be profitable and enjoy market growth prospects.
- Thinking beyond contractual documents. CF programs should facilitate building of mutual trust among key actors. Contractual documents are a means towards this and not an end in itself. Tanzania has build a culture and attitude of cheating, side selling which ought to change.
- Clear role definition and governance. CF by nature involves public and private sector actors. Their explicit roles should be defined and agreed upon.
- The right enabling environment. Supportive policies and legal enforcement are key for CF to succeed.
- Physical and social infrastructure. Agricultural takes place in areas where technical infrastructure is poor. This makes the risks and transactions costs unattractive.
- Capacity of the linking organization; There are many organizations in Tanzania ready to facilitate CF. These organisations' capacity need to be enhanced by agreeing on basic professional code of conduct of facilitators and service providers.
- Do not create dependence on subsidized assistance. CF essentially are market driven and should eventually benefit from market driven services. Temporary assistance should act as building block for commercial orientation.
- Group formation, structure and legislation. Smallholder farmers should be facilitated to build up their organizations suitable to their business needs.
- Innovative financing arrangements. Without reliable access to financial services, CF arrangements are bound to fail. Well founded SACCOS have set a good benchmark for access to financial services and these have generally made CF arrangements a success.
- Assessment and development of farmer's assets is necessary for the design of any CF arrangement. Before any mobilization of farmers takes place an assessment of their financial, entrepreneurial and group cohesion capacity is crucial.
- Scaling up and scaling out. For any meaningful impact on CF in Tanzania, deliberate support to expand production and productivity, but also to replicate successful experiences is quite necessary. Tanzania today has a number of successful schemes due for scaling out.
- Risk management and exit strategies. Any CF scheme has risks and these should be analysed and capacity built within relevant actors (farmers, buyers, facilitators) to manage them.

The role of government

The public has a duty to ensure that the equitable growth through CF arrangement is upheld. The government is obliged to provide a policy enabling and regulatory framework as well as engaging on some developmental functions in order that contract farming thrives in Tanzania.

Policy enabling and regulatory

- Government should put in place governance and infrastructure that underpin the investment climate in the country, particularly in the agricultural sector. This is necessary to reduce risk exposure and high transactions costs.
- Government should develop specific legislation and guidelines for CF in Tanzania.
- Government should be willing to engage in constant dialogue and partnerships with the private sector and civil organisations that are keen to be involved in contract farming in Tanzania.
- Public sector should facilitate sharing of lessons from the public sector itself and development practitioners in the CF.

Developmental agenda

- **Capacity building for CF design and management is a key requirement for commercialising agriculture** in Tanzania. Key ministries staff to be involved in spearheading contract farming should be exposed and trained on contract farming and value chain approach.

- The public sector as a facilitator has a duty to support **market development of business services.** Capacity building of service providers in contract farming facilitation is therefore a key requirement for developing the relevant and appropriate services.
- Focused **Research and Development in partnership** with private sector.
- **Extension services by fostering market development** principles (cost sharing and use of private services providers whenever feasible).

Recommended next steps to maintain the CF agenda in Tanzania

- Development of TOR for dedicated desk – **reference point in the key Ministry** for initiation, coordination and keeping momentum of the CF agenda. It is suggested that once such a desk is earmarked, that **a learning alliance is facilitated** to bring together all actors currently active in CF into contacts with each other.
- **Incorporation of explicit statements on Contract Farming in the ongoing policy formulations and agricultural development programs.**
- **Development of specific legislation and guidelines for contract farming** practices in Tanzania.
- As a short-term intervention, a **review and registration of existing formal and verbal contract farming programmes** at each district in Tanzania should be looked into in order to provide a base for further interventions. Districts should be facilitated to become custodian of CF programs.
- **It is further recommended that a feasibility of initiating "Farming Business Advisory Centres" at district or sub district levels** should be investigated. These centres would act as custodian of knowledge management of CF in a particular district and would bring together public and private sector actors / services providers.

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1. Introduction

The Government of Tanzania through the Ministry of Agriculture, Food and Cooperatives (MAFC) with financial assistance from the World Bank is currently implementing a Participatory Agricultural Development and Empowerment Project (PADEP). The project's development objective is to enable participating rural communities and farmer groups to plan and implement sustainable sub-projects so as to increase productivity, incomes and assets and consequently contribute to poverty eradication initiatives. To achieve this, the project has four immediate objectives, namely, (i) to strengthen the capacity of the rural communities to plan and implement demand driven agricultural oriented sub-projects and (ii) to increase agricultural productivity by promoting better land husbandry and agricultural intensification practices and adoption of new technologies. Others include (iii) strengthening the institutional and human capacities of the local and national level authorities to plan and implement community driven agricultural development initiatives and (iv) to enhance private sector participation in input and output markets; and in the provision of services to rural communities.

PADEP experience suggests that private sector participation can be promoted through contract farming (CF) arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production. This assertion is widely supported, by various development practitioners who have promoted contract farming as a means to organise commercial agricultural production of both small and large-scale farmers. The growing global trade in fresh and processed agricultural produce is one of the driving forces for contracting farming arrangements. Global agricultural value chains are more and more governed by contractual framework. However, it is also widely acknowledged that contract farming has its advantages but also is prone to problems that deter win-win benefits to parties in contract particularly the small-scale farmers.

Tanzania is yet to optimally benefit from opportunities brought about by well-articulated contract farming arrangements. The agricultural sector is the largest sector of the economy of Tanzania, contributing more than 40% of GDP, 70% of employment and a large share of foreign exchange earnings. Although the agriculture sector has maintained a steady growth rate of over 3 % annually over the last decade, this rate is considered to be unsatisfactory and has failed to improve the livelihood of the rural people whose major occupation is agriculture.

The current state of affairs is such that only a limited number of producers in Tanzania are enjoying contractual arrangements, which ensure them a market for their produce, leave alone remunerative prices. Some of such arrangements are often not fair to one of the parties and sometimes are not necessarily legally binding, hence perpetuating opportunistic tendencies by some untruthful parties. On the other hand, the agro-based and food industry, which requires timely and adequate inputs for the production of good quality agricultural produce, has always struggled to meet these demands and producers are often frustrated because they cannot produce according to market requirements. This sometimes leads to the rejection of the produce. In short, institutional and market failures (missing markets/incomplete markets/information and information asymmetry) have been the central driving force towards contract farming.

On the other hand, the government of Tanzania through various policies is generally supportive to the concept of contract farming, although its effect is not yet documented. For instance, the

National Strategy for Growth and Reduction of Poverty (NSGRP) focuses on a broad-based growth with specific attention on agriculture sector. Likewise it is clearly articulated in the Agricultural Sector Development Strategy (ASDS) that the agricultural sector by the year 2025 should be "modernized, commercial, highly productive and profitable, utilizes natural resources in an overall sustainable manner and acts as an effective basis for inter-sectoral linkages." The ASDS also contains a set of innovative and practical actions that are considered critical to agricultural development, which includes among others, a focus on agricultural productivity and profitability and the promotion of private sector/public sector and processor/contract grower partnerships. In a nutshell, there is a mixed picture of why and how contract farming should be promoted in Tanzania.

It is against this background that PADEP initiated a critical look at contract farming practice in Tanzania in order to draw lessons for its further promotion. In the terms of reference (TOR), three major objectives for this assignment are stated:

- To review the status of contract farming in Tanzania in terms of its contribution to livelihood of smallholder farmers and to agribusiness and economic growth.
- To test hypotheses surrounding CF power imbalances (price taker, price setter) and legal system enforcement
- To develop a set of recommendations based on study findings of key preconditions / elements for successful and sustainable CF schemes in Tanzania, with particular emphasis on the roles and responsibilities of the public sector.

1.1 Methodology and research areas

The methodology that was adopted for this study is essentially qualitative and participatory approach. The methodology entails the following iterative steps:

- **Literature review/ secondary data and information gathering:**

In order to understand what is already known about contract farming in Tanzania and elsewhere, a thorough literature review and interviews with key informants have been undertaken. Inception meetings were held with a number of staff from MAFC and MLD who were once involved in a similar assignment in 2003/04 to establish the main findings, recommendations and what has been done so far as follow up. Furthermore relevant literature has been gathered about experiences and case studies from different countries.

- **Primary Data collection**:

On sampling three possible options were considered, one was to select a few crops, the second one was to divide the country into zones and cover different crops in it and the third was to cover the different models / characteristics of contract farming arrangements in Tanzania.
Based on the objectives of this study, it was decided to adopt a combination of the second and third options. Based on literature review and key informants discussions the study team identified main emerging models of contract farming in Tanzania. From these models field visits were undertaken covering different zones in the country to further understand those models in relation to the terms of reference of this study. The merit of this approach was to be able to get a fair cross section of experiences but also create a good base for recommendations. The shortcoming is that in-depth assessment of each CF arrangement has not been possible. A total of 12 regions were covered during the study that was considered to cover most of the emerging models for contract

farming in Tanzania. The regions included, Mbeya, Iringa, Tanga, Kilimanjaro, Arusha, Manyara, Morogoro, Dodoma, Mtwara, Lindi, Mwanza and Bukoba.

During the field visits a comprehensive checklist to guide interviews was developed covering the large scale private (corporate) actors; companies with specific outgrower schemes; Farmer Organizations and Cooperatives; Farmers (in groups, or alone, also those that have not been in contract farming arrangements), Public agencies (Central ministries, Local Authorities and Crop Boards), NGOs facilitating market access in Tanzania, Researchers and legal practitioners.

1.2 Context and working definition of contract farming

There is hardly one shared view of contract farming in terms of its definition and types. The definition of contract farming is often confused because there are so many different types of contracts and actors (private sector firms, public sector firms and parastatals, international aid agencies).

On the theory and practice of CF, there are ongoing discussions as well. Warning and Hoo (2000) in their paper on impact of CF they concluded that the substantial expansion of CF in developing world in the recent years, has brought considerable attention from both supporters and critics of contract farming. From one perspective (e. g., Dirven, 1996; Schejtman, 1996), contract farming has the potential to substitute for the state in the wake of neoliberal reforms in the agrarian sector: as the state disengages from the provision of inputs, extension services, credit, and price supports, private firms can enter to fill the same roles, and do so more efficiently. Critics (e. g., Glover and Kusterer, 1990, Little and Watts, 1994) view contract farming, however, as a tool through which multinational agro-industrial firms can exploit unequal power relationships with growers. By applying the principles of New Institutional Economics, Warning and Hoo asserts that the impact of a contract-farming scheme on the distribution of income will depend on who participates in the scheme and the benefits they receive from participation. The authors therefore model contract-farming schemes as a principal-agent game in which a firm (the principal) works with a grower (the agent) to produce a crop. The firm chooses growers with whom it would like to contract and sets the contract terms. The growers, in turn, choose whether to participate or not. The combination of these choices describes the selection process for the contract-farming scheme. The benefits participants accrue will depend on the terms of the contract and their own characteristics. To the extent that the benefits from a contract-farming scheme accrue more to larger growers than to smaller growers, the scheme will reinforce income stratification. To the extent the opposite is true, the scheme will have an equalizing effect. It is further argued that firms and growers will choose to contract with one another based on the gains they expect to obtain from the contract. Moreover, the transactions costs and information costs in the market environment in which production takes place jointly influence both processes.

Glover and Kusterer, (1990) suggest that contracts can be thought of as varying in 'intensity'. According to them it depends on the nature and content of a contract that matters. Accordingly three classification of contract farming could include:

- ***Market specification contracts***: future purchase agreements which determine quantity, timing and price of commodities to be sold.
- ***Resource-providing contracts:*** specify the sorts of crops to be cultivated, some production practices and the quality and standardisation of the crop through the provision of technical packages and credits.

- ***Production management contracts:*** associated with large outgrower and nucleus-estate schemes, directly shape and regulate the production and labour processes of the grower.

Ellman (1986) and Glover and Kusterer (1990), provided more insights into the types of schemes, which exist under the label 'contract farming'. Three types include:

- ***Outgrower schemes*****:** Schemes that provide production and marketing services to farmers on their own land. For Glover and Kusterer (1990) these generally connote a government scheme with a public enterprise, purchasing crops from farmers, either on its own or as a joint venture with a private firm. Glover and Kusterer (1990) also use the term contract farming to refer to the same arrangement in the private sector.
- ***Nucleus Estate-Outgrower Schemes***: A core estate and factory is established and farmers in the surrounding area grow crops on part of their own land, which they sell to the factory for processing.
- ***Multipartite Arrangements***: A term often used in the literature to emphasize the participation of several actors.

The various definitions and ongoing debate in literature make it difficult to establish a rigid categorization of these terms. This study has used the terms contract farming and outgrower schemes interchangeably. Where necessary, it has been specified which sectors are involved in the scheme and whether or not there is a nucleus estate involved. An explicit focus has been on examining the position of the smallholder farmer or livestock keepers or fisherfolk, all of who will be categorized as producers who relies primarily on family labour.

FAO[1] defines 5 broad models of contract farming depending on the product, the resources of the sponsor, and the intensity of the relationship between the farmers and the sponsor that is necessary. These models are;

- ***The Centralized model***

This model involves a large processor or packer buying from large numbers of farmers. It requires high infrastructure for processing. Used in tree and annual crops, poultry and dairy. Ii is vertically coordinated with quota allocation and tight controls. Sponsor's involvement goes from extremes minimal to full control of most production aspects.

- ***The Nucleus estate model***

The sponsor is also involved in nucleus farm for throughput guarantee. Sometimes used partly for R & D purposes. Used in resettlement schemes. It involves significant provision of materials and management of inputs.

- ***The multipartite model***

It involves a variety of organizations including statutory bodies. Can develop from centralized or nucleus models through farmers vertically integrating more functions e.g. via their cooperatives or other forms of farmer organizations.

- ***The informal model***

This involves individual/ small companies who normally make informal contracts with farmers on seasonal basis. It could Involve greater risks and often require government support.

- ***The intermediary model***

This involves intermediate organizations brokering between sponsors and farmers. It may have a danger of clarity of roles e.g. sponsor loosing control on production, quality and prices.

[1] FAO Agricultural Services Bulletin No 145: Contract farming; Partnerships for growth

What could then be the definitional aspects of Contract Farming for Tanzania?

In this study FAO[2] definition of Contract Farming has been adopted; "*Contract farming can be defined as an agreement between farmers and processing and/or marketing firms for the production and supply of agricultural products under forward agreements, frequently at predetermined prices. The arrangement also invariably involves the purchaser in providing a degree of production support through, for example, the supply of inputs and the provision of technical advice. The basis of such arrangements is a commitment on the part of the farmer to provide a specific commodity in quantities and at quality standards determined by the purchaser and a commitment on the part of the company to support the farmer's production and to purchase the commodity".*

Contract farming is therefore not a new phenomenon in Tanzania. Since the colonial era contract farming arrangements were practiced in some of the major cash crops plantations of sugar and tea. However, Tanzania has moved from the centralized economy to a liberalized economy, a characteristic that will also be traced in contract farming. During the Ujamaa era, the public sector through parastatals and the cooperatives were the ultimate buyers of most agricultural produce. After market liberalization and state withdrawal from direct production and marketing activities, more private sector actors have joined the scene. Another marked phenomenon is that there have been a number of non-state actors that have come into the scene facilitating access to market for smallholder producers. Deducing from the emerging experiences as well as the theoretical underpinning of different contract farming arrangements in Tanzania as will be further highlighted in this study, categorization of different models and types are possible.

This study has attempted to establish the status of these different arrangements, their categorization and thus proposing a working definition for contract farming in Tanzania. Table 1 below depicts the emerging contract farming categories in Tanzania:

Table 1: Emerging categories of CF Models in Tanzania

Category	**TYPE**	**KEY FEATURES**
A	<u>PUBLIC SECTOR LED</u>: Outgrower Schemes	• Public Sector driven (previously schemes managed by the public sector) • Most schemes are covered by regulatory body (Crop Boards) • Focused mainly on traditional cash crops • Most have a central processing (value addition) facility (often acquired and being upgraded after privatization) with a few having a nucleus farm • These are large-scale corporate undertakings with huge investment outlay.
B	<u>NON STATE ACTOR LED</u>: Market Linkages Facilitators	• More recent experiences in Tanzania. Non state actor, essentially donor funded initiatives, play a facilitating function

[2] Ibid

		• The starting positing is to improve position of smallholder farmers • Often they put together a package of critical services to be offered by public & private providers • Emphasis is currently on inculcating the attitude of “farming is business” (changing mindset) • Focus on high value crop and growth potential sub sectors
C	PRIVATE SECTOR EXPORT MARKET LED: Exporters of non traditional high value crops	• Private sector export oriented businesses championed by large corporate companies • Deals mainly with non perishable non traditional cash crops • Bulking is most critical to meet export orders • There is minimum value addition • They seem to be hesitant to enter into long-term contractual obligations
D	SMEs- TRADER LED: Local and regional market focused	• SMEs /Entrepreneurial focused • Deals with food and perishables • Food quality and safety standards are key but often compromised • Often operate from main urban market centers • Rely on verbal and informal contracts but have long term relationships build over time.

1.3 Set up of the rest of the report

Chapter one brings up the background of this study and the CF contextual overview, ending up with a working definition based on four categories of CF in Tanzania that is used for this study. In chapter two a detailed analysis is presented of the status of CF in Tanzania. This has been done through a review of different arrangements and performance of a substantial number of cases as well as a review of contract documents for some of the schemes. Chapter three reviews the policy and regulatory environment in Tanzania as far as they support or hinder development of CF. While chapters two and three highlights the status, thus answering the question “where are we in CF in Tanzania”; chapter four presents a framework that proposes where we ought to be if we desire to sustainably promote CF. The framework is based on current thinking on improving access to market within a value chain approach. The framework delineates the roles and responsibilities of various actors in CF arrangements based on best practices. Chapter five summarised main conclusions of the study and proposes the way forward in particular articulating the role of the public sector.

2. Assessment of different types of contract farming in Tanzania – Situation analysis

This chapter highlights various schemes, which were assessed during this study. Although over thirty (30) cases have been covered, detail description is given in the main text to few cases, which showed significant relationships and dynamics between actors. Otherwise summary of key issues are highlighted for the rest of the cases and is provided as annexes. The cases are grouped according to the four emerging CF models in Tanzania as defined in chapter 1 section 1.2 above; namely public sector led (A), non state actor led (B) private sector export led (C) and SMEs/Traders led (D). At the end of each case a synthesis through a score sheet by the study team of emerging picture is given with regard to five key CF areas that were set by the terms of reference of this study, namely:

- Extent of smallholder farmer involvement in contract negotiations including price setting
- Presence of essential services to support farmers and buyers
- Evidence of clear role of Local Government Authorities
- Evidence of regulatory role for that particular crop, and
- Impact of the scheme to socio-economic improvement of smallholder farmers.

The scoring which was arrived through a consensus process by the study team is represented by following symbols:

− Minimal to none

± Average

+ Present

The consolidated picture of the emerging situation of the respective model is highlighted at the end of this chapter in section 2.5 categorised according to the main actors (farmers, buyers, facilitators / service providers and public sector (regulatory /policy). Furthermore, from these cases fourteen (14) contract documents were analysed and summarised in terms of the essential legal elements and this is summarised in section 2.6.

2.1 A: Public Sector led

The emerging picture of the CF arrangements in public sector led schemes is discussed in this section. Seven cases that were reviewed (with a caption of the main message of the case as the heading) are provided in sections 2.1.1 to 2.1.7 below.

2.1.1 KNCU: The role of Cooperative Union in facilitating access to markets

Founded in 1929, Kilimanjaro Native Cooperative Union (KNCU) is the oldest cooperative in Africa. The government originally set it up in a rather top-down way, with limited participation by the farmers. This legacy is still reflected in a feeling among members that the management does not take their interests fully into account. This gets worse when world market prices drop, causing farm gate prices to fall. The farmers complain about the coop's high overhead costs. It is felt that the formula used to calculate prices is unfair and they have limited involvement in "their" coop. Many started selling to private buyers who offered better prices.

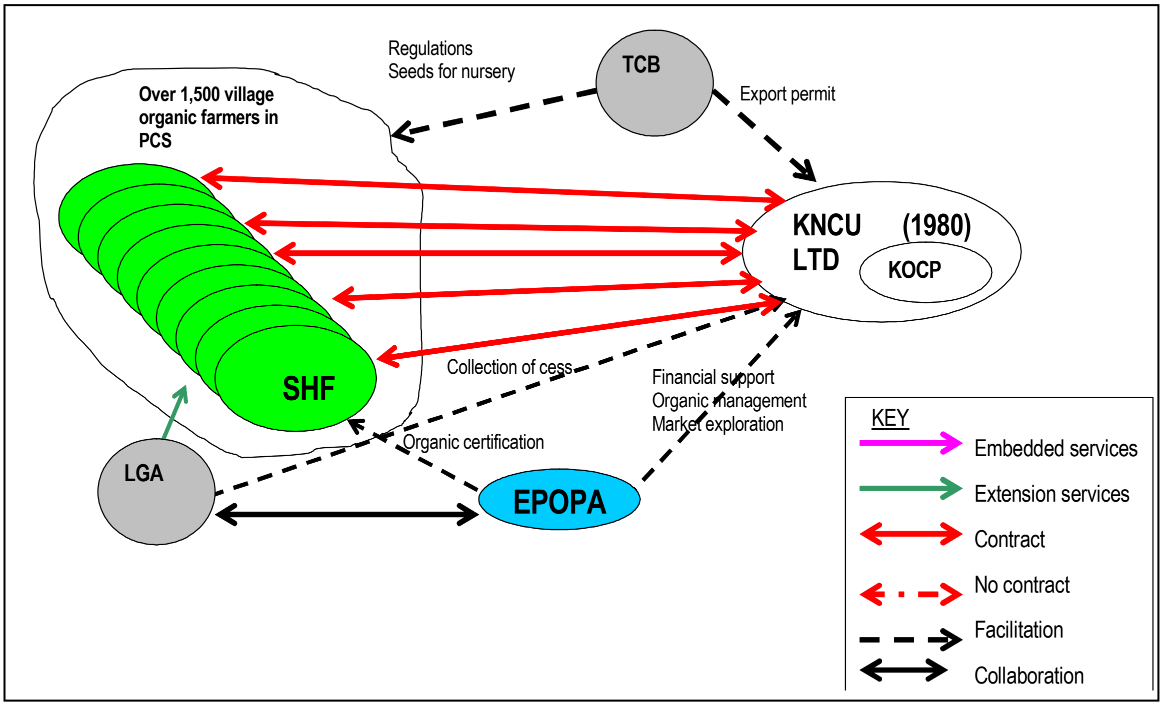
KNCU learned through its contacts that going organic and obtaining "fair trade" certification would open new opportunities to access better markets. For support it approached Export Promotion of Organic Products from Africa (EPOPA), an NGO that specializes in marketing organic products. EPOPA's approach is to work with a small group of farmers and use them as a catalyst for innovation. The idea is for other farmers to see the good practices and higher incomes earned, and will want to learn from them and join in the project. KNCU did not have organic expertise; so EPOPA assisted the farmers convert their farms to organic production. EPOPA conducted mobilization meetings with primary society members. Seven primary societies, with 1,700 farmer members, were selected based on their willingness and readiness to join the project. These farmers were required to sign organic farming agreement with KNCU (see Figure 1 below).

The soils and microclimate on the slopes of Mt. Kilimanjaro are ideal for coffee production, but historically, farmers were applying high doses of synthetic fertilizers and pesticides. These inputs were expensive, and converting to organic production took quite some effort (3 years). At first, some of the farmers were sceptical about making a profit, while others did not comply with organic farming standards. For these reasons by June 2006, of 1551 contracted farmers only 913 was fully certified, 181 on convention 2(on 3rd year) and 121 on convention 1(2nd year). There are 215 newly registered farmers (1st year) and 121 have been suspended for not adhering to organic procedures. Permanent technical field officers supervise all 1551 farmers. A manager, who is responsible for making sure that the organic standards are kept, supervises field officers. The EPOPA consultant spends an average of 4 days per month coordinating the project activities. This includes technical advice, training, field visits to identify problems, and searching for solutions. EPOPA also implemented internal quality control procedures, paid the certification costs, and found new markets.

KNCU farmers' interest in organic agriculture has been driven by their need to make a profit in the short term. Yet, the switch to organic farming, promise to have many environmental benefits that will continue into the future. In the short term, the switch may lower yields and discourage farmers. The conversion period offers a good way for farmers to adjust since they can get higher prices for their produce.

As farmers come to appreciate the benefits of organic farming, more farmers can be expected to join the scheme. Including them is possible because it would not significantly increase the costs of the consultancy or KNCU's overhead. The intervention has improved KNCU's responsiveness to its members, and has enabled the coop to seek new markets by itself. The technical staff can now provide training and control quality on their own. Even after phasing out, EPOPA still keeps an allowance to provide support to its former clients. This enables it to address minor problems that might threaten long-term sustainability. In the second year, KNCU applied for and was granted certification under the US Department of Agriculture's National Organic Program. In 2004 the cooperative exported about 40 tons of organic coffee to three firms in the USA, at a price of TShs 400–500 (€0.28–0.36) higher than the average conventional price.

Figure 1: KNCU Organic Coffee Scheme – Kilimanjaro



Major observations

Local consumption or diversification: Organic coffee however, is not the end of the road for KNCU. Tanzania produces less than 1% (0.7%) of world coffee and consumes only 2% locally. Ethiopia produces five times than Tanzania and consumes 50% locally. In this context, Tanzania is a small player in the international market and there is need to promote local consumption significantly. KNCU is diversifying and now moving into finished products and tourism to strengthening the income base of its members.

Transparency: More transparency within the cooperative would help to improve the image of the cooperative among the members. There should be clear communication between the management and the farmers' groups on issues such as delayed payments and price differences among the farmer groups.

"Seeing is believing": Initially farmers are understandably sceptical about new ventures. They need assurance about the market and trust before real business starts. Many would like to see the benefits first before they join in a project.

Difficulty of including poorer farmers: Poor farmers initially do not meet the minimum requirements of joining in projects like this. But they can qualify later on as the project expands. This shows the need to assess farmers' assets level before promoting contract-farming scheme. Farmers should have capacity to undertake their contractual obligations

Need for short-term benefits: Farmers adopt an innovation if they can get quick returns. If there is only a small difference in the price of organic and conventional coffee, farmers are less likely to see a reason to join even if the longer-term benefits are apparent. A number of farmers dropped out during the lengthy conversion period.

The study team rated this case as follows:

A: Public Sector led		SHF involvement in contract / pricing	Essential services	Role of LGA	Regulatory Roles	Impact to SHF
A1	Organic Coffee – KNCU Kilimanjaro	±	+	+	+	±

In general CF arrangements in the organic coffee case have been a success. Essential services provided through organic farming extension package have contributed a lot, but also the commitment and support of local authorities and the fact that coffee industry is clearly regulated. The scheme is still at its early stages hence limited impact so far and generally farmers have little influence on terms which are set according to organic market principles, which by the way are quite favourable to the position of the participating smallholder farmers.

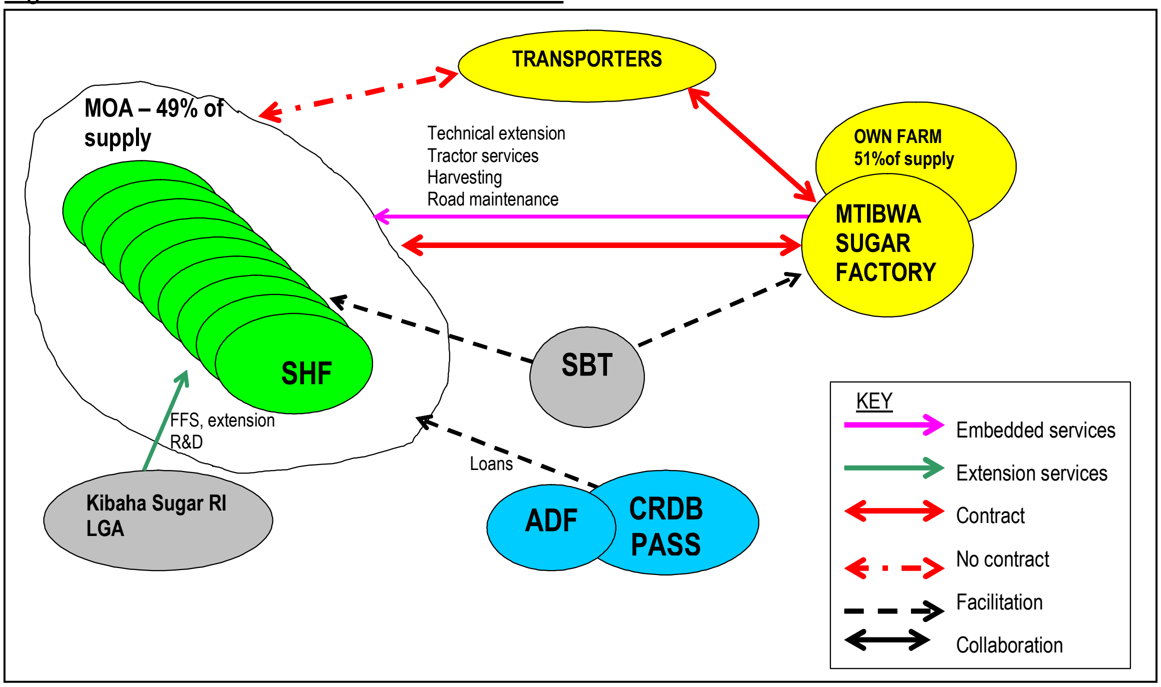
2.1.2 The power of farmers organisation: Sugarcane Outgrower Scheme – Mtibwa

Privatisation in mid-1990s has changed Tanzania radically. With the move from a state-led to a market economy, many formerly controlled agricultural industries needed to find ways to survive, expand and grow. Sugarcane outgrowers in Mtibwa Morogoro offer a living example in this respect. Mtibwa outgrowers are smallholders, owning an average of 1.4 hectares each. They are organized into production groups, which in turn make up Mtibwa Outgrowers Association (MOA). Most of the outgrowers hire tractors to prepare their land, though a few hoe by hand. The association members farm a total of about 17,000 ha. MOA has a sales agreement with the Mtibwa Sugar Estates (MSE). At harvest time, a harvesting schedule is drawn up and the amount of cane to deliver each day is determined. A joint committee fixes the cane prices for the season. Mill employees cut the cane and load it onto lorries, but this is changing: the associations now have loading equipment, so load much of the cane themselves. Truckers transport the cane to the mill, where it is weighed at the company's weighbridge, and samples are collected for laboratory analysis. The growers are linked with the millers through their associations and by existing contracts. They are reliant on the millers: MSE is the sole buyer for smallholder farmers' canes. The millers sell most of the sugar they produce locally, but exports small quantities to the European Union, where it fetches higher prices. Some 10% of the 165,000 tonnes produced in the Mtibwa and Kilombero outgrower schemes in 2004/5 was earmarked for the export market. In 2005 year, Tanzania earned €10.3 million in export sales. Nevertheless, most of the smallholders are poor and find it difficult to recoup their production costs. Other problems have included lack of skills in crop husbandry; a lack of capital to invest in expanding their enterprises; and the fact that their plots are not surveyed – pushing up the cost of loans.

The relationship between the associations and the sugar millers has been characterized with mistrust for some years. The outgrowers feel that their cane is not graded honestly, that the weighbridge is tampered with, and that the millers often delay payments. Many of these problems existed because there were no effective mechanisms for farmers and millers to resolve problems. For example, from 1999 onwards, the millers frequently delayed payments in violation of their contracts with the associations. The situation was particularly critical in Mtibwa, where some farmers had to wait 6 months or longer before they were paid.

The implementation of the Sugar Act has created a mechanism for resolving these issues and building trust among the various players. For example, in the 2005/6-cane season, there was a standoff over prices between the millers and the associations. “No better cane prices: no harvesting of outgrower sugarcane”, was the slogan. Within 2 months, an agreement was reached at Kilombero. At Mtibwa, the Sugar Board facilitated talks leading to the signing of memorandum of understanding. Together, the associations, the millers and the Sugar Board have managed to put in place a series of mechanisms – contracts, forums, consultations and stakeholder meetings – to discuss thorny issues and come up with settlements. No outside intermediaries have been needed. The partnership works, though it consumes a lot of time and effort, so there is still some room for improvement. The government has provided six extension staff to assist the outgrowers, and the milling company has employed an expatriate outgrower manager to assist the farmers (Figure 2).

Figure 2: Mtibwa Outrowers Association - Model



Major observations

Mtibwa Outgrowers’ Association (MOA) has increased from 1,200 in 1996 to 3,800 members by 2006. This figure emphasises that MOA is a strong lobbying organisation but over reliance on a single buyer limits their capacity to lobby. For decades, the contract between MOA and Mtibwa Sugar Estates Ltd has remained under negotiation and no clear agreement seems to come out of it. MOA thinks that the efficiency of the factory is low and this affects them directly. MSE is still upgrading the factory that they inherited from the public sector. An investment of USD 40 million is said to be needed for rehabilitation. MSE uses 12.6 tonnes of canes to get 1 tonne of sugar whereas Kilombero uses 8.3 tonnes of canes to get 1 tonne of sugar. Furthermore, MSE measurement of sugar content is an average of 8% whereas same sample tested in Kilombero indicated 11% and this affects the price offer to the farmer. MOA thinks Mtibwa sugar determination procedures are not transparent; therefore, would like to have an independent tester for sugar content. On the other side smallholder-farming system is fragmented and on very small plots which makes effectiveness of applying improved technologies like centre pivot irrigation impossible. But also transactions costs of such a farming system are quite high compared to using block-farming system.

Despite these shortcomings, generally, there has been positive impact to the farmers in this scheme. Statistics at MOA office show that members of MOA who had minimum income/wage in 1998 were 43% and in 2004 the number has gone down to 22%. Members of MOA who had income above TShs 5mil per annum in 1998 were 4% and in 2004 the number has gone up to 47%. However; MSE is reducing reliance of MOA as sole supplier, from previously 60% to presently 49%. The factory nucleus estate has increased its production levels from 40% to 51%.

The study team rated this case as follows:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A2	Sugar - Mtibwa	±	±	±	±	+

2.1.3 Production and productivity: Bunda District cotton farmers

Currently, cotton farming in Lake Zone, particularly Bunda District is not an enriching but an impoverishing activity for most farmers. Farmers put more into cotton production than they get out of it, and they are aware of this. The main reasons for this undesirable situation are low productivity of the land, low productivity of labour (poor agronomy practice) and, to a lesser extent, low producer prices. With the coming of competition in cotton buying, farmers have become more dependent on world market prices, although the setting of “floor prices” by the Tanzania Cotton Lint and Seed Board (TCLSB) may have a depressing effect on the farm gate price.

Low productivity of labour is to a large extent a result of land holding fragmentation even though this may not be immediately apparent. Consequently, the prospects for applying possible mechanical farming technologies have become very low. Hence smallholder farmers are forced by this circumstance to continue to rely on the hand hoe or at best an ox plough.

Generally, production and productivity of quality cotton are very low (as low as 100kg/acre whereas average could be 700kg/acre). The farmer wastes up to three hours a day commuting to and from these farm fragments and has to expend substantial amounts of energy carrying inputs to and outputs from the fields. The Bunda farmers, who own relatively substantial numbers of livestock, are simply unable to cart the manure to the fields because of its bulk and the distance. In addition, with the owner up to eight kilometres away, the crops in the fields are left to the mercy of nature as well as pests. Thus, the conditions in which the farmers have to produce create formidable problems of soil fertility restoration and labour productivity (good agronomy practice) enhancement.

Without addressing the land and labour productivity problems, farmers will not reap significant benefits from cotton. And these productivities cannot be achieved under the present fragmented structure of holdings because this structure *hinders* the application of both soil and labour productivity enhancing technologies such as irrigation, ploughing using tractors, etc.

As depicted in appendix 1, A3, in Bunda ginners buy from farmers and some ginners are also exporters. Improved seeds are made available to farmers through Tanzania Cotton Lint and Seed Board (TCLSB). Selected farmers who are contracted by TCLSB produce these seeds. One ginner (S & C Ginning Company in Bunda district) in an effort to improve labour productivity, is ploughing farmers' land (embedded service) and deduct ploughing costs when farmer sells his seed cotton. Though S& C Ginning don't maintain contract with farmers, the farmers whose land was ploughed by S & C Ginning are obliged to sell to S & C. In Bulamba ward where S & C Ginning is operational, 70 farmers are organised in 4 groups (informal), but these groups are still relative weak and key services e.g. financial services (SACCOS) are missing. S&C Ginning is exploring leasing option – encourage public participation (irrigation schemes, generating power to pump water from the lake, etc. Generally on one hand, ginners are aware of CF but sceptical; on the other hand, most smallholder cotton farmers are not aware of CF.

The teams rating of this case is as follows:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A3	Cotton - Bunda	–	±	±	±	–

2.1.4 Inclusion of smallholder farmers in global tea chain: Unilever Tea Tanzania Limited – Mufindi

Consumer groups and NGOs are voicing their concerns about the potential impact of large-scale agricultural activities on local communities and the environment. Current international market research reports suggest that consumers will increasingly expect the products they buy to benefit farmers, their families and the environment. Tea growers therefore have a shared aim to satisfy current and future needs i.e. to produce tea sustainably. Unilever has taken up the challenge to identify good practices in sustainable agriculture to enhance productivity, market value, and environmental and social performance. Tea crops that are grown to these guidelines should yield well for many years. The land on which they are grown should also remain productive providing food and income for farmers and their families for generations to come. Unilever tea growing operations include Brooke Bond Kenya Limited (8,000 hectares of tea), Hindustan Lever Limited (10,000 hectares of tea in Assam and Southern India) and Brooke Bond Tanzania Limited (3,000 hectares of tea). The combined annual output of these estates is 72 thousand tonnes, enough tea to fill 29 billion tea bags! In addition the estate factories provide tea-processing facilities for local farmers. Since 1998, these companies have been working on their tea estates to better understand sustainable production techniques through a series of pilot projects.

Tea in Brooke Bond Tanzania (BBT) covers 3,027 hectares of which 300 hectares are mechanically harvested (see appendix 1, A4). Unilever Tea Tanzania Ltd (UTT) is 95% self sufficient in tea production. Only 5 to 6% comes from outgrowers. Contracted farmers are only large farmers, smallholders don't have formal contract with UTT. The BBT Sustainable Agriculture project was launched in 2001 with full evaluation of the estate against the ten sustainability indicators. Working closely with national and international research institutes, estate employees and local communities has helped the team to prioritise future initiatives.

Tea is pruned after 4 years and all pruning trash is retained in the field to boost soil organic matter. Soil compaction in the mechanised area is monitored and a new machine with a smaller compaction effect was purchased in 2002. An environmental impact assessment is updated regularly to assess nitrogen and phosphate status to focus on minimising leaching and run-off of fertilisers. No pesticide is used in the crop to be harvested. Manual weeding as well as use of herbicides (low volume, spot spraying) is practised with a target of reducing herbicide use.

Rainwater is stored in 67 dams for irrigation from May to November. In addition to normal conservation areas associated with watercourses and estate boundaries, the company also maintains some 14,000 hectares of natural forest. This is a major environmental undertaking for BBT, which benefits the whole region, as the forest is natural water catchments for the two major rivers in Tanzania (Ruaha and Kilombero).

The areas for current concern are:

- Irrigation still relies mainly on diesel pumps, although a hydroelectricity power is used almost in all of the manufacturing operations.
- Fertiliser and machines are not available from local sources and have to be imported.
- HIV/AIDS is a serious problem and programmes are in place to provide: 1) information and education to all employees and their dependants and 2) prevention advice and care for patients in company clinics/hospitals.

Major observations

- Until recently tea has not been a crop for smallholder farmers. The government has taken deliberate promotional support through establishment of Tanzania Smallholder Tea development Agency which provides specialised extensions services.
- Tanzania tea quality and volumes (max 30 mil kg) are low compared to world average.
- Kenya tea quality is much higher and last year volume was (300 mil kg), Uganda 35-40 mil kg, Rwanda 20mil kg
- BBT is still at a comparatively early stage in this project. Currently the biggest challenge they face is uncertain income caused by the unpredictable prices of tea, making sustainability planning difficult. With the help of the sustainability indicators assessment, areas have been identified and prioritised where long-term solutions are required. These include minimizing the use of non-renewable energy sources, increasing fuel wood energy efficiency and enhancing the tea quality.

This scheme minimally qualifies as an SHF outgrower's scheme, but in other areas like Tanga and Rungwe in Mbeya regions more involvement of smallholder is taking place, and there is more articulate collaboration between Tea Research Institute, Farmer Organisations and Private sector.[3] The study team assessment of this case is summarised below:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A4	Tea – UTT - Mufindi	–	±	–	±	–

[3] Tea Research Institute of Tanzania, Annual report 2004/05

2.1.5 Repositioning Tanzania in the Pyrethrum industry: TPPMCL- Southern highlands Tanzania

Pyrethrum is a perennial plant with white, daisy-like flowers adapted to temperate growing conditions. The flowers of pyrethrum are used to produce a natural botanical insecticide, most commonly by extracting the active '*pyrethrins'* but also in dried powder form.

Historically, pyrethrum was raised exclusively as a commercial crop in the African countries of Kenya, Rwanda and Tanzania as well as in Papua New Guinea and Ecuador. These locations have ideal climatic growing conditions for pyrethrum as well as abundant labour for hand harvesting of flowers. New regions of pyrethrum production include Australia, Chile, Uganda, China, France and South Africa. Kenya remains the world's largest producer of pyrethrum (over 50% of world market).

Beginning in the late 1980s and proceeding into the 1990s, a large commercial pyrethrum industry emerged in Tasmania, an island province located off the southern coast of Australia. Botanical Resources Australia Pty. Ltd., or BRA, has developed pyrethrum into a high-value broad acre herb crop. Technological advances in mechanized pyrethrum production include direct seeding instead of transplanting, and refinements in weed control and irrigation practices. BRA's Tasmanian pyrethrum crop is grown on contract with farmers in northwest Tasmania and is harvested by a fleet of 25 - 35 combines, 11 windrowers, and 40-grain trucks. BRA operates a state-of-the-art laboratory facility for the analysis of pyrethrins and piperonyl butoxide, biochemical parameters of raw botanicals, and product analysis for pyrethrum and other Tasmanian-grown herbs. BRA now supplies more than 30% of the world's pyrethrum market.

Beginning in the late 1990s and proceeding into the 2000s, field trials investigating the potential of pyrethrum as a commercial industrial herb crop in the United States have taken place in North Carolina. McLaughlin Gormley King Company (MGK) in Golden Valley, Minnesota, is one of the oldest manufacturers of pyrethrum products in the world, and is a major buyer of raw pyrethrum.

MGK acquired Tanzania Pyrethrum Processing and Marketing Company Limited (TPPMCL) 51% of shares in Jan 2006 and is currently establishing contract with potential farmers in seven districts of Iringa (Makete, Njombe, Ludewa and Mufindi) and Mbeya (Mbozi, Rungwe and Ileje) – see Appendix 1, A5. The challenges of MGK include but are not limited to the following; Tanzania pyrethrum quality is low (1.1%) and volumes are insignificant (max 6,000 tonnes) compared to world average. For instance, Kenya pyrethrum quality is at the range of (1.8 – 2.0%) and last year volume was (18,000 tonnes). Rwanda pyrethrum quality has reached 2.2% quality level, which can compete with pyrethrum from Tasmania, Papua New Guinea and China. MGK has contracted ARI Uyole to breed and multiply improved pyrethrum seeds. The ongoing CF arrangements are quite promising. The proposed contract sounds fair to both parties.

The study team has rated this pipeline CF case as follows:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A5	Pyrethrum – Mufindi	±	+	±	±	−

2.1.6 Consolidation of tobacco industry: Alliance One – Morogoro

Tobacco is grown in more than 100 countries. China is the world's leading producer. Other principal suppliers are the United States, India, Brazil, Turkey, Zimbabwe and Malawi. Tanzania is a minor player in the tobacco map. Consolidation in the tobacco industry had been taking place for quite some time, but it accelerated in the late 1990s. Also, the size of the "deals" has become steadily bigger. By producing high volumes at fewer locations, and by merging distribution activities, companies benefit from economies of scale. The cigarette business needs volume to be profitable. Alliance One International, Inc., purchases tobacco grown in over 45 countries including Tanzania and serves manufacturers of cigarettes and other consumer tobacco products in over 90 countries. Alliance One is proud to maintain the traditions of excellence that began generations ago, striving to find new opportunities and solutions within the industry, for their customers, suppliers, and employees. Alliance One's global headquarters are located in Raleigh, North Carolina.

Alliance One Morogoro (see appendix 1, A6) and three other processors run a tobacco processing factories and buy from about 65,000 farmers under contract through over 120 cooperative societies. The Tobacco Act 1993, which among others established the Tanzania Tobacco Board (TTB) and was followed by respective regulations, stipulates clearly how contract farming should be organised in this industry. The main processing and marketing facilities have been privatised since 1994/95. Since then TTB regulates the industry which involves buyers/ processors, farmers and their cooperatives. Tanzania Tobacco Council (TTC), which is a forum, composed of farmer's representatives (Apex and Regional Unions), and processors facilitates negotiations and an agreement on a model / standard contract which spells out a consensus on among others the prices of output and inputs to be provided during the season. TTB and Ministries of Industries, Trade and marketing attend the forum as observers. The price reached is referred to as minimum indicative. A number of factors are considered before reaching the price, which include the previous season's world market price. The price is then announced by the TTB just before the marketing of cured tobacco leaves commences. On the basis of standard agreements, individual processors sign contracts with a given primary society. The Regional Union, District Cooperatives Office and TTB are witnesses to this agreement. Buyers and processors do occasionally sign contracts directly with individual medium and large-scale farmers. Processors of tobacco in Tanzania have formed an association called Association of Tanzania Tobacco Traders (ATTT) that oversees extension and contract related matters with growers. Reports indicate that through contract farming arrangement in tobacco, production increased from 28 thousand tonnes in 2001 to 52 thousand tonnes in 2006. Also though debt recovery was a critical issue in the late 1990, almost rendering the scheme to a failure, the current system is said to have increased debt recovery to 98% and prices paid to farmers have increased by 120% over the last 5 years.

Main observations

- Contract farming arrangements between leaf dealers and tobacco growers take place before the announcement of seasonal prices for input and produce. After entering the agreement, a farmer has to abide by the contract and, therefore, has no choice as to where to sell his or her product.
- Despite the fact that there can be price differences among leaf dealers in input and output markets, contracts pin down the farmers to one specific dealer. Farmers enter into these

contracts unguided partly because of desperation caused by lack of alternative marketing arrangements and high costs of necessary inputs for a season.

- As there only a handful of buyers available who are working under global conglomerations, the contracts entered is, therefore, more monopolistic in character and does not reflect the competition expected to be instituted through liberation.
- Farmers have acknowledged that they are not knowledgeable enough on different tobacco grades and have little influence on the final grades offered to farmers. TTB is expected to facilitate classification of different grades.
- In an effort to reduce non-payment of input loans, tobacco companies have formed an association called the Association of Tanzania Tobacco Traders (ATTT), who apart from offering specialised tobacco extension service, they are given the task of co-ordinating contractual arrangement between growers, through their primary co-operative societies, and the companies so as to stop incidence of strategic default by the tobacco growers. This system of embedded services by buyers seems to work well.
- Tobacco produce from Tanzania is of high quality, which enables it to compete in international markets with the produce from other countries; however, the main challenge which tobacco farmers face is over dependence on rain-fed agriculture and the use of the hand-hoe. It is hindering the development of tobacco farming, as farmers should at least use ploughs in cultivating their farms.

The study team rated this case as follows:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A6	Tobacco - Morogoro	+	+	±	±	+

2.1.7 Private Public Partnership (PPP): Sisal production and processing - Katani Limited Tanga

Katani Ltd is a private agro-industrial company owned by Africa Mpya (90%) and Mkonge Investment and Management Company (10%). Katani Ltd owns 6 sisal estates, a spinning and weaving factory, a central workshop in Tanga and warehouses in Dar es Salaam. Katani acquired these assets after privatization of Tanzania Sisal Authority in March 1998. The Katani business area involves growing of sisal for fibre production and other utilities, and producing fibre products from sisal. The company, in collaboration with ARI Mlingano also conducts research to develop new varieties of sisal suitable for various end uses.

The sisal industry in Tanzania has been exhibiting a declining trend since the 1970's. Although several factors have been mentioned as contributing to the decline in production, lack of improved and adapted planting materials was singled out by Katani Ltd as the major problem in sisal production in Tanzania.

Many of the cultivated Agaves are sterile clones, but sometimes polyploids that rarely produce viable seeds. Because of these, Agaves are propagated vegetatively. Conventional propagation methods are not sufficiently rapid and planting material from these propagation techniques are non-uniform and do not have elite status. Techniques like micro-propagation via meristematic tissue culture (MTC) offers prospects of faster multiplication of elite clones.

Micro-propagation through MTC would play a very important role in satisfying the current and future demands of planting materials for all the sisal plantations. It is estimated that seedlings demand for new planting for Katani Ltd and for the other 20 sisal estates is about 24,000,000 seedlings per year. Thus, there are high chances for Katani and the sisal industry as a whole to benefit substantially from the successful implementation of the MTC program.

Katani Ltd collaborates closely with the Tanzania Sisal Board, a Government institution charged with regulation and developmental aspects of the sisal industry. ARI Mlingano implements the MTC program whilst ARI Mikocheni is providing local scientific consultation to ARI Mlingano. Katani is also collaborating with KEPHIS in Kenya and CICY in Mexico. Katani Limited has been collaborating with local institutions such as CAMARTEC, the University of Dar-es-Salaam (UDSM), the Sokoine University of Agriculture (SUA), various universities in Germany, Danish firms, Kenya Sisal Board and many others for the increased utilization of the sisal plant, especially the waste utilization for cleaner production initiatives.

Tanzania Sisal Board (TSB) targets to increase, among other things, fibre production eight-fold, from the current 27,000 tonnes to 168,881 in 2012 and 190,000 tonnes in 2016. In this regard, sisal firms have embarked on production development, which if implemented successful would change the face of the sisal sector and create a multiplier effect on its contribution to national development. Katani Ltd for instance has adopted outgrower scheme by including small and medium scale farmers in the sisal farming. In Katani model the company will sub-lease part of its estates to smallholders and contracting them to produce solely for Katani processing factory (see Appendix 1, A7). In this set up each smallholder farmer is given a minimum of 15 acres within Katani Ltd estates for the purpose of sisal farming. All contracted farmers will receive embedded services from Katani Ltd, the costs of which will be deducted on sales to the processing factory.

<u>Major observations</u>
Successful outgrower scheme: until December 2005 Katani Ltd has managed to sub-lease 4, 224 hectares to outgrowers who in turn have managed to produce 44, 867 metres of sisal leaves worth TShs 192, 647, 088.

Public-Private-Partnerships – PPP: Until recently, the public and for-profit making private sectors often viewed each other with “antagonism, suspicion, and confrontation”. Considerable scepticism exists about the motives of private firms that engage in partnerships, even when the efforts have substantial public benefits. Private firms are assumed to be seeking for profits and markets through partnerships; or to be seeking control over the agendas of international organizations; or to be seeking tax deductions for financial reasons; or to be seeking new products, subsidized by public funds, to be used for private sale and profits. These assumptions reflect the profound cultural gap between the private and public sectors. Normally, the partners come together with different cultural perspectives and unfamiliar with divergent institutional approaches. Public research institutions in developing countries may be unaccustomed to negotiating with the private sector, and companies are unfamiliar with the bureaucratic processes and government contractual requirements associated with the private sector. This case portrays a gradual change in the traditional perspectives, and the potential impact seems to be good. At national level the PPP seems to emerge more clearly than is the case with local authorities who often have to respond to decisions made at policy levels.

The study team rated this case as follows:

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A7	Sisal – Katani Ltd. Tanga	±	+	−	±	±

In table 2 below, an attempt is made to consolidate the emerging picture for the public sector led CF schemes in Tanzania.

Table 2: Situation analysis of public sector led contractual agreements in Tanzania

A: Public Sector led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
A1	Organic Coffee – KNCU Kilimanjaro	±	+	+	+	±
A2	Sugar - Mtibwa	±	+	±	±	+
A3	Cotton - Bunda	±	±	±	±	±
A4	Tea – UTT - Mufindi	−	±	−	±	−
A5	Pyrethrum – Mufindi	±	+	±	±	−
A6	Tobacco - Morogoro	+	+	±	±	+
A7	Sisal – Katani Ltd. Tanga	±	+	−	±	±

Key:

− Minimal to none ± Average + Present

An average scenario dominates the emerging picture. Farmer's involvement, clarity on roles of LGAs and impact to smallholder farmers are the least developed areas in these arrangements. The privatised production and processing infrastructure is still been revitalised. It should also be mentioned that in the cases of tea and pyrethrum smallholder farmers impact is yet to be felt as tea in Mufindi involves very limited number of out growers while in the case of Pyrethrum the scheme has just been revived.

2.2 B: Non State Actors led

As compared to the public led category there are more cases coming up championed by non-state actors. A number of NGOs who support the theme of increasing access to market for smallholder farmers have found the use of contract farming as an appealing approach. During this review we have examined 12 cases of which 6 are presented in detail in this main report and the rest are highlighted in annexes. Sections 2.2.1 to 2.2.6 presents detailed insights for selected number of cases.

2.2.1 Farmers organised to increase their bargaining power: Chickpea PMG model Lake Zone

Cultivation of chickpea in the Lake Zone is reported to have started in 1930s in Western parts of Rural Shinyanga District. Since then the crop has been spreading within and outside those areas towards the eastern parts in Shinyanga Region and northern parts in Mwanza Region. Chickpea are grown in the low lands with vertisols (mbuga – black clay soils in valley bottoms) by smallholders.

The chickpea crop is grown as a relay crop after harvesting maize or rice. In most areas the crop is mainly grown as cash crop particularly after continuous falling of prices of cotton and only about 10 percent is produced for home consumption. However, consumption of the chickpea is also increasing due to the fact that production of maize and rice has been very unstable because of repeatedly unfavourable weather during the past years. In addition, the habit of people not liking consumption of sorghum despite that it can grow well increases chances of expanding cultivation of chickpeas. Tanzania chickpea is mainly exported to South Asia and Middle East however, there is a growing local market due to current support initiatives and growing Asian communities in local town centres.

Catholic Relief Services in collaboration with Roman Catholic (RC) Diocese of Shinyanga and Mwanza Rural Housing Programme (MRHP) have assisted the farmers in forming Production Marketing Groups (PMGs) – see Appendix 1, B1. This move aims on the chickpea marketing strategies on the price control, market demand information and bulking /storage of produce to make it easy for the traders to buy from one collection centre. CRS and RC Shinyanga Diocese have supported the PMGs with improved variety (Kabuli seeds). CRS also in collaboration with Techno serve Arusha have empowered the PGMs on group formation, leadership skills and marketing information. Group membership contribution/entry fee is TShs 4,000/= and thee is no annual subscription.

<u>Major observations</u>

- Chickpea is labour intensive but highly valuable crop – exported almost 95%.
- Producer Marketing Groups (PMG) main focus is bulking together to avoiding traders/exporter agents.
- Tanzania is among the top ten producers of chickpea worldwide.

The rating of this case according to the study team is as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B1	Chick peas – Misungwi (PMG led)	±	+	±	−	+

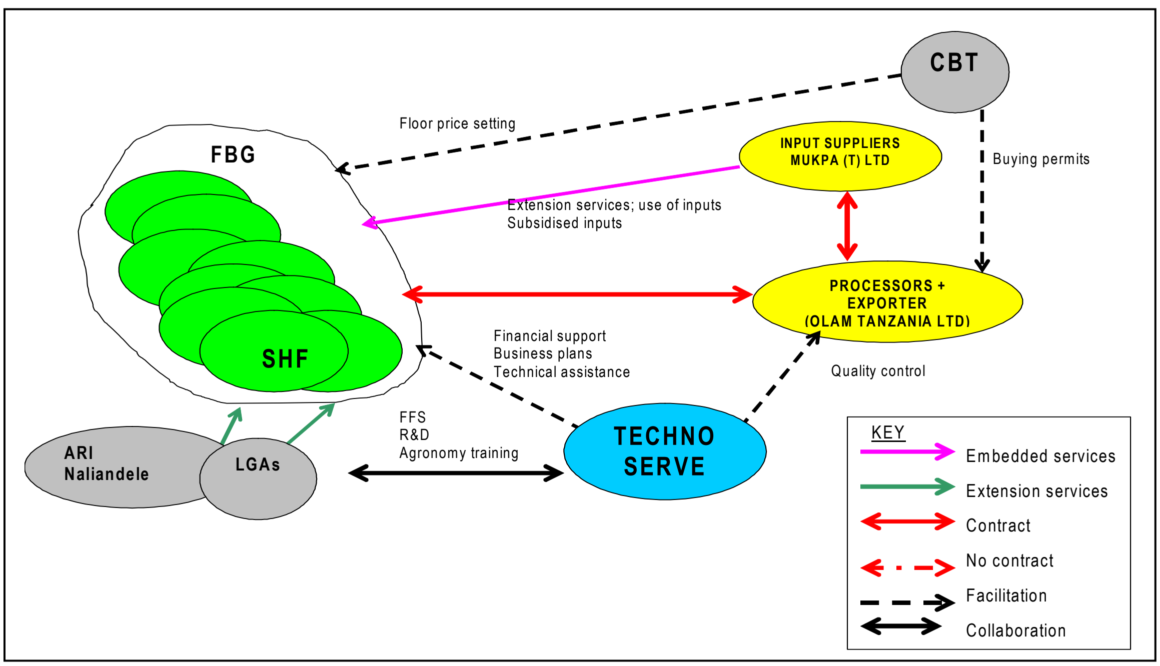
2.2.2 Non State Actors Seek to tackle Industry Competitiveness: TechnoServe - Olam Cashew model

Worldwide demand for cashew kernel exports in 2005 was estimated at 200,000 metric tons per year, with demand projected to grow at a rate of 5% to 8% annually over the next five years. The major importers of cashew kernels are the United States, the European Union and China. African countries produce one-third of the world's raw cashew nuts, but 95% of Africa's production is currently being exported abroad for processing. The lack of viable processing industries means that African countries are losing tremendous "value added" - the current price for cashew kernels averages US$4,500/metric ton, versus US$500-$700/metric tonnes for raw cashew nuts - and the potential to create hundreds of thousands of processing jobs.

Tanzania is the world's fifth largest producer of raw cashew nuts. The cashew industry generates 5% of the country's export earnings - approximately US$70 million annually from raw cashew nut exports -- and provides a livelihood for 280,000 smallholders. But the industry has been hamstrung: first, in the early 1970s, through nationalization of the sector, and second, in the 1980s, through investment in costly, large-scale production plants utilizing inefficient technology. As a result, raw cashew nut production has decreased: from 128,000 metric tons in 2001, down to 84,000 metric tons in 2003. And Tanzania processes less than 10% of its production, shipping the remainder to India for processing and sale to large retail markets.

Olam International Limited[4] and TechnoServe have recently formed a unique partnership to support the development of sustainable and value-added agro-processing initiatives across Africa, starting with cashew processing, which has the potential to create significant economic and social impact in these producing countries.

Figure 3: TechnoServe Cashew nuts Scheme: Mtwara



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[4] Olam is a leading global supply chain manager of agricultural products and food ingredients. It operates an integrated supply chain for 14 products sourcing from over 35 origin countries and delivering them to over 3,000 customers in 50 destination markets. With direct sourcing and processing in most major producing countries for its various products, Olam has built a global leadership position in many of its businesses including Cocoa, Coffee, Cashew, Sheanuts, Sesame, Rice and Teak Wood.

Olam International Limited, which is headquartered in Singapore and recently listed on the Singapore Stock Exchange, is a leading global supply chain manager of agricultural products and food ingredients. It is probably the largest supplier of cashews globally with a direct presence in all the key producing countries in Africa, Asia and S. America. It is also the only industry player at the forefront of cashew processing in the three main processing centres, India, Vietnam, and Brazil (these 3 countries currently process over 95% of the world's cashew nuts). In addition to processing cashew in these 3 traditional processing centres, Olam has in the last 2 years, launched a multi-origin cashew processing initiative in the key producing countries across Africa, including Tanzania, Mozambique, Nigeria and Cote d'Ivoire. Origin cashew processing in Africa is a logical and integral step for Olam as a part of its overall cashew strategy. It helps the company enhance its margins through freight savings and further strengthens its competitive position in the industry. Olam believes that it has the requisite experience, skill and technology to make cashew processing work in Africa. With its strong end-user relationships, it is also well positioned to build a brand image for African-processed blanched cashew kernels in the consumption markets.

TechnoServe believes that a viable processing industry in Tanzania could create 30,000 direct jobs; generate US$40 million in incremental processing revenues annually -- 60% of which would be paid out as wages to factory employees; and have a significant "multiplier" effect in terms of new business and job creation. Based on a recently signed Memorandum of Understanding (MOU), which formalizes the partnership, Olam and TechnoServe will work together to "unlock" the value of the African cashew industry. The MOU covers activities in East and West Africa including:

- Supporting the current Government and Industry-led initiatives and advocating reforms to these policies, where appropriate, to create an enabling environment in all major African producer-countries in the best interests of developing the overall cashew industry.
- Creating joint programs focused on innovation, research and development, cost reduction, and the environmental sustainability of cashew processing in Africa.
- Creating awareness on raw cashew nut quality and production techniques for improving the yields and realizations for the local producers and processors, and assisting in the development of producer and processor associations, that benefits both parties and leads to the overall development and sustainability of the local cashew industry in these countries.
- Disseminating information and sharing of best practices for the benefit of all industry participants.

Olam's partnership with TechnoServe is a natural extension of Olam approach to sustainability. As supply chain managers of agricultural products, Olam operates closely with various local communities in the producing countries. Olam constantly identify opportunities to concurrently create value for these communities, the company and other stakeholders in the industry, wherein Olam can use its expertise and resources for making a meaningful social and economic impact. Olam believes that working together with TechnoServe they will be able to support the current Government and industry-led initiatives and develop local solutions that will enable African producer countries to maximize the potential of their cashew industry for the benefit of all stakeholders, including the smallholder farmers and local processors.

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However, the creation of a local processing industry has significant challenges including investments in processing infrastructure, transfer of technology and learning on best practices in cashew processing, capability building through training and skill development of workers, all of which need significant resources and policy support from the local governments. Through this MOU, both companies hope to combine their resources and efforts and try to become a catalyst for creating a viable and thriving cashew processing industry in Africa.

Major observations

- It is a model in Mtwara is in inception phase based on success experiences of TechnoServe in Mozambique and West Africa (see Figure 3). The Farmer Business Pilot Programme seeks to involve private sector to create a replicable and sustainable model.
- A collaborative stakeholder effort has proven successful in reviving the industry, but needs resources
- This model is part of Africa Cashew Development Programme aiming at branding cashew from Africa (African Cashew Alliance).
- Productivity is the focus to increase particularly smallholder farmer's profits.

The scoring of this case according to the study team is as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B2	Cashew TechnoServe led	+	+	±	±	±

2.2.3 Competitive of formal and informal milk marketing system: Nronga Women Group

A marketing system for milk involved all elements that influence, directly or indirectly, the movement, transformation and price of fresh milk once it leaves the point of production. These include: (a) collection of milk from dairy producers (b) the transformation system, if any, which processes and/or packages milk products for final consumption (c) the transportation system that moves milk and milk products between functions (a) and (b).

Market intermediaries performed the marketing functions mentioned above. Three major market intermediaries can be distinguished in the marketing system for milk in Northern Tanzania, namely large milk processors, dairy cooperative and small milk traders. The common feature among these marketing agents was that they all purchased fresh milk from dairy producers and the major product, which they distribute to consumers in the form of liquid milk. Depending on the involvement of the market intermediaries in the marketing of milk from the producer to the consumer, the following marketing channels were observed: i) Producer - - >Consumer, ii) Producer - - >Small Milk Trader - - >Consumer, iii) Producer - - >Small Milk Trader - - >Retailer- - >Consumer, iv) Producer- - >Dairy Cooperative - - >Consumer, v) Producer - - >Dairy Cooperative - - >Retailer- - >Consumer and vi) Producer - - Tanzania Dairies - ->Consumer

During this study a diary cooperative in Nronga in Hai district was visited. Nronga Women Diary Cooperative Society (NWDCS) has 352 women members who are all diary farmers. This primary society started way back in 1988 with 75 women and the membership has gradually increased ever since.

NWDCS has been selling milk to retailers and to a large processor – New Northern Creameries (NNC) based in Arusha city (see appendix 1, B3). NWDCS has a formal contract with NCC but only verbal (informal) contracts with retailers in Moshi and Boma Ng'ombe towns and Arusha city. Despite having the contract with NCC, between 2000 – 2001, NWDCS supplied milk worth over TShs 13 million to NNC and have not been paid to date. Although the cooperatives approached a Moshi based advocate, the case did not reach the courts of law.

Despite the loss, NWDCS has managed to progress well after receiving support from various state and non-state actors including UNICEF, FAO, DANIDA, Land O Lakes, USAID and Sokoine University of Agriculture (SUA).

Major observations

- *Quality control:* Although the society has established an organised, self sustaining milk collection and marketing systems at Nronga, the society is facing strong competition from milk vendors, who are operating in Moshi and Arusha. Worse still most of the milk vendors allegedly, diluted milk with water and sold it to unsuspecting consumers.
- *Overstretching:* NWDCS has started to process cheese and yoghurt, but compliance to high hygienic standards and branding processes are a big challenge to the cooperative with limited resources. Milk processing is a highly specialized skill and requires expensive equipment/facility, which will be difficult for NWDCS to acquire.

The team rated this case as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B3	Dairy - Nronga Women - Kilimanjaro	±	+	±	±	+

2.2.4 Paprika from Southern Tanzania

The spice industry presents a major opportunity for Tanzania to exploit and reap economic benefits in the relatively short term with only a nominal input of resources and attention. Among the opportunities within the sector development are the thousands of small farmers who are already knowledgeable about spices. Others are the exchange rate and trade regimes that are liberalized. There is a growing market for derived products such as extracts and oleoresins.

The world market for spices and herbs is valued at over US$2.3 billion. From 1995 to 1999 imports averaged 500 000 tonnes growing at an average of 8.5 percent/year. However, the sector also has problems, e.g. Tanzanian spices are not branded; the majority of the products have no traceability system. The spices currently being produced by Tanzania include: cardamom, ginger, turmeric, cinnamon, garlic, black pepper, cloves, chilli, onions, vanilla, cumin, coriander, paprika, mustard, spring onions and nutmeg. Spice production in Tanzania is mainly carried out in areas with tropical and subtropical climate. Normally no chemical fertilizers are used. Available data of the spice industry sector indicate that overall the sector has been growing by more than 10 percent per annum in value terms since 1997. The actual export value grew from US$1 148,000 in 1997 to US$11,000,000 in 2001.

Paprika is produced in many regions of Tanzania. Initially in Mbeya, smallholder farmers (SHF) were producing paprika with support from World Vision (ADP Mbozi) who introduced the crop and ADP linked farmers to sell on contract to Tanzania Spices Ltd. However, farmers were not happy with the contractual terms (grading and price) and refused to continue. Consequently, Mavuno Ltd (a buyer based in Mbeya) got the contract to supply paprika to Tanzania Spices Ltd and thus buy on cash from farmers. Mavuno staff assists farmers to grade their paprika at farm gate (see appendix 1, B4). In Iringa region paprika farmers were supported by FAIDA and DAI PESA in the last couple of years to develop CF arrangements with rather disappointing outcomes.

This case is thus rated as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B4	Paprika – Mbeya	±	+	±	−	±

2.2.5 Vertical integration in Contract Farming: MALI Muleba

Muleba Association for Agriculture and Local Industries (MALI) is an association of over 1800 farmers in Muleba District, in the Kagera region of north-western Tanzania. MALI runs a processing factory in Muleba, which produces juice from the farmers' fruit. The farmers bring their output to the factory on a set timetable. The factory workers receive and weigh the fruit, sort and clean it, cut it and extract the juice, measure the natural sugar content, add sugar and water, and pasteurize and bottle the juice. The bottles are cooled, labelled and packed into crates before they are marketed. The association currently produces about 1500 crates a month – though it could double this if there is demand. It distributes its products directly to retailers in Muleba and Bukoba. The factory produces various flavours: mango, pineapple, orange, mandarin, lemon and passion fruit. It has also developed a mango-pineapple mix, which is one of the most popular products in its range, and is attempting to blend more fruits and to introduce hibiscus (Roselle) into its product portfolio. The juices are delicious, and customers like them. But MALI is finding it hard to make ends meet (see appendix 1, B8).

Major observations

Competition: Since the association was founded in 1997; Tanzania has undergone significant economic changes. The national market has opened up, and juices from Kenya and South Africa have flooded in. The soft-drinks giants, Coca Cola and PepsiCo, have become more competitive and have penetrated even remote rural areas of Tanzania.

Packaging: MALI uses recycled glass bottles; workers sterilize them by hand before refilling them. The bottles are expensive, so MALI operates with a very small stock. There is no system of recycling bottles from retailers. When the bottles run out, the juice is packed in plastic bags – but this reduces the quality and shelf life.

Seasonality: Fruit production is seasonal, and volumes fluctuate from month to month, so the factory lies idle for significant periods during the year.

Costs and efficiency: With its high production costs, inefficient labour – intensive technology and limited volumes, MALI finds it hard to compete. Its only comparative advantage is its natural 'health' qualities.

Distribution system: MALI juice is sold within a radius of about 70 km from the factory. There is one sales point in the town of Bukoba (the capital of Kagera region), and ad-hoc sales to Muleba-based buyers. The distribution system is weak, and there is no order acquisition and management system. Unsold inventory sometimes accumulates in the factory store.

Overstretch: MALI is active in all various stages of the value chain: processing, distribution and marketing. But it has limited technical, financial and human resources to perform all these functions.

The study team has rated this case as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B8	Fruit Juices – MALI Muleba Kagera	+	±	±	−	±

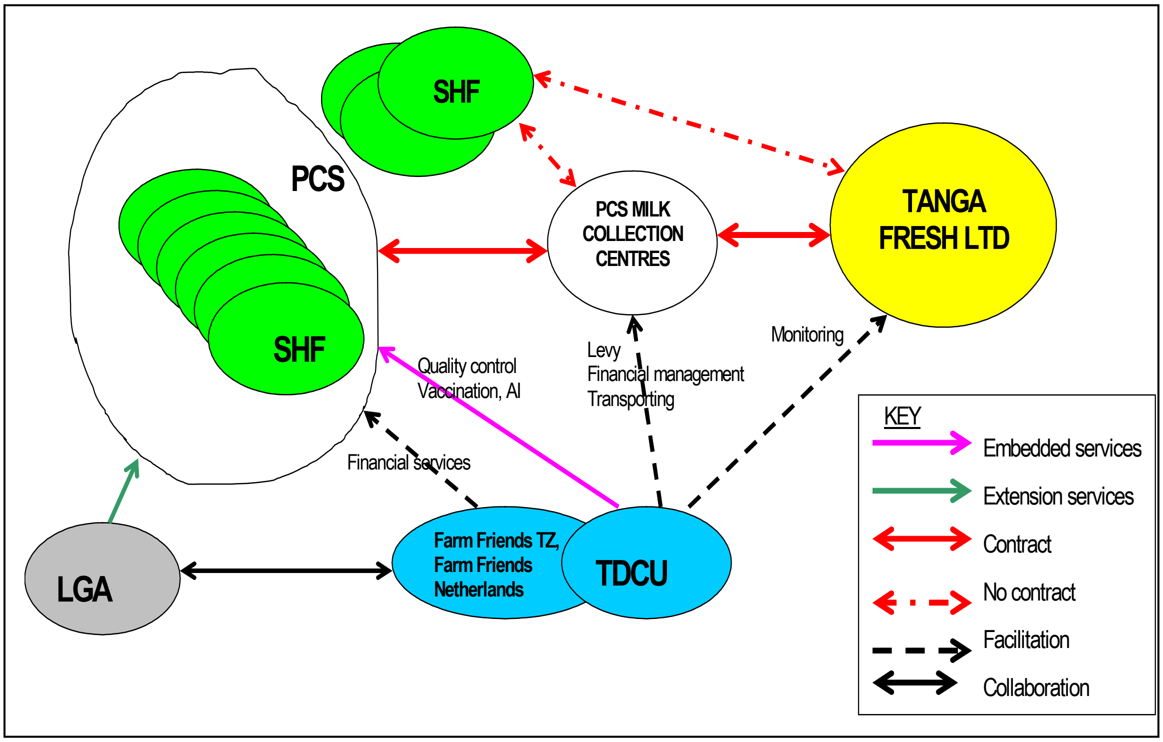
2.2.6 Establishment of Dairy Quality Chain – Tanga

The Tanga Dairy Cooperative Union (TDCU) was registered in March, 1993 as an apex organization of nine Dairy Primary Societies from five districts (Tanga, Muheza, Pangani, Korogwe and Lushoto). TDCU has a membership of 1,500, but it serves about 3,000 dairy farmers, 40% of whom are women. TDCU was established and registered after collapse of Tanzania Dairies Limited (TDL) in 1992.

Farmers bring their milk by bicycle/carts to the nine Primary Societies each morning, with society members receiving preferential prices. The milk is chilled and then TDCU collects transports and sells it to Tanga Fresh Limited (TFL) in the town of Tanga. Tanga Fresh Limited was established and registered in December 1996. TDCU is shareholder (30%) in this company, which was established by Dutch investors (Frisania 70%). TDCU has installed an accountancy system at the primary societies and monitors their accounts. They are also creating a system to control the quality of the milk as it is delivered to the primary societies. The Primary Societies identify farmers with adulterated or poor quality milk before it is added to the milk cooling tank (chiller). The Primary Societies also follow up the reason for the poor quality milk with assistance from Tanga Fresh and TDCU (see Figure 4).

Tanga Fresh Limited – TDCU – Primary Societies concept is a unique success story in the diary industry within and beyond Tanzania. This concept, which was started by a Dutch government program – Tanzania Smallholder Dairy Development Project (TSDDP) was heavily supported by the Netherlands, but as the development programs have ended, the production and marketing system has continued to function. This is mostly because TFL continues to be a reliable buyer, paying for their milk on time. Initially, they had to pay on a daily basis because farmers did not trust the system. Now, payments are deposited every two weeks into the Primary Societies' bank account. The previous cooperative union collapsed because the parastatal milk plant did not pay for milk deliveries.

Figure 4: Tanga Fresh – Diary model



Major observations

- Each Primary Society owns and operates a milk chiller, a machine costing about $10,000. These chillers were purchased under a Dutch program and given to the Societies when the project ended. They are still in good operating condition, but they will have to eventually be replaced. Setting aside funds for the amortization of this equipment is a crucial activity for the future. Again, this is a cost which will probably have to be shared between the producers and TFL, because the chillers are the only way to produce high quality milk.
- Milk buyers from other companies (such as yoghurt and ice cream novelty producers) are coming up from Dar es Salaam and within Tanga City. They offer higher prices than TFL during dry seasons, but their prices are not sustainable. As a shareholder in TFL, TDCU is committed to building a long term relationship with this buyer.
- With support of TFL, TDCU provide inputs to its Primary Societies like vaccination, Artificial Insemination (AI) and financial services (soft loans) through Farm Friends Tanzania and Farm Friends Netherlands. Through this intervention, TDCU is building trust with its Primary Societies; however, the challenge for TDCU is to build capacity of these primary societies to have strong leadership and management in order to improve livelihood of smallholder farmers, productivity, and effective and efficient capacity of producers to respond to highly dynamic diary market needs.
- Members of Primary Societies have no direct contracts for selling their products to TFL. Membership agreement requires all members to sell all their milk to TDCU.

- The Cooperative policy prohibits TDCU from direct intervening Primary Societies issues; for instance if the problem is leadership in the Primary Society, there is no way TDCU can intervene to rectify because it has to always go through the society leaders.
- VAT for sour milk? TRA Tanga region is charging Tanga Fresh Limited VAT for sour milk. This is not the case elsewhere in the country. There is a need to harmonise the milk tax system to be similar for all processors in the country.
- Land (allocation) policy should look at the possibility of making land available to youth and livestock keepers who are keen to participate in the dairy farming in Tanzania. Incentives should go beyond foreign investors.

The rating of this case according to the study team is as follows:

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B12	Dairy - Tanga	±	+	±	±	+

The emerging picture of different schemes (including 6 of those that are not coved in the main text i.e. B5, B6, B7, B9, B10 and B11) that are facilitated by non state actors is summarised in table 3 below.

Table 3 Situation analysis of non-state actors led contractual agreements in Tanzania

B: Non State Actors led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
B1	Chick peas – Misungwi (PMG led)	±	+	±	−	+
B2	Cashew TechnoServe led	+	+	±	±	±
B3	Dairy - Nronga Women - Kilimanjaro	±	+	±	±	+
B4	Paprika –Mbeya	±	+	±	−	±
B5	Artemisia – Mbeya	+	±	−	−	−
B6	Mariculture - Sea weed – Coastal Zone	−	+	+	−	±
B7	Vegetables – Gomba Estate Arusha	±	±	±	−	±
B8	Fruit Juices – MALI Muleba Kagera	+	±	±	−	±
B9	Sufflower Oil – Arusha	−	−	±	−	−
B10	Organic Cocoa – Biolands Mbeya	±	±	±	−	+

B11	Organic Pineapples – Njombe Iringa	−	+	+	−	±
B12	Dairy - Tanga	±	+	±	±	+

Key:

− Minimal to none ± Average + Present

The obvious picture is that there are no regulatory bodies for most of the commodities. On the other hand, the involvement of smallholder, the essential services, involvement of LGA and impact is generally positive.

2.3 C: Private sector export led

A few large corporate companies in Tanzania have of late been venturing into exports of non-traditional, non-perishable commodities. Sesame, chickpeas and Nile perch are typical examples. Six cases have been reviewed, four of which are highlighted in detail in this section and the rest provided in the annexes.

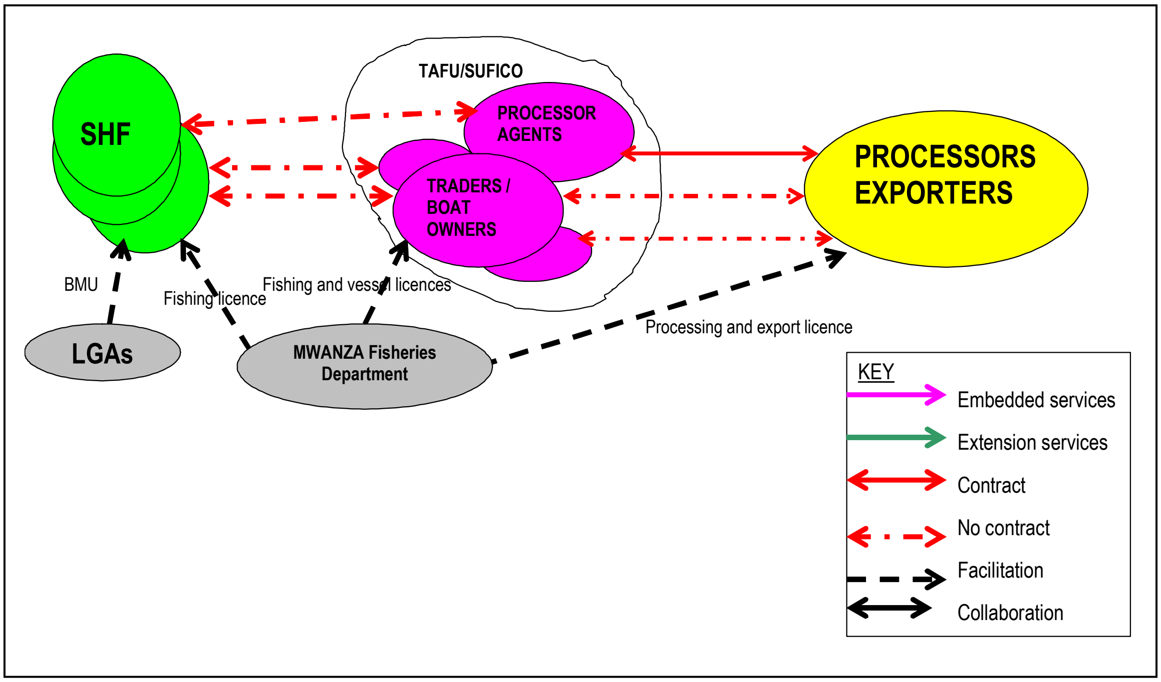
2.3.1 Nile Perch

Europe, with the only exception of the United Kingdom, is a good market for Nile Perch. Spain and Portugal are excellent markets for headed and gutted Nile Perch. Italy, Germany, Austria, France, Belgium and of course the Netherlands are now good markets for Nile Perch fillets. The new member countries such as Slovenia, Hungary and Poland could become interesting in the near future.

Statistics for each country are very difficult to analyze as Nile Perch is not specified in the EU statistics. In addition most of the quantities consumed in Europe are imported via Belgium or the Netherlands, but the main market seems still to be Spain even if the consumption decreased compared to the early 1990s as a result of various negative press campaigns. Spain is the EU country with the most important tradition in fish consumption, so demand for Nile Perch is often influenced by the availability of fish locally. In Spain supermarkets chains are the most important distribution channels for the Nile Perch. Considering that the fillets represent at least 90 percent of the form in which the Nile Perch is marketed, it is easy to see that the final consumers are the families. A reasonable estimate for total consumption of Nile Perch in the EU is 600 – 800 tonnes of fresh fillets per week.

Lake Victoria is the second largest freshwater lake in the World, with an area of 68,000 km². However, the lake is relatively shallow, with a maximum depth of 84m and a mean depth of just 40m. The lake is divided into the national waters of bordering countries, with Kenya owning 6%, Uganda 45% and Tanzania 49% of the area. The Nile Perch fishing and processing is of enormous economic importance for Tanzania. The 12 factories in Mwanza, Mara and Kagera region are exporting close to 100 million Euros worth Nile Perch Fillet by 2003, and the workforce employed by them is estimated to have reached over 3,000. Due to the artisan nature of the fishing, it is estimated that around 30,000 fishermen are engaged in the Nile Perch sub sector. In addition, thousands of people of (self-) employed in related activities, including the service industry (see Figure 5 below).

Figure 5: Nile Perch Model – Lake Zone



The Nile Perch sub sector is evidently export driven. After the collapse of the sub sector in 1999 due to the ban, it has experienced steady growth. Though fillet is by far the highest income earner, other (side) products like the bladders (maws) and belly flaps are also highly demanded. Though the market is still growing for all Nile Perch products, there are a number of threats. The biggest threat is the extinction of the fish due to over fishing and environmental pollution. The other major threat to the sub sector is the rapidly entering of the Vietnamese catfish, a good and cheaper substitute for Nile Perch.

Major observations

- There is high level of mistrust in the supply chain, particularly between the traders and the processors.
- The major complaint of the fishermen is the high percentage of rejects by the processors (up to 7kg out of 15kg).
- Weak fishermen associations like TAFU and SUFICO (low bargaining power).
- Some traders have formal contracts though not very transparent, but majority don't have contracts
- NICO is investing in fish processing plant and have approached TAFU requesting them to be strategic partner
- There are over 90,000 fishermen mostly small scale;
- Only 213 medium and large fishermen/traders are currently members of TAFU
- Almost 75% of traders are members of TAFU
- Most SHF are employed by traders/boat owners at a very low wage – as low as TShs 100 -120 per kg catch
- Traders and boat owners have much more benefits compared to smallholder fishermen (SHF)
- The 90,000+ traders and smallholder fishermen (SHF) in lake zone are in 3 regions, 14 districts and 634 beaches

- Needed public departments – Cooperatives, Weights and measures, Labour, LGAs and Fisheries
- Beach Management Units (BMU) are currently managed by LGAs and supported by Fisheries Department.
- Processors' agents have no legally binding contracts but rather the processor give agent an ID and request him to submit TRA TIN number.

The study team's assessment of Nile perch is rated as follows:

C: Private sector export led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
C1	Nile Perch - Mwanza	−	−	±	+	±

2.3.2 Sesame – Mtwara and Lindi regions

Sesame is one of the non traditional crops whose export demand has been growing steadily in the last decade. Lindi and Mtwara are the main regions in Tanzania that grow sesame as cash crop next to cashew. Most of the cashew buyers and exporters do purchase sesame without any prior contract farming arrangement with farmers. Buyer's remarks are that side selling is rampant and the perceived risk of failure is too high to engage into any contract arrangement. There are also hardly any services offered to farmers for sesame production besides adhoc extension services by District agricultural department. Of late discussions and pilot activities are ongoing at different levels in these regions with a renowned Japanese sesame importer (Itochu Corporation) to initiate structured contract farming arrangements with groups of farmers in these regions. Itochu is the largest exporter / processor of sesame in Japan. Their annual demand is around 20,000 tons, which is more than the total production presently in Tanzania. In 2005, Itochu Corporation tested the variety suitable to them, and brought it to Naliendele Research Centre for multiplication. In 2006, the company has supported a number of farmers in Masasi district to access the seed on condition that they sell back the crop to them. Discussions are ongoing with farming communities who have godowns facilities that could became the bulking and semi processing points for them. The draft contract guarantees market competitive price but also a second payment based on final export market situation. The District governments are involved in all negotiations and are expected to offer extension services and other enabling facilities. The CF arrangements look promising but are too early to judge its impact.

The assessment of the present and planned CF arrangements in Sesame was rated as follows:

C: Private sector export led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
C2	Sesame - Mtwara	−	±	±	−	−

2.3.3 Cashew Mtwara (traditional CF model)

Cashew is the major cash crop in Mtwara region. The economy of the region and hence of smallholder farmers depends on this crop. This case describes conventional CF arrangements in the region that are heavily influenced by the government Cashew Act and regulations. The regulation stipulates that cashew should be bought at approved buying centres, which are mostly primary cooperative societies. At the beginning of the buying season, the Cashew Board of Tanzania brings together potential buyers (mainly raw nuts exporters to India as well as few processors), the Union, some NGOs and government officials to negotiate on the indicative or floor price for the season. One of the stipulated criteria is that farmers should be paid at least 60% of the free on board price of cashew exports. During 2004/06 there were over 20 licensed buyers who in turn use several agents. This situation does not encourage CF arrangements and commitment between parties. On the other hand primary cooperative societies and the Union which are expected to represent and defend the interests of farmers are very weak. They lack financial and managerial capacity. They have turned out to be agents of private buyers who deposit cash with them and dictate terms.

Major observations

- Primary societies (PCS) are weak and serve as agents of output buyers.
- Unions and Primary societies (PCS) have no capacity (managerial and financial) to represent interests of members.
- Liberalised market for cashew gives no room for contracts.
- Government has started to is plough back export levy on raw cashew to finance critical inputs which are distributed through LGAs and PCS.
- Farmer's registration is missing, which makes traceability and distribution of critical inputs difficult.
- Despite presence of market outlet, and strong government regulations, the impact to farmers is minimal.

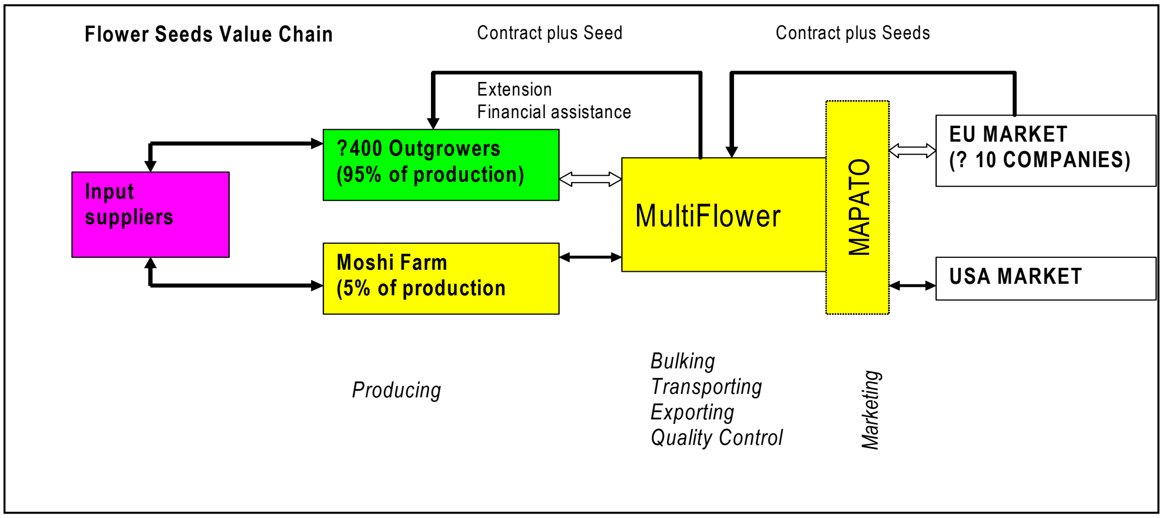
The rating of this case is as follows:

C: Private sector export led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
C3	Cashew - Mtwara	−	±	±	±	−

2.3.4 Striving to be part of global chain - Multi-Flower T Ltd: Flower seeds Arumeru

Multiflower (T) Ltd has been involved in contract farming arrangements for more than to years in northern Tanzania. Multiflower is involved in the flower seeds multiplication and export for the EU and USA ornamental flower markets using smallholder contract farmers. Different flower seeds varieties require different micro climate and hence desirable to be produced by smallholder farmers in different areas of northern Tanzania. Farmers are contracted to initially grow low value variety and as experience grows they graduate to high value varieties. The company provides extension services as embedded services and collaborates with local extension officers. Multiflower maintains a close touch with the market dynamics through a subsidiary company called Mapato that operates from the Netherlands. At the inception stages of CF arrangements, FAIDA (by then a project linking farmers to markets) assisted in farmer mobilisation, business awareness training and contract negotiation. During the study, Multiflower now operates without intermediation of an NGO as they have built track record with contracted farmers over time. This case therefore is now private sector led although it had minimal non state actors' involvement during the inception. Figure 6 depicts the CF model as part of a global value chain approach.

Figure 6: Multiflower Arumeru model



<u>Major observations</u>

- High value flower seeds are suitable for micro climate i.e. suitable through smallholder farmers farming system
- Individual contracts between SHF and company - depending on the level of relationship and seed type.
- Company offering inputs and extension service is a prerequisite for high valued flower seed farming (see appendix 1, B9).

The rating of this case is as follows:

C: Private sector export led		SHF involvement in contract / pricing	Essential services	Role of LGA	Regulatory Roles	Impact to SHF
C4	Flower Seeds -Multiflower Arusha	±	±	±	–	±

2.3.5 Speciality Coffee – Lima Mbeya

Lima Limited is one of a group of three companies, Biolands Limited, Lima Limited and Mavuno Limited. Biolands Limited was the first of the three companies to be set up and deals mainly with the purchasing and marketing of cocoa grown in the Mbeya area. The progress of Biolands Limited has been phenomenal and the company now supplies multinational chocolate product companies such as Barry Callebaut. Biolands Limited's management therefore sought to diversify its interests to include other cash crops. Lima Limited and Mavuno Limited were then established over time to handle the various projects undertaken. Mavuno is the most recent of the three companies and deals with exploration into crops that can complement coffee production, as well as other cash crops such as beans, paprika, sim sim and others. Mavuno is also researching the possibility of new products for the international market. Lima Limited was registered in 2002, as Biolands sought to expand its operations to the coffee industry following their first round of successful coffee parchment purchases and sales.

Lima Limited, utilising the expertise of its directors and the successful prototype charted by Biolands Limited, entered the Tanzanian coffee industry as a private company with a revolutionary purchasing and processing strategy. Lima Limited did not follow the industry pattern of purchasing coffee parchment from the farmers for milling and sale at the Tanzania Coffee Board (TCB) Moshi auction. The company instead analysed the value chain of the industry and devised their own method of producing consistently high quality coffee parchment, and located premium international markets to which they exported directly. Lima's plan involved the establishment of Central Pulpery Units (CPU's), which combined a buying station with a coffee curing plant, for the purchasing of coffee cherries, and processing to produce coffee parchment. The CPU's were set up throughout the Mbeya, Mbozi and Rungwe districts where the farmers can easily access them. The farmers are encouraged to sell ripe, red coffee cherries as well as parchment to the company. The parchment from the CPU as well as that received from the farmers is transported to Lima's mill for further processing in order to get the green coffee.

There are approximately 160 functional farmer groups within the Mbeya district, with approximately 60,000 participating farmers. These groups are mainly community groups that come together to bulk their parchment for milling and sale at the auction. Their operation is very straightforward; they make an arrangement for the collection and transport of their parchment to the mill, and split the proceeds of its sale at the auction. These groups, once quality is consistent, usually receive the best prices for their coffee, since their overhead is very small. A few of them receive assistance from NGO's operating in the area (Caritas, World Vision, TechnoServe, etc) with equipment financing, training and logistical problems. They, however, are very dynamic as membership is very loose and usually change from one harvest season to the next. Power struggles, greed and other human factors also affect group dynamics. Farmers sell coffee to Lima as individuals and /or in groups.

Lima's interaction begins at its buying posts, which are set up in village/communities throughout the Mbeya district. A village appointed Coordinator (V.C.) operates the post. The buying post is the transactions point between the company and the farmers i.e. the point where the farmers present their cherry, the V.C., weighed, assesses it and the farmer is paid. Each buying post is affiliated with a particular Central Pulpery Unit (CPU), which is close by. The Crop Collector (C.C) for a particular CPU is responsible for visiting the buying points and collecting the cherry or parchment that has been purchased and carrying it back to the CPU. The weight of the coffee is verified at the CPU and is assessed once more by the CPU Manager. The coffee is separated based on quality, sent to the pulping machine then on to the fermentation tank where it stays for not more than 36 hours. The coffee is then washed twice to remove the outer coating of the bean; it is then moved back to the fermentation tank for soaking. The beans are allowed to soak for a minimum of fifteen hours, in order to remove any odour and the silver skin. They are then sent to the drying section where they are sun dried for no less than 14 days.

Since their inception in 2002 the company has established twenty-three (23) Central Pulpery Units (CPU's), twenty (20) of which are operational, having a total production capacity of fifty-four (54) kilograms per hour. They have produced 15 tonnes of parchment in 2003, 593 tonnes in 2004 and 892 tonnes in 2005 from the cherry purchased from farmers within Mbeya.

The NGO's in the area commend Lima's foresight and entrepreneurial spirit. They have indicated their agreement with the system that Lima Limited has established, and certain aspects have been emulated on a smaller scale. Lima has been able to set up a system that has covered a very wide area, and is very effective. The NGO's have not been able to set up such an extensive system largely due to the lack of financing. The NGO's have also acknowledged that the final price given by Lima is smaller, but the company's overhead is much greater than any other within the district.
Largely the farmers are the ones seen as benefiting from the instant cash, which can be used to meet domestic needs. They also benefit from the time and manpower saving associated with selling cherry instead of parchment (see appendix 1, B12).

Major observations

- Lima is positively contributing to the coffee industry development in Mbeya in terms of quality improvement and increased outreach.
- Lima does not enter into forward contract farming arrangement but is able to transact with willing farmers in a flexible and business manner.
- The Lima purchasing, processing and marketing system is effective; however, it has not yet sufficiently built up the organised actor at production level. Smallholder farmers participating in the scheme are scattered and work individually.
- Lima is still struggling with legal & regulatory environment work in its favour: In 2004 Lima could not be granted a licence after all preparations were in place to commence operations.
- Lima has been positively assessed by STARBUCKS (who is buying 2% of world coffee and 20%-25% of world speciality coffee). This is a good signal for assured market access for Lima speciality coffee.
- Lima realises that in order to have lasting business relationships with farmers they have to provide additional embedded services. In response Lima is now providing additional services to farmers apart from purchasing cherry and parchment coffee such as Health Insurance, Input scheme, Transport haulage technologies, spraying posts, and Corporate Social Responsibility gestures e.g. supporting Matema Hospital, etc.

The team has rated this case as follows:

C: Private sector export led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
C5	Speciality Coffee- Lima Mbeya	–	±	–	±	+

Table 4 below provides a composite picture of the cases reviewed that are private sector led.

Table 4: Situation analysis of private sector export led contractual agreements in Tanzania

C: Private sector export led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
C1	Nile Perch - Mwanza	–	–	±	+	±
C2	Sesame - Mtwara	–	–	±	–	±
C3	Cashew - Mtwara	–	±	±	±	–

C4	Flower Seeds -Multiflower Arusha	±	±	±	−	±
C5	Speciality Coffee- Lima Mbeya	−	±	−	±	+

Key:

− Minimal to none ± Average + Present

A clear observation is that there is no SHF involvement at all in these schemes. Obviously, the reason is that the prices are set by the (end-) markets and that the farmers' price is derived after deducting all the (transaction) costs. Another observation is that the essential services are not provided by design but rather by default.

2.4 D: SME Local-regional market led

Often contract farming reviews have focused on the formal arrangements leaving the bulk of informal or verbal arrangements. This study has found out that these rather informal arrangements in CF work quite well and have created long term business relationships. Absence of paper work, though useful and part of legal requirements have not been the main hindrance to this category of CF arrangements. Moreover, legal arrangements can hardly be enforced in Tanzania (see the case of the Nronga Dairy agreement with NCC) and hence provide false security. Four cases were reviewed and results are presented in sections 2.4.1 to 2.4.4 below.

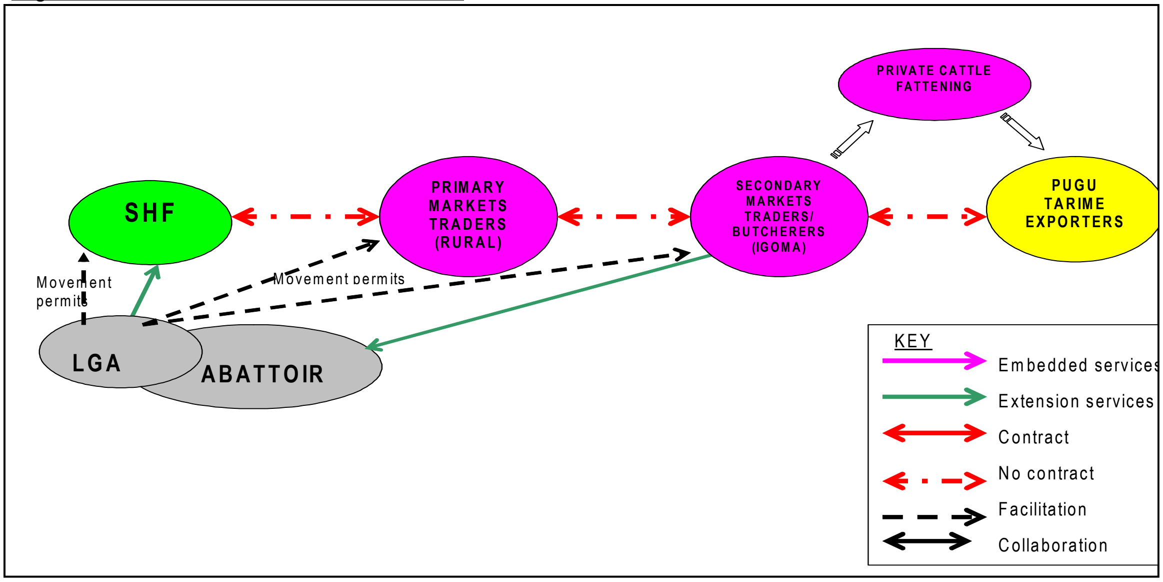
2.4.1 Livestock in Lake Zone

The case of livestock chain presents an opportunity in contract farming that is not yet well tapped. The current arrangements from livestock keepers to the market players are ad hoc and through spot transactions conducted at primary and secondary markets. Local government authorities offer movement permits for animals from one area to another. During the study it was revealed that there is an upcoming value addition infrastructure of fattening, feed lots and abattoir to suit different local and export market requirements. In addition there are ranches that have ample areas for research and extension. Figure 7 below summarises the current interrelationships in the Lake Zone with study observations following the sketch.

Major observations

- Cattle fattening facilities are located in residential areas (inappropriately located)
- Absence of grazing areas, adequate water supply and adequate extension service is a constraint.
- Feed regime is based on the available raw materials (use of cotton seed cake and cotton husk only)
- Lack of reliable transport to Dar es Salaam (Pugu) and export market impacts on quality of animals
- There are verbal/sales agreements but no 'repeat selling' to one client is guaranteed.
- SHF selling poor quality animals at very low prices is common i.e. buying say at TShs 100,000 and after 4 months selling At TShs 200,000 – TShs 400,000 (Zebu up TShs 300,000 Ankole up to TShs 400,000 ex-Mwanza); but cost of fattening is on average TShs 80,000.
- Market share are Pugu - 75% (DSM, Zanzibar and Comoro), Tarime (Magina, Kenya) – 15%, Local (Mwanza city) - 10%. Local market absorbs inferior quality cattle and those, which go through feedlots, are targeting Pugu and export markets.

Figure 7: Livestock model – Lake Zone



- Traders associations are weak (UWAMI – Umoja wa Wanenepeshaji wa Mifugo Mwanza and MWACIBA – Mwanza City Butcherers' Association)
- Abattoir is still incomplete and missing key equipment i.e. stunning equipment, processing equipment of cattle by-products, etc If completed and equipped, Mwanza city abattoir could process beef for export market (currently, the abattoir is idle after 8.00am after finished slaughtering cattle for local market
- No cattle auctioning due to fear of taxation, robbery, chances of curtail deals, dominance of the middlemen/brokers

The study team rating of this case is as follows:

D: SME Local-regional market led		SHF involvement in contract / pricing	Essential services	Role of LGA	Regulatory Roles	Impact to SHF
D1	Livestock - Mwanza	–	–	±	±	–

2.4.2 Round potatoes from Mbeya

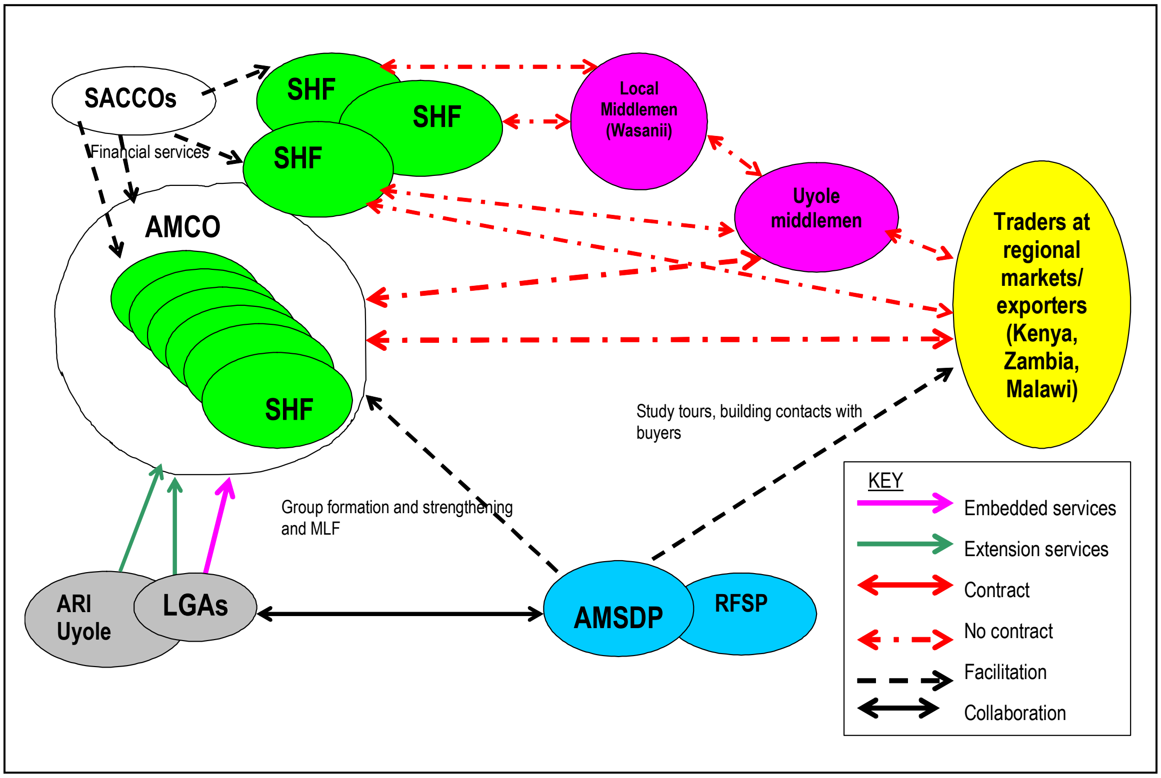
Mbeya competes with a few other regions in Tanzania with similar agro ecological zone when it comes to potatoes. However, through informal arrangements contract farming is working quite well with interesting findings. The snapshot of arrangements are summarised in figure 8, followed by main observations.

Major observations

- When round potatoes yield is low (dry season) other regions harvests flood markets and Mbeya potatoes get very low price. When round potatoes yield is very high in Mbeya, this coincides with high demand in regional markets especially Dar es Salaam because other regions (Iringa and Arusha) that depend on rain fed agriculture don't have water. During this season farmers have enough volumes to contact regional buyers directly especially Dar es Salaam, Zambia, Kenya and Malawi.

- Organised farmers (Urafiki, Umoja ni Nguvu in Mbeya Rural and Uyole Irrigation groups of Mbeya city council, etc.) are getting better deals compared to individuals.
- Mbeya rural farmers and farmers groups are supported by AMSDP and RFSP.

Figure 8: Round Potatoes model – Mbeya



- Presence of strong SACCOS has improved SHF access to financial services. SACCOS provide loans to individual farmer members and farmers' organisations. UWAMU is one of the strongest SACCO in Mbeya region, registered in 2003 but now with 610 members and 635 client base i.e. non-members with saving accounts. Last year UWAMU issued over TShs 870 millions with repayment rate of over 95%.
- This model could give better results if farmer organisations (AMCOs) could work backward from market demand analysis and even strive for strategic collaboration with processors to access new markets instead of relying on round potatoes market.

The study team rating of this case is as follows:

D: SME Local-regional market led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
D2	Potatoes - Mbeya	±	+	+	–	+

2.4.3 Maize at Kibaigwa: Dodoma

Kibaigwa is well known in Tanzania for maize marketing. A modern market stall has been build with assistance of international NGOs via MVIWATA. The market provides a meeting point between traders / buyers of maize and farmers. The market facilitates transactions by announcing publicly the last day's prices. They also provide mediation between buyers and sellers in case of disagreements. There are no forward contracts between players. Kibaigwa market management is contemplating to start a warehouse receipting system to avail farmers with an opportunity to store their crop in anticipation of better bargaining position.

<u>Major observations</u>

- No contractual arrangements exist – only spot transaction activities; however, there is pricing information dissemination.
- Kibaigwa plans to start warehousing receipting facility – grain bank if funding will be available
- Broker is paid by buyers per kilograms sold (see appendix 1, D3).
- Farmers are not organised in groups/organisations despite presence of a strong trader dominated SACCO at Kibaigwa
- Kibaigwa has limited processing and post harvest handling (absence of drying facility, de-stoner, cleaning machines, moisture contents measuring equipment, etc)
- Economic vibrancy of Kibaigwa is triggered by presence of Kibaigwa market

This case is rated as follows:

D: SME Local-regional market led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
D3	Maize- Kibaigwa Dodoma	−	±	+	−	+

2.4.4 Citrus fruits- Muheza

Oranges in Muheza district are produced mainly by smallholder farmers. Most of smallholder farmers (SHF) are relying on middlemen who link them to buyers (see appendix 1, D4). Smallholder farmers don't have formal contracts with middlemen, but have built trust over the years and they have rather 'verbal' contracts with them. For local markets buyers (Dar es Salaam, Arusha, etc) only middlemen from Kwabada are involved, however, when buyers are coming from Kenya (Nairobi, Mombassa, etc) two middlemen are involved (one at Muheza town centre and one at Kwabada).

In the first scenario, local buyers come to Kwabada or communicate over the phone with Kwabada based middleman and negotiate the quality, volume and price. Once they agree on price the middleman survey local farms to identify farms with required quality and volume. Then the middleman negotiates with the SHF and agrees on the farm gate price.

In the second scenario, Kenyan buyers come or communicate over the phone with Muheza town based middlemen and negotiate the quality, volume and price. Once they agree on price, the Muheza based middleman come to Kwabada or communicate over the phone with Kwabada based middleman. The Kwabada middleman then moves on to negotiate with the SHF as in the first scenario.

In the third scenario, but in limited incidences, local buyers from Dar es Salaam make direct contact with SHF and negotiate quality, volume and price. Through continuous transactions, SHF have built trust with buyers and they don't have any formalized contracts. Some of these buyers pre-finance the production costs but pre-sets the buying price prior to production.

Major observations

- Smallholder farmers (SHF) know local middlemen most and thus they trust them. They find it difficult to work with Muheza or Dar es Salaam middlemen.
- Some farmers have however managed to bypass local middlemen and sell directly to Muheza based middlemen. Others have even sold directly to Dar es Salaam buyers and exporters to Kenya.
- Most farmers who sell directly to Dar es Salaam buyers are sometimes receiving financial support during production (production investment).
- Typically at the beginning of the season local middlemen pay TShs 12 per orange, at Muheza at TShs 15 and in Dar es Salaam TShs 20.
- AMSDP support Muheza district farmers by building physical market at Mtindiro and strengthening farmers' organisations.
- UNNAT is fruit processing establishment due to operate from Morogoro and currently identifying collection centres in Muheza district. UNNAT also is currently raising awareness to farmers on proper harvesting and post harvest handling of citrus fruits. The intention of UNNAT is to source its fruit from the district once it starts operations.
- Farmers at Kwabada are trying to get organised Kwabada Farmers Association (KFA) but their association is weak and they don't have SACCO.

The study team rating of this case is as follows:

D: SME Local-regional market led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
D4	Citrus Fruits – Muheza - Tanga	−	±	±	−	+

A synthesis of the SME led CF arrangements is summarised in table 5.

Table 5 Situation analysis of local and regional market led contractual agreements in Tanzania

D: SME Local-regional market led		**SHF involvement in contract / pricing**	**Essential services**	**Role of LGA**	**Regulatory Roles**	**Impact to SHF**
D1	Livestock - Mwanza	−	−	±	±	−
D2	Potatoes - Mbeya	±	+	+	−	+
D3	Maize- Kibaigwa Dodoma	−	±	+	−	+
D4	Citrus Fruits – Muheza - Tanga	−	±	±	−	+

Key: − Minimal to none ± Average + Present

A general observation from the SME led CF arrangements is that the impact is generally positive. There is of course no prior involvement and negotiations about price as this are market driven. As these initiatives are mostly self driven, they often have ensured that critical services like irrigation, inputs etc are available through their own SACCOS. The local authorities find themselves involved in providing licences and registrations.

2.5 Summary of the main findings from different cases

These findings are organised according to the main actors that influence contract farming in Tanzania, both at macro (policy level), meso i.e. institutional capacities (facilitators and service providers) and at micro level (i.e. the buyers and producers). The main issue is that in all schemes reviewed there is enormous scope for improvement if win-win advantages of CF are to be realised. And this underscores the need for public, private and civil society actors to work together in a coordinated manner for any contract farming program that is to be initiated and sustained.

<u>Public sector (regulatory and policy)</u>

- Regulatory roles have essentially focused on buyers (licences, permits, levies etc) and less on the producers / farmers. There are also lot of incidences of conflict of interest which seems will be lessened with the fact that from this year the government will be funding from Treasury the operations of Crop Boards.
- The role of the Local government Authorities (LGAs) is not well articulated in facilitating contract farming. It is not clear where LGAs focus should be. Some are active in extension, some in regulations (by laws), and some are into endorsing and monitoring of CF arrangements. The issue of specialised capacity, extent of involvement, and often LGA being left out by the non-state actors were observed.
- Introduction of CF arrangement in districts tend to link mainly to district agriculture, cooperatives and livestock development offices. However, extension staffs are already overstretched leave alone that they are not regularly updated with new insights in the agronomic aspects. Other departments (planning, finance, etc) are less involved. The subject matter of contract farming is thus not systematically mainstreamed in the District Council agenda and plans.
- CF arrangements are externally driven; district authorities are not proactively analysing comparative advantage of crops, which could be promoted for CF arrangements in their respective districts.

<u>Facilitators and service providers</u>

- There is a strong correlation between service package offered and the impact to small holder farmers but also the success of the CF arrangement in most of the cases that were reviewed.
- Since very little can be done to influence price in liberalised market, more and more facilitators have started focusing on production, productivity and quality enhancement as a way of enhancing benefits e.g. TechnoServe, FAIDA MALi, DAI PESA, MRHP - CRS, etc. In other words increased benefits in CF go beyond getting “better” prices.
- Where CF scheme is receiving support from facilitators, smallholder farmers’ business mindset on *“farming is business”* is emerging.
- Most of facilitators in CF arrangements are NSAs and they combine facilitation and service provision. This is more of a pragmatic approach; best practices would demand strict delineation of facilitation and service provision functions. Donors are funding most of the

services offered. Sustainability of such services and market development of private service providers is therefore a key challenge.

Buyers

- Most contract farming models are not driven by continuous market growth and competitive assessment. Comparative advantage for Tanzanian crops involved in CF is still very low. Export of raw cashew, poor quality tea and cotton are some of the examples. Sesame and chickpeas are good examples where Tanzania competitiveness and market growth potential is possible but the CF arrangements in this area are still very weak. Therefore presence of buyers alone is not enough to guarantee success in contract farming.
- Almost all contract documents are developed by buyers and given to farmers directly or via facilitators for signing. Buyers are still anticipated to be the initiators of the contract documents due to their level of understanding of the market requirements.

Smallholder farmers

- Small holder farmers, livestock keepers and fisher folk are generally the takers of price and other contract terms. With upcoming of market linkage facilitators, the degree of involvement is increasing, however still the buyers are the ones who set terms including price. Increasing capacity of smallholder farmers to take farming as business is therefore one of the most critical issue.
- CF arrangements are influenced by type of crop (labour/input intensive, tree crop, short term crop, high value crop) and assets of smallholder farmers (technical skills and financial resources and organisation). For instance, in tobacco where there are intensive input requirements and farmers' financial base is low – the buyer is expected to offer inputs as embedded service. On the other hand, where farmers are more organised and financially stable (mainly through SACCOS), they don't have to rely on inputs from buyers and this influence the nature of CF arrangements.
- Contracts negotiations seem to revolve too much around price as if it is the sole parameter of success. In the era of liberalised markets (where market forces cannot be predetermined) emphasis could be laid more issues of pricing mechanisms and productivity in order to better benefit from contract farming arrangements.
- Farmer organisations in CF have varied versions and experiences. In general, the commodity specific, small and bottom up facilitated e.g. Producer Groups/ Associations, Farmer Business Groups, Agricultural Marketing Organisations has shown signs of success compared to the traditional cooperative societies / unions.
- Primary cooperatives societies which are still weak in finance and management seem to act more as agents of buying companies rather than representing interests of their members (cashew PCS case is a typical example in this regard).
- Financial services intermediations in particular through SACCOS are contributing significantly to the success and sustainability of CF arrangements (especially for local market driven CF arrangements involving SMEs and SHF). The example of potatoes farmers in Mbeya is illustrative in this respect.
- Some smallholder farmers have a hangover on government free services. They still expect handouts from governments and are shifting blames to the government even in areas where private sector participation is obvious.

2.6 Review of sample contracts on Contract Farming in Tanzania

During the field study, we came across 14 different contracts that have been signed between various parties involved in contract farming arrangements. In this section we shall review them to ascertain their legal adequacy, but also observe deviations from expected main areas that contract farming should cover according to Tanzania laws and best practices. This is summarised in table 6 below.

Table 6 Summary of the essential elements of contracts used for CF in Tanzania

Contract	Offer and acceptance	Competency / capacity of parties to contract	Consideration	Intention to create legal relationship	Lawful terms / statutory	Certainty of terms (price, parties, timing etc)	Comments
Green Leaf Tea	+	±	+	+	±	±	Contract is in English. Not all SHF have contracts. No dispute mechanisms. Penalties & bonuses not spelt out. Rights and obligations of parties unclear.
Tobacco Leaf	+	±	+	+	±	+	Primary society sign contracts on behalf. Penalties & bonuses not clear. Dispute resolution by Board.
Sisal	+	+	±	+	±	±	Contract in English. Sub lease of 10 years. Price & pricing parameters not set. Dispute settlement agreed upon.
Sugar cane old	+	+	±	±	±	±	Contracts in English. It has expired before new one is signed. Covered by a MOU. Open on obligations & rights. Penalties & bonuses not clear.
Sugar Cane (new)	+	+	+	+	+	±	Still under negotiation. At face value is well constructed. 12 pages in English.
Pyrethrum old version	+	±	+	±	±	+	In English. Signed with Coops. Not binding buyer. Pricing structure / grading agreed upon set by Board..
Pyrethrum new version	+	+	+	+	+	+	In English. To be signed with individuals. Rights and obligations of both parties clear.
Cashew with	+	+	+	+	±	+	In English. Tripartite arrangement. No dispute resolution & penalty / bonuses

Facilitators							clause.
Cashew without facilitators	+	+	±	±	±	±	English/ Swahili versions. No dispute. Covers only inputs.
Cotton seed between Board & farmers	+	+	±	±	±	±	In Swahili. Not mentioning price & pricing. No dispute arbitration. No penalties & bonuses.
Milk suppliers contract	+	+	+	+	±	±	1 page in English. No dispute resolution. No penalties & bonuses.
Green Coffee purchase –organic buyer and KNCU)	+	+	+	±	±	±	1 page English. Rights of seller not explicit. Arbitration implied. No penalties or bonuses.
Coffee KNCU with farmers	+	+	±	+	±	±	In Swahili. Organic farming principles driven than farmer rights & obligations. No clarity on pricing. No arbitration clause. 1 page.
Artemisia Lima & Farmers	+	+	±	±	±	±	A very short term contract. No arbitration clause.

Key

+ Fully meets the essential elements

- Absence of essential elements

± Partially meets essential elements / not clear

From the above table the following observations could be made.

- There are no clear guidelines as to how contract farming should be framed. Different contracts use different formats, cover different aspects, different duration as the parties deem fit. Some contracts cover 12 pages, whilst others cover only 1 page.
- On the legality of contracts, the review shows that most contracts have taken into account most of the essential elements of contract.
- The general observation from the field was that despite these formal contracts, incidences of non-adherence are rampant. Side selling is one of the main cry from the buyers but for the farmers it is about certainness of terms especially price and pricing arrangements.
- A very pronounced missing element in most contracts reviewed is the agreement on penalties and bonuses and also arbitration clause. In contract farming it is important to agree on incentives or otherwise for contract adherence by all parties. But also disputes are bound to arise hence a clear dispute resolution mechanism is crucial. In case of dealings with international companies it is also important to refer to the applicable laws.
- Contracts are a means to enhance negotiations and build relationships. The language to be used is very crucial. In Tanzania when dealing with smallholder farmers Kiswahili should be used as a matter of principle.
- This situation may suggest the need for Tanzania to have standard contract formats that emanates from these experiences and elsewhere and incorporate them among the guidelines that would guide contract farming.

3 Policies and regulations for promoting CF in Tanzania

This chapter reviews the extent to which current policies and regulations articulate and promote contract farming in Tanzania. The government has an inherent role of enabling and regulating economic endeavours, contract farming being one of them. Governments are expected to have relevant legal framework and an efficient legal system as a precondition for successful contract farming. Contract farming is touched by various policies and regulations in Tanzania. In this study we have taken the broad spectrum of different sub sectors and commodities that are being promoted through CF. We have considered agricultural commodities (cash crops and food crops), livestock products and mariculture products. These are sectors in their own right that have policies and at times acts of parliament and regulations. It can therefore be argued that contract farming is an approach that cut across and is affected by various policies and regulations.

The basis of review is field interviews with various actors involved in contract farming schemes regarding their views on the policy and enabling environment for the development of contract farming in Tanzania. Another source of information is from various policy and regulatory documents for agricultural development as well as supplementary interviews with agriculture sector lead ministry officials. The synthesis in this chapter seeks to point out gaps in policy and regulatory environment if contract farming has to succeed and thrive in the country.

3.1 Policy and enabling environment constraints and opportunities for contract farming in Tanzania

During the interviews the following issues were mentioned concerning policy and regulatory environment in Tanzania as far as they promote or inhibit contract-farming endeavours:

- In instances where a crop is regulated by a board (tea, cotton, cashew, pyrethrum, sugar, sisal, tobacco, coffee) then the act and ensuing regulations to guide business relationships including aspects of contract farming are generally stipulated. It was noted though that some of these regulations are yet to be into full use and some regulations are considered to be outdated and under review.
- A substantial number of commodities under contract farming in Tanzania today are not guided by specific government acts and regulations. New and mostly high value crops such as sesame, chickpeas, horticultural produce etc are yet to be supported with a legal basis as it is the case with most traditional crops mentioned above. Absence of specific regulations denies the sector establishment of official quality standards as a reference point and other enforcement procedures among other things. It was mentioned though that the government is in the process of enacting a board for these crops (*Bodi ya Mazao Mchanganyiko*).
- Registration of growers as well as buyers / processors is an explicit requirement in most crop regulations. It was revealed in some interviews with crop boards and with buyers that registration of farmers has not been realized yet. This has been quite detrimental to traceability and even contract enforcement. Cashew and sugar are some of the examples where grower's registrations numbers are stipulated in the acts but not yet fully implemented. In the Tobacco regulations, 2005 section 5 it is stated that "For the purpose of assisting the Board to control tobacco quality and establish a basis for planning and making appropriate estimates of inputs, extensions services and tobacco growers' credit requirements, the board shall register all tobacco growers under a Primary Cooperative society or an association or as an individual - medium and large- scale farmers"

- Absence of uniformity / clarity in enforcing certain regulatory instruments such as licences, taxes and crop cess. For instance it was cited that producers of sour milk in Tanga are supposed to include VAT in their pricing while other same producers from Iringa are exempted. In essence, the milk is supposed to be VAT free. On the issue of crop cess, in some districts it is still being imposed whilst the government has already abolished such practices.
- Some other constraining factors include water rights restrictions, which make projects unable to access loans, land rights and tenure, which are still governed by cumbersome processes.
- Inputs policy and practice is another area of concern. For some crops e.g. cashew-subsidized inputs are made available and for others there is none. Inputs are critical ingredient to contract farming and often it is one of the areas where a lot of negotiation revolves around. If the sponsors like in the case of tobacco leaf buyers offer to avail inputs on credit the question to ask is what is the best way to determine the price and repayment terms for such inputs? The other issue is about timeliness and adequacy of the input loans. In cashew sector there are complaints that loans for inputs came in too late to have any meaningful impact. On the other hand, farmer real needs according to good agronomic practices are not met with the inputs that eventually become available. TechnoServe (an NGO active in various commodities in Tanzania) is looking at this issue seriously and farmers needs according to the number and type of cashew trees that they have and the recommended agronomic practices is used in determining the input loans that they get. The outcome of this approach is yet to bear fruits but signals are quite promising in terms of boosting productivity.
- Government is perceived to be over regulating the tobacco sector. A call was made to step back to allow customer orientation and competitiveness to play a role according to the laid down regulations.
- It was observed by some actors that the current regulation to have a certain predetermined share of FOB prices (70% in the case of tobacco, 60% in the case of cashew) be paid to farmers is not practical and do not necessarily observe the market forces principles.
- Mindset among some policy makers and implementers who have overly negative perception about contract farming as long as they are championed by private sector. The study team was informed that a statement like contract farming is slavery “Utumwa” have been made by some senior government officials, which is on the extreme side. This perception often make the private sector be taken with cautious and not as partners in development.
- National policies are not aligned with local level priorities. Furthermore the links between technical agents (crop boards) and local authorities are weak. For example most district development plans have not incorporated contract-farming agenda. Government would have to strengthen the existing weak institutional links between technical agents and Local Authorities in order to build capacities for extension and outreach in specific commodities. Crop cess / levies should be used effectively to strengthen the sub sector
- On a positive note, ASDP basket funding program is expected to support all districts and within it contract farming is one of the approaches to risk mitigation for smallholder farmers.
- There is no explicit and comprehensive strategy for supporting smallholder producers on value addition has been observed although has made commitments towards this course.

These issues point out that a lot is still required to provide a policy and enabling environment that is pro contract farming in Tanzania. In the next section we shall review the current relevant policies

3.2 What are the current policy statements in support of contract farming?

There are various policy documents as stated above that touch on the subject matter of contract farming. Below is citation of relevant areas in various policy, programs and strategy papers.

3.2.1 Agricultural Sector Development Strategy (ASDS) 2001

ASDS is the most recent agricultural development strategy that provides the current thinking of the government and development practitioners. The primary objective of the Agricultural Sector Development Strategy (ASDS) is to create an enabling and conducive environment for improving profitability of the sector as the basis for improved farm incomes and rural poverty reduction in the medium and long-term.

Strategic Areas for Intervention of ASDS include:

- Strengthening the institutional framework for managing agricultural development in the country. In particular, there is a need to define what Government, at central and local level, can and cannot do versus the role of the private sector in agricultural development. As proposed action, the Strategy emphasises on promotion of farmers' organizations and strengthening of the private sector's capacity.
- Improving net farm returns and commercialising agriculture through private agribusiness sector support unit; promotion of agro-processing and rural industrialization; increasing access to inputs in rural areas; strengthening marketing information collection and dissemination; improving rural marketing infrastructure; promoting partnerships between smallholder farmers and agribusiness, and; implementing incentive mechanisms.

As far as contract farming is concerned, ASDS advocates private/public sector partnerships and processor/producer contracts. It supports the growth of small-scale farmers' associations and professional institutions, and calls for improving the dialogue between the private and public sectors on ways to increase efficiency and to expand the sector. ASDS states as follows under paragraph 6.2:

"To facilitate the partial privatisation of extension services and improve delivery*, LGAs will enter into partnership and cost-sharing arrangements with outgrower and contract schemes for the benefit of smallholder farmers"*

It is considered that Outgrower/contract farming schemes in partnership with LGAs will be eligible for support from the National Extension Fund. ASDS further stresses under Paragraph 7.7 as follows:

"Where contractual obligations can be enforced, forging partnership arrangements between smallholders and agribusiness in the form of outgrower and contract farming schemes allows smallholders to enjoy assured markets for their products and the supply of inputs on a credit basis or through input voucher schemes. Contractors would benefit from an assured supply of raw materials with improved quantity and quality"

3.2.2 ASDP 2003

In its component of Private Sector Development, Market Development and Agricultural Finance, ASDP intends to *support the commercialisation of agricultural growth. Among other areas of intervention identified under this component are:*

- development of incentive package for private sector investment in agriculture sector production, marketing, processing and services;

- promotion of medium and large scale agricultural enterprises;
- development of contract farming;
- linking of producers with local and international markets;
- over sighting of markets;
- development of market infrastructure
- support smallholder and large scale producers' organizations and ensure adequate representativeness in ASDP managing and advisory bodies;

3.2.3 Agricultural Marketing Policy (AMP)

The Agricultural Marketing Policy (AMP) is still in a draft form. With the recent reorganization of ministries whereby agricultural marketing desk has now been shifted to the new ministry of Industries Trade and Marketing, the draft policy that was at an advanced stage of cabinet approval has been stalled until the reorganization is completed. The interesting aspect is that even with reorganization, the issue of agricultural marketing and hence an explicit policy on it is still supported.

In this draft policy there are 13 components and one of them deals with risk management in agricultural development. Market linkages are perceived as one of the approaches for implementing risk mitigation inherent in agriculture. The issues of reliable availability and access to both input and output marketing services are crucial and here CF plays a prominent role. Apart from CF, other strategies include warehouse receipting, crop insurance, futures market trade and commodity exchange. The policy statement is still general i.e. the government will provide support in initiatives to manage risks in agriculture and will encourage private sector led initiatives.
Legislation for warehouse receipting has already been prepared and endorsed. It could as well be argued why not a similar legislation for contract farming. Moreover, since this policy is not yet finalized it could also be taken as an opportunity to include specific statements that will make promotion of contract farming more founded in Tanzania.

3.2.4 Livestock Development Policy

This policy is still to be finalized. The policy reference is still the National Agriculture and livestock policy of 1997. The current thrust of the government to start a fully-fledged ministry of livestock development would inevitably hasten the preparation and adoption of the livestock policy. The ministry is supportive to contract farming approach. “Contract farming is the way forward for livestock farming”. Small scale livestock farming is also emphasized, which should be realized through increased productivity as a result of appropriate extension services /inputs, market development and development of farmer groups for bargaining purposes. However, for contract farming to work in the livestock sector, market development is a prerequisite according to the officials of the Ministry. The government is emphasizing on strengthening its extension services but they should be demand led.
Other areas that were mentioned that may receive policy support in the coming years:

- Encouragement of mini ranches for fattening purposes
- Encouragement of link between feedlots and abattoirs for quality meat for local, up market and export markets
- Encouraging increased productivity in milk sheds within and outside farmer groups
- Development of market led extension and other livestock production support services

3.2.5 Cooperatives Development Policy 2002

In year 2002, a new cooperative development policy was adopted. This was followed by an act of parliament in 2003. In the new policy four main departure points are stated, namely:

- It repositions government commitment to support cooperatives, which are owned and managed by their members according to internationally recognized cooperative principles.
- The policy recognizes the structural and historical factors that constrain the development of cooperatives in liberalized market environment, and thus creates the required conducive environment for cooperatives to operate and compete more effectively and efficiently
- The policy recognizes economic groups as important initiatives towards genuine member based cooperatives; and
- The policy puts emphasis on commercially oriented business minded leadership instead of civil-service oriented management in running the cooperative movement

The vision of the cooperative system in Tanzania is geared towards improved and sustainable cooperatives that are capable of fulfilling member's economic and social needs. There are no explicit statements in the policy with regard to contract farming and involvement of cooperatives. However, a number of sections do point out the way forward in terms of reviving the cooperatives in Tanzania. Section 2.4 reaffirms government support towards promotion of cooperatives across different sectors such as finance, trade and industry, minerals, fisheries, transport etc as opposed to the current thrust of cooperatives in the agriculture sector.

Section 4.1 carries a policy statement that the government will encourage establishment of cooperative structures which is cost effective and which emanates from members. The thrust is therefore placed at strengthening primary cooperative societies. Section 5.1 emphasizes on leadership strengthening in the cooperative sector. In terms of financial services, the policy is explicit in section 7.2 towards continuing to support SACCOS in order to build financial assets of members. The government also is encouraging the establishment of cooperative insurance service Institutions.

The Ministry responsible for cooperatives has developed a program called the Cooperatives Reform and Modernization program (CRMP 2005-2015). This program translates the policy and the Cooperatives Act 2003 into a program of implementation. The program is set to deal (interventions, key players and their roles and required resources) with key problems confronting Tanzania's cooperatives, which include inflexible structures, poor management systems, and inability to cope and compete in a liberalized market economy, indebtedness and lack of adequate working capital. In order to deal with weak economic base of cooperatives, the program indicates that a focus will be made on provision of skills and knowledge on business culture and entrepreneurial skills, identification of markets, and the nature of contracts and contracting. This area if well implemented will directly touch on the issue of contract farming and the role of cooperatives.

3.2.6 National trade policy

The Vision of the National Trade policy is: *"… to transform the economy from a supply constrained one into a competitive export-led entity responsive to enhanced domestic integration and wider participation in the global economy through national trade liberalization".*

The mission of the trade sector is therefore to: *"…stimulate the development and growth of trade through enhancing competitiveness aiming at rapid socio-economic development."*

The trade policy has a number of areas that are relevant for promoting market linkages and within it contract farming in Tanzania. In the policy objectives, emphasis is placed on enhancing diversification and competitiveness of Tanzania industry through stimulating value addition and investment flows into export oriented areas in which Tanzania has comparative advantages

Tanzania Government is expediting measures to stimulate international competitiveness through:

a) Reduction of unnecessary bureaucratic procedures that lead to high transaction costs for the business sector;
b) Facilitating and encouraging the development of private sector capacity to participate more effectively in the process of better regulation through public-private sector partnerships and improved advocacy;
c) Expediting the establishment of market-supporting institutions in the area of better regulation to ensure co-coordinated legal and regulatory reforms and improvement of commercial justice delivery.

Fair competition policy is also being put in place, which aims at perpetuating freedom of trade, freedom of choice and access to markets. Competition law is a component of competition policy prohibiting firms from engaging in anti-competitive behaviour and abuse of dominant market position. The ultimate objective of economic regulation and competition policy is to protect the consumer through control of monopoly behaviour on the part of producers.

One of the trade policy targets is to achieve trade volume growth of 14%. Among the fundamental conditions that should be fulfilled are:

- Creation of an enabling environment consistent with the implementation of a dynamic trade policy;
- Adoption and implementation of appropriate sector policies in key economic and social sectors;
- Increase in savings and investments;
- *Transformation of agriculture;*
- *Development of market linkages*; and,
- Human capital development.

A market linkage is taken as a concept that complements export promotion in that it places equal emphasis on both supply and demand side. In the case of agricultural products this entails the organization and training of farmers in production methods for the full product-cycle, undertaking research on production technology and requirements, support through provision of inputs and extension services, and facilitating contractual linkage with commercial enterprises for the purpose of processing and marketing. Market linkages are a necessary tool in implementing strategies for product diversification through the re-orientation of supply capacity to reflect the needs and demands of the market. Export promotion is an efficient tool for trade expansion when used in complementing market-linkages as part of an Export Development Strategy.

The Government has committed to use the joint tools of market linkages and export promotion through the introduction of new agricultural products, such as horticultural products, and adding value to conventional products as a means of facilitating entry into new markets. Necessary institutional reforms in the export sector will be undertaken as part of measures to ensure the effective use of these instruments to facilitate effective public and private sector co-operation and co-ordination in the course of stimulating the rapid expansion of trade through higher exports. On export facilitation the government will work on the simplification of trade procedures and reduction of the high costs involved through measures such as provision of export credit financing, insurance and credit guarantee schemes, and access to better storage facilities.

3.2.3 Local Government Reform Policy 1982

In a bid to improve governance, local government reforms have been a major agenda in Tanzania. Local government authorities have devolution of powers to spearhead development activities in the areas. Agricultural development is one of them. During the study, different local authorities have taken up facilitation of contract farming with different standpoints. To some one of their areas of emphasis is to improve agricultural extension services; however they are not bound to specific linkages that often demand specialized attention. Their capacity is overstretched, as they have to give attention to all agricultural initiatives in the district. There are obvious gaps between technical agencies (crop boards) and local authorities when it comes to complementarities of roles and capacities.

In a nutshell the issue of contract farming is not explicit in the local government authorities act, yet this is the direct point of implementation of such agricultural activities.

3.2.7 SME Development Policy

The SME development policy of April 2003, focuses on three main areas namely, the creation of an enabling business environment, developing the financial and non-financial services and putting in place supportive institutional infrastructure. The policy identifies priority programs and identifies key actors (public, private and NGOs) as well as the time frame. Although the policy is rather silent on agricultural enterprises, of interest to contract farming is that the policy plans to among others do the following:

- Promote business linkages between small and large enterprises
- Embark on capacity building of business training institutions aiming at improving quality of services
- Inculcate through education, training and other programmes, value attitudes that are conducive to development of entrepreneurship
- Promote innovative financial services products such as hire purchase, leasing, inventory financing, and venture capital. Here they mentioned SACCOS as a possible avenue.

3.2.8 National Investment policy

This policy earmarks areas for investment promotion and provides policy support instruments. Agricultural sector is one of the investment promotion areas, and one would expect contract farming to link up foreign investments in processing with outgrower schemes as a necessary policy thrust.

3.2.9 National Empowerment policy (MKUKUTA)

MKUKUTA is a broad policy drawing from Vision 2025. It gives the poverty reduction agenda the necessary position. Agriculture is clearly positioned as an engine for economic growth. Contract farming is not mentioned explicitly in this broad policy, but definitely supported within the agricultural development strategies.

The above-mentioned policies if implemented would take contract farming a step ahead. However, these policies are scattered and not comprehensive. Yet it is difficult to point a finger at a particular policy as the main host of contract farming endeavours in Tanzania.

3.3 Current regulatory and compliancy instruments

The crops that are guided by a board have adopted specific regulations following the enactment of the Act. The regulations are specific to the production and marketing processes of the respective crop but in general they cover the following key areas:

- Preliminary provisions (list of abbreviations etc)
- Registration of growers (How and who to register the farmers, deregistration criteria)
- Cultivation and crop husbandry (specific agronomic practices e.g. approved variety, seeds and seedlings, permits with respect to seed importation, pests and diseases control, inspection by the board etc)
- Grading of the products (types of grades and quality standards, unit of measurement etc)
- Buying, processing, import and exporting of the products (permits involved and authorities to issue the same)
- Application and issuance of licenses
- Quality Control
- Crop levies and development funds
- Administrative provisions (appointment and terms of service of officers)

The following are specific provisions in the legislations that guide contract farming.

Sugar

The concept of Contract farming is expressly addressed in the Sugar Regulations (GN. No. 173 of 2005). Regulation No. 23 requires every registered sugar manufacturer to enter into commercial agreement with the grower of growers association. The Regulation provides essential condition to be inserted in the agreement which include:

- quantity of cane to be delivered to the manufacturer during specified season;
- obligation of the parties in relation to harvesting and delivery;
- schedule of harvesting and delivery;
- price to be paid by the miller or the formula for determining the price;
- terms of payment;
- modalities of compensation in case of manufacturer's failure to buy cane or grower's failure to deliver cane.

The Sugar board is empowered to intervene as arbitrator in case of failure by the parties to agree on compensation.

Tobacco

Part IV of the Tobacco Industry Regulations (GN.No. 216) states expressly requirements of the growers and buyers to enter into contract farming for such terms and conditions agreed upon. Regulation 25 restricts a grower to enter into more than one contract farming. The Regulations require parties to use standard contract forms prepared by the Tobacco Council and approved by the Board and witnessed by the Assistant Registrar of Cooperatives in case the grower is the member of the cooperative society.

The Regulations provides signing of the contracts between 1st May to 31st August each year. Under the agreement, the Board has powers to instigate the quality of the extension services rendered by the buyer to the grower. The Board shall also deploy a classifier in case of dispute on quality of tobacco between the buyer and grower

Regulation 42 requires a growers and buyers to enter into contract note for purchase of tobacco.

Pyrethrum
In the pyrethrum industry, there is no specific legislation that governs contract farming though currently there are initiatives to introduce contract-farming arrangements between the buyers and pyrethrum growers.

Coffee
In the coffee industry, there is no specific legislation governing contract farming. However, the Coffee Industry Act insists on fairness in transaction between the coffee growers and buyers.

Cotton
There is no specific provision dealing with contract farming in the cotton industry legislation; however, the Regulations, 2000 (GN.No. 47) empower the Board to enter into contract for seed production and distribution by the competent person.

Cashew nuts
There is no specific provision dealing with contract farming in the cashew industry legislation. The only thing which is provided under the Cashew Regulations of 2005 (GN. No. 208/ 2005) is requirement of all cashew growers to sell the cashew to registered buyers. Under the Regulations the Board is a point of dispute resolution especially on issues regarding grading.

Tea
The Tea Industry recognizes contract framing under Regulation 18.-(1) which states that "Any buyer of green leaf tea may after consultation with the Board authorities, enter into sales contract with any grower for a minimum period of one year on such terms and conditions as the parties may agree upon, and no buyer should enter into a sales contract with a grower who has another contract with another buyer".

The Regulation stipulates that standard contract forms be prepared by the Board or other authorized public officer. Each buyer shall after signing a contract, register each sales contract with the Board and submit the copies of the registered contracts to the designated district agricultural officer.

Prior to entering into any sales contract with a grower or growers, the buyer shall have to be satisfied that the grower or growers have no outstanding debts (secured on the crop grown or to be grown) under a different sales contract unless the settlement of the outstanding debts shall be taken account of in new contract.

The parties to the sales contract shall specify clearly the crop production estimated (in hectares and volume) and corresponding inputs requirements and the prices thereof before signing of the contract and the review thereof shall be done after the end of each contract period.

Sisal

There is no specific provision dealing with contract farming in the sisal industry legislation.
Apart from crop board legislations, others include:

Fair Competition Act, 2003

The object of the Act as described in Sn. 3 is to enhance the welfare of the people of Tanzania as a whole by promoting and protecting effective competition in markets and preventing unfair and misleading market conduct throughout Tanzania in order to:
(a) Increase efficiency in the production, distribution and supply of goods and services;
(b) Promote innovation;
(c) Maximize the efficient allocation of resources; and
(d) Protect consumers.
Section 8.-(l) of the Act restricts enforcement of any agreement whose object, effect or likely effect of that agreement is to appreciably prevent, restrict or distort competition.

Law of Contract Act (Cap 433)

The underlying principles of law of contract in Tanzania are provided for in the law of Contract Ordinance (Cap 433 of the Laws of Tanzania).This Act considers that all contracts as agreements but not all agreements can be considered as contracts. For an agreement to be considered as contract in law it must comply with the essential elements of contracts, which are:

- There must be an offer or promise by one party that has been accepted by the other
- Acceptance must be supported by consideration which in legal terms is the sufferance or price to purchase the promise or offer
- Both parties to the agreement must be competent to contract (have full capacity to understand and give consent on the terms and conditions of contract , adult age, sound mind, no undue influence
- Contract must involve lawful terms or object (not against moralities, policies or laws of the land)
- There must be intention to form a legally binding relationship
- There must be certainty of terms (price, parties, timing etc

This being a general law guiding all transactions, it may be argued that **specific guidelines** that would further look critically at farming situation in Tanzania may be required. Some countries like Malawi (Guidelines for CF), Canada (Arbitration council), and Kenya (Tea), India (separate Act /law and regulations for CF, USA (Producers protection Act) have justified the need for specific regulatory instruments to promote CF. Experience in Tanzania suggests that contract farming is difficult to enforce under the general law of contract. There is no level playing field between the main players (smallholder farmers and sponsors). Besides that agriculture sector is inherently risky in Tanzania.

Warehousing Receipt Act

In 2005 the Government enacted a legislation titled the Warehouse Receipt Act No.10 of 2005 This law introduces and govern the commodity warehouse receipt system in order to facilitate participation of smallholder producers in agricultural commodities trade arid accessibility to bank credits. The Act proposes for a legal mechanism that will enable smallholder farmers to get credit from banks by using receipts they will obtain from licensed warehouse operators, after depositing their crops in the licensed warehouses.

Local Government (District Authorities) Act, 1982 as amended by act no. 4 of 2000
Section 113 (1) (a) of the Act District Authorities Act empowers the District Authorities subject to the National Policy and plans to rural and urban development, to further the social economic development of its area of jurisdiction.
The Act also empowers the Authorities to take all measures as in their opinions are conducive and expedient for control and improve agriculture etc.

Section 122(1) and (2) empowers the Authorities to make and approve by- laws within its own area of jurisdiction and take all necessary measures to prevent soil erosion and protection of crops, regulate the use of Agricultural land. Through the Act, there are some Councils which have managed to formulate by-laws or regulations on agriculture and markets e.g. restrictions on buying of crops before the opening of the season.

Economic Empowerment Act, No. 16 of 2004
The Act main objective is to promote economic activities, agriculture inclusive. It establishes a Council that is charges among other duties with promoting and support business ventures pioneered and run by Tanzanians.

Companies Act 2002 and Cooperative Societies Act 2003 provides for registration of associations and farmer groups and cooperative societies respectively.

Dairy Industry Act 2003
The Dairy Industry Act of 2004 provides for the production, regulation and promotion of dairy industry. In 2006 the Dairy Board has been established. Regulations are yet to be formulated.

Animal diseases Act 2003 and Veterinary professional Act
The acts are not yet supported with regulations and in regard to contract farming; they are not explicit. Range Development and Management Act is at formulation stage. One key feature of this act is to promote integrated management and sustainable use of rangeland resources. It will also control movement of pastoralists and agro-pastoralists.

Mariculture Guidelines
With respect to Mariculture investments, specific guidelines were issued in 2001, which covers issues of project review procedures, land acquisition and water rights, environmental impact assessment, specie selection and sites, and Mariculture development, promotion and funding.

3.4 Conclusions on policy and regulatory gaps for Contract Farming in Tanzania

- Present agricultural related development policies are generally supportive to contract farming. Few have explicit policy statements, whilst many others are thorough implied statements. The issue lies more on the implementation rather than policy per se.

- Some crops regulated by Boards (sugar, tobacco, tea) have specific regulations guiding contract farming clearly stipulated. The other crops with Boards have not explicitly provided for the contract farming in their legislations.
- There is no uniformity on the essential issues to be taken up in contract farming arrangements nor are there clear provisions for arbitration in case of disputes.
- Some regulations e.g. Sugar industry regulation of 2005, requires signing of commercial agreements between the growers or growers association with manufacturer as a mandatory.
- Some regulations are silent about the extent and platform for negations while others e.g. tobacco provides for Council as platform for negotiations. .
- Non-traditional crops are left out of regulatory framework. This leaves farmers as well as the sponsors without formal laid down procedures and fallback position for advice and arbitration.
- Policies and legislations are scattered in various initiatives. There is no clear reference point for the whole subject matter of contract farming in Tanzania. Most policy statements are general and lack cohesive approach to contract farming as will be highlighted in this study. It may be argued that specific guidelines that would further look critically at farming situation in Tanzania may be required.
- Although most countries have no legislations that specifically regulates contract farming[5], there are a few countries like Malawi (Guidelines for CF), Canada (Arbitration council as a reference point for CF), and Kenya (Regulations for Tea), India (separate Act /law and regulations for CF, USA (Producers protection Act) have justified the need for specific regulatory instruments to promote CF. India is ahead in CF as an explicit policy and has specific legislations

- Experience in Tanzania suggests that contract farming is difficult to enforce under the general law of contract. There is no level playing field between the main players (smallholder farmers and sponsors), and experience so far suggests that smallholder farmers are not yet reaping optimal benefits of contract farming. FAO publication on contract farming, argues that it may be necessary for governments in growing economies to enact legislations to protect farmers as the weaker of the contracting parties. This may be quite necessary in cases where smallholder farmers are tenants of the sponsors in outgrower schemes.

How has India dealt with this situation?
"As part of implementation of Agricultural Marketing reforms in India, the Government of India's National Agriculture Policy envisages that "Private sector participation will be promoted through contract farming and land leasing arrangements to allow accelerated technology transfer, capital inflow and assured market for crop production, especially of oilseeds, cotton and horticultural crops". The agriculture Ministry is evolving a model bill for contract farming in the country. The bill will provide a tripartite agreement that will be worked out between farmers, companies and the government so that interests of both are safeguarded. An Agricultural Produce Marketing (Regulation) Act has been enacted in some states of India.

[5] FAO: Contract Framing –Partnerships for Growth, Bulleting no 145

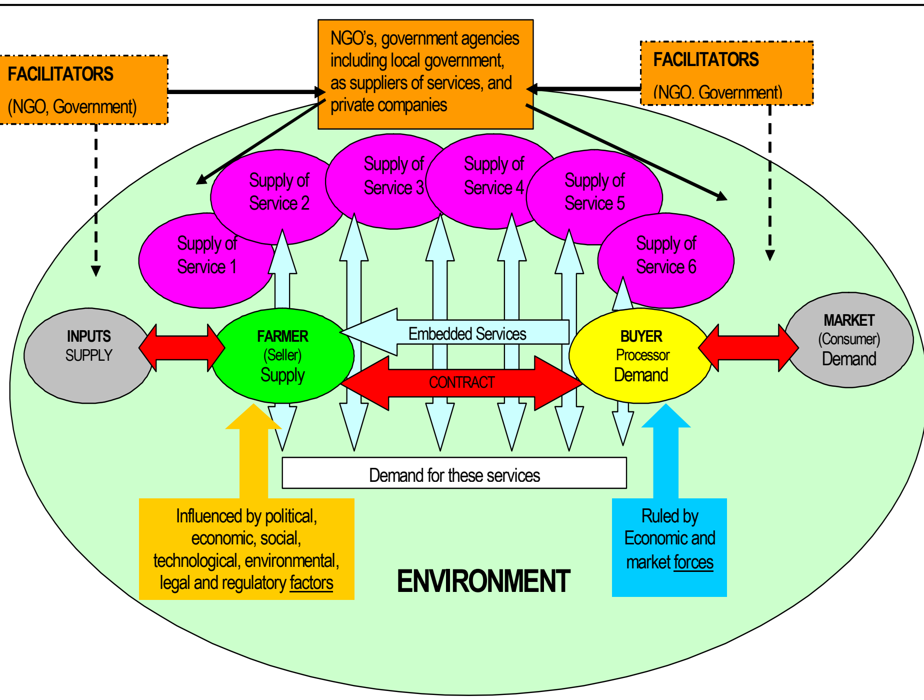
4. Assessment of access to market framework for successful Contract Farming promotion in Tanzania

4.1 Positioning Contract Farming in Access to Market Framework (AMF)

Access to Market Framework (AMF) is adopted here and used as a tool for analysing context (actors, factors and forces) under which access to market occurs. Contract farming takes place within the broad framework of access to market facilitation. The framework is devised to help identifying position of actors and their respective roles in access to market processes. The framework recognises that contract farming programme goes beyond the sales agreement between the seller and buyer. In chapter 2 we have used a number of parameters to assess and judge the status of CF arrangements in Tanzania. In this chapter we shall provide a desirable framework for future promotion of CF arrangements.

Figure 9 below depicts a simplified interrelatedness of actors, factors and forces in access to market facilitation. Firstly, the framework emphasises that smallholder farmers and buyers (market) require a comprehensive package and not only sales agreement (contract) or few components. It is necessary to note that the buyers (local and international) too may require some of the services in order to play their role effectively. Secondly, a distinction is made between service providers in the different components and facilitators (essentially the capacity developers of service providers). The service providers could be from primarily private sector, but also from government and specialised NGOs. The facilitators have an option, if desirable, to intervene at the market side in order to understand how markets function so as to avoid distortional effects and be able to develop markets for services. The ultimate vision in this framework is that farmers and buyers will eventually work on business principles as trust and business experience develops.

Figure 9 Contract Farming Program Framework



Source: Adapted from VECO Tanzania National Stakeholders' Workshop Concept Paper March 2006, and modified.

Access to market framework (AMF) suggests that for any contract farming programme to be successful there should be deliberate need to consider the following;

- Presence of seller and buyer and their collaborators downstream and upstream the chain
- Critical business services for the successful implementation of the enterprise
- Presence of private suppliers of such services and facilitators (NGOs and government)
- Market development of business services for sustainability of the programme
- Legal and regulatory environment often provided by the government and its agencies such as Crop Boards
- Continuous assessment and monitoring of economic and market forces

4.2 The Seller and Buyer and their collaborators downstream and upstream

The primary actors in the market are sellers and buyers. The transactions between them are influenced by other actors, factors and forces in their proximity. Their transaction costs will go high or low depending on the influences of actors, factors and forces. Matching of demand and supply requirements is often the most critical challenge for the survival of any enterprise. The demand side of market linkages is where buyers are seeking raw materials in order to satisfy the requirements of the end users. On the other hand, the supply side of it is where farmers are seeking production support/ services and market outlets for their produce. For any successful enterprise the following ingredients are crucial: access to markets, access to resources/ inputs and managerial skills. The thrust of increased production and productivity on the side of farmers without taking into account the market requirements is often a frustration. Interventions to bridge the gap are inevitable and the challenge is to facilitate it in such a way that market distortion is avoided.

There is also an issue of buyers versus sellers market. Typical trend in developing economies is where buyers market prevails. This has a number of features like price setting often by few, hence limited bargaining power on the side of producers etc. Inevitably this raises the need for a broker. Ideally, contract farming is between the buyer and the farmer; however, it is inherent in the business development that they operate within a chain with other equally important actors. There are those who provide inputs to the farmers and other actors who bring the finished product to the end consumer. The value chain philosophy is crucial in visualisation of this framework; value chain trigger the market focus collaboration whilst take into account all crucial actors required to meeting all critical success factors to supply particular end consumer.

4.3 Critical business services

Practitioners have evidenced that for a successful linkage, six interrelated and interdependent services and skills are critical for the smallholder to thrive. The nature of these services is however different depending on commodity line and the context of the particular market. These services include;

1) Business management skill and attitude,
2) Access to financial services,
3) Access to technical / technology and extension services,
4) Ability to advocate and lobby,
5) Group cohesion and governance and
6) Market information services/system (MIS).

These services are further elaborated in table 7 below.

Table 7 Critical business services in facilitating smallholder's access to markets

Component	Actors	Services
Business Management training	BDS Organizations Facilitating NGOs	Business training "Farming is Business" ethics
Financial services	Financial institutions (Banks) Non Banks Financial Institutions Guarantee Fund	Loans to companies or farmers
	Facilitating NGOs Farmers organizations	Warehouse receipts – cereal banks
	Facilitating NGOs	Savings mobilization (SACCOS), Guarantee/ co- funding
	Private Companies Buyers (as embedded services[6])	Input Loans Equipment leasing/rental
Technical and Extension Services	Government Extension Network	Agronomic training and extension
	Private Company extension staff Buyers (as embedded services)	Agronomic extension Linking with equipment and inputs suppliers
	Facilitating NGOs Buyer (as embedded services)	Training of contact farmers and facilitating farmer-to farmer extension
Advocacy and Lobbying services	Farmers Associations	Developing Common agenda (voice)
	Advocacy & Lobby Organizations	Lobby and advocacy skills
Organisation of farmers (Group Cohesion and Governance)	Farmer Organizations	Group dynamics/ facilitation
	Facilitating NGOs/ Special projects	Group formation and strengthening Capacity building of SHF and SMEs
	Government Cooperatives staff	Cooperatives education
Linkage to Reliable Markets	Private sector companies Market intermediaries Traders, agents	Buyers/ processors or exporters of crops Market/demand assessment
	Farmer's Organizations	Business training/ Provision of marketing Information
	Extension agents Crop Boards and forums Farmers Cooperatives and Unions	Dissemination of market information

4.4 Presence of actors, private suppliers of business service and facilitators

The competition based Business Development Services (BDS) market development paradigm shift among others emphasises that the objectives of outreach and sustainability can only be achieved in well-developed markets for BDS and not by direct provision of services by donors and governments. In addition the BDS approach calls for clear articulation of the demand for services

[6] Embedded services are offered by private sector (mainly buyers) e.g. coordinated supply chains. Many farmers and SME, particularly low-income SME and smallholder farmers, cannot or are reluctant to pay for BDS. They can, however, produce/make their products, particularly if a buyer supplies raw material, market information, product specifications or other services. In the private sector, many large wholesale businesses purchase from SME and SHF and sell to distant urban or export markets. Sometimes they supply services, such as key production inputs (seeds, fertilisers, pesticides, technical extension services, etc.) and packaging, whose costs are paid by the mark-up on the SME or SHF products.

(enterprise level), the supply of services (providers) and facilitators (public and or private non-profit/development practitioner). BDS include a wide range of services like management training, technology transfer, product development & quality control, business plan development, input supply, market information and credit supply, etc, etc. With donors, development practitioners, government and private sector companies all involved in this field, the BDS market development concept prescribes that a delineation of functions is being made between donors, facilitators, service providers and clients/beneficiaries. Key in this approach is that the market function will not be distorted. Therefore the supply of business development services should be based on a commercial transaction between a BDS supplier and an enterprise as client.

4.5 Market development of business development services for sustainability of Contract Farming programmes

The role of development practitioners and/or government agencies is to facilitate the development of such commercial market for BDS. They can do this by developing the capacity of commercial BDS suppliers, by facilitating the removal of market imperfections at both the supply and demand side (barriers to entry, lack of market intelligence, impeding regulations) and promotion of producer and trader organizations. The role of donors is just to provide funds (grants or loans) to facilitators and loans to BDS suppliers and to assess the efficient and effective use of it. The role of national governments is to provide an enabling political-economic environment.

The capacity development approach (empowerment) presupposes that interventions should be influenced by the understanding of the critical services required by the target group to address their capacity gaps in order to bring about the desired level of impact, in this case, the ability to access market opportunities through contract farming programme. Capacity development intervention, therefore; is geared at facilitating organisations and at delivering relevant services that would reverse impoverishing forces that negatively influence access to markets. Once factors and forces have been taken into account, specific support services can be identified.

Facilitators are there to develop capacity of local business services providers (as well as to create or promote awareness at community levels for such services), so that they can offer relevant services to either farmers or other market players. The end picture to judge success of facilitation is when the facilitator agenda becomes redundant, market forces play a role and that they withdraw and move on. Experience suggests that facilitation requires patience and commitment among development practitioners and government especially in rural areas where level of market development is so low. The issue of embedded services indeed depicts emergence of a fast market development. Innovative arrangements to involve the buyers in delivering embedded services to smallholder farmers as part of commercial transaction is being emphasised.

4.6 Continuous assessment of economic and market forces

Buyers, on the other hand are also influenced by economic and market forces which include but not limited to global markets conditionalities, information technology revolution, international, regional socio-economic trends and organic and fair trade (niche) markets. There is always a deliberate need to read market dynamics continuously so as to remain competitive. The following table 8 highlights some strategies, which have been adopted recently by various buyers, processors and exporters of various crops in Tanzania.

Table 8 Marketing strategies for some exporting companies in Tanzania.

Crop	Company	Marketing strategy
Sisal	Katani Limited - Tanga	• *New improved variety – MTC – ARI Mlingano* • *Diversification – processing by-products (biogas,paper)* • *Sub-lease to outgrowers to improve production*
Pyrethrum	TPPMCL – Mufindi	• *New improved seeds – ARI Uyole* • *Direct contracts with smallholder farmers* • *Provision of key inputs as embedded services*
Tobacco	Alliance One - Morogoro	• *Consolidation of businesses – economies of scale* • *Economies of scope (mergers and acquisitions)*
Tea	Unilever Tea Tanzania – Mufindi	• *Consolidation of businesses – economies of scale* • *Economies of scope (mergers and acquisitions)*
Cashew	Olam (T) Limited - Mtwara	• *Value addition at source – TechnoServe* • *Branding* • *Consolidation of businesses – economies of scale* • *Economies of scope (mergers and acquisitions)*
Coffee	KNCU – Moshi	• *Organic coffee – niche markets* • *Diversification – branding and developing new products*
Flower Seeds	MultiFlower Co. Ltd – Arusha	• *Engage outgrowers* • *Strategic collaboration with other actors (Mapato) – global value chain*
Sugar	Mtibwa Sugar Estates – Morogoro	• *Diversification - use of by products in livestock development (molasses)*

4.7 Capacity building of SHF, SMEs and their organisations

Before selecting relevant business development services for a particular community it maybe useful to analyse their ability to take on new skills and challenges in a sustainable manner. It is worthwhile to assess targeted farmers assets, skills and their ability to access services. There is also deliberate need to assess the competence and capacity of available and potential service providers to take on new ideas and match risk with opportunity and the farmer groups. Risk reducing packages such as e.g. HPI *'Kopa ng'ombe, lipa ng'ombe'* gives room for experimentation.

The environment facing smallholder farmers, SMEs and their organisations is changing. In particular the public sector role is being reduced and a new emphasis is being placed on creating space for the private sector and developing institutional partnerships for business services provision and management. Overall, these are favourable developments for farmers, SMEs and their organisations. However, the trends are not all positive; certainly, if farmers' organisations are to capitalise on the positive aspects of the changes, they must be dynamic, flexible and probably somewhat opportunistic. This is a lesson, which can be learnt from farmers' organisations in Europe, which have evolved different structures, norms and operating procedures over time as a response to changes in their environment. Some developing country organisations have already demonstrated their responsiveness and willingness to change.

4.8 Lessons from experiences elsewhere

4.8.1 Small Farmers in Mozambique Access Credit and Markets

The Cooperative League of the USA (CLUSA) launched its Rural Group Enterprise Development Program in Mozambique in the mid-1990s, when the country was still overcoming armed conflict and settling into a market economy. The program organized 26,000 impoverished, isolated farmers in the Northern provinces into associations that could market crops to commodities traders. These efforts led to higher farm gate prices and an 85 percent (inflation-adjusted) reported increase in average annual farm revenues.

The CLUSA program assisted farmer associations to establish better relationships with the commodity traders and other agribusinesses. This enabled smallholder association members to access input credit and short-term crop advances from those agribusinesses, in return for the guaranteed purchase of their output. CLUSA also brokered a partnership with a local financial provider, GAPI, to offer solidarity group loans to the associations. As a result, associations supported by CLUSA established credit relationships that resulted initially in US $300,000 in agribusiness company credits and nearly $100,000 in loans from GAPI in 2003, with average repayment rates of close to 100 percent.

<u>Background</u>

Mozambique is a largely rural country with a territory almost twice the size of the state of California in the United States, and a population half as numerous. After gaining independence from Portugal in 1975, Mozambique adopted a socialist economic system and plunged into 16 years of civil war, gradually emerging as a free-market democracy in the early 1990s. A decade later, 70 percent of the population still lives below the poverty line most surviving on less than one dollar a day and a third of the population suffers from chronic hunger. Although less than 20 percent of the country's arable land is cultivated, more than 75 percent of Mozambicans earn their livelihood in agriculture.
When CLUSA launched its program in Mozambique's Northern Province of Nampula in late 1995, limited credit and inadequate collaboration were among the factors that were constraining the local agricultural sector. Many small farmers could not afford the small cash outlays (often US $20-$60) required to produce and commercialize their crops, and lenders were unable to efficiently supply such small loans. The government's attempts over two decades to provide rural finance at subsidized rates through the previously state-owned People's Development Bank persistently failed. And though microfinance operations began appearing in the 1990s, they remain concentrated in urban centres. Nampula Province was characterized in 1995 by poor transportation networks and communication infrastructure, isolated farmers mostly engaged in subsistence agriculture, almost no economic activity apart from several agribusiness concessions, and a post-conflict culture of relief dependency. CLUSA is an American NGO run by the National Cooperative Business Association. Established in 1916 to create, support, and advocate on behalf of American cooperatives, CLUSA began program in Mozambique, which ran from 1995 through 2004, aimed to improve the agricultural supply chain by focusing on small-holders' capacity to produce, market, and profitably sell high-quality agricultural products.

<u>Challenges and Responses</u>

CLUSA overcame several challenges to organize farmers into self-managed associations and then assist those associations to connect with new buyers, access short-term agribusiness credit, and forge credit relationships with a local financial institution. CLUSA began its work in the country by bringing together existing farmer associations, as well as unaffiliated farmers, to create a network of more than 800 associations in the provinces of Nampula, Niassa, and Cabo Delgado. Each association consisted of about 30 smallholders; by year-end 2001, they collectively involved about 26,000 individuals. CLUSA trained the farmers to work together as intermediary bodies to identify likely crop surpluses, control quality, collect and weigh the harvest, arrange temporary storage, organize market days, coordinate the transportation of products to buyers, and pay farmers. Under the guidance of CLUSA, these associations also negotiated contracts with new buyers and agribusiness companies.

CLUSA also formed groups of associations, or "forums," to allow farmers to coordinate their agricultural marketing efforts on a broader scale, as well as to register with the government as legal rural enterprises. Simultaneously, CLUSA began to disseminate market information, such as regional and international price and trend data, via newsletters and community radio broadcasts. By the end of the project's first phase in October 2001, i.e., after six years of CLUSA support, the associations' cumulative sales exceeded US $3.6 million; more than 21,000 metric tons of agricultural products had been successfully marketed; and average annual sales by farm households participating in an association grew from $40 in 1996 to $70 in 2001 (adjusted for inflation). Farm revenues continued to grow in subsequent years, reaching an average of $74 in 2003.

In early 2004, an evaluation of CLUSA attempted to measure the effectiveness of the program with regard to USAID's investment. The analysis showed that for every USAID dollar spent during the 1996A|1998 period, US $0.46 was generated in participants' household income. During 2002A|03, when USAID funding was about 20 percent lower, but the project benefited from the momentum of previous periods, this ratio jumped to $1.28. The analysis suggested that net returns (measured in household income generated) became positive only in 2002.

<u>Agribusiness as a Source of Short-Term Credit</u>

The predominant source of agricultural credit for small farmers in rural Mozambique is agribusiness and trading companies. Such credit is vital in an environment where many farmers lack the resources to invest in inputs like seeds, fertilizer, and pesticide at the beginning of the season, or to pay for transportation of their harvest for sale several months later. Agribusiness credit is almost always provided under a contract: in exchange for the inputs or advance, the farmer agrees to sell his/her crop to the company (or individual trader), usually at a pre-arranged price. The company, in turn, promises to purchase the crop from the farmer.

One of the biggest risks to the buyer in contract farming is a practice called "side-selling," which occurs when a farmer diverts part or the entire harvested crop and sells it to another buyer at a higher price. Due to the risk of side selling, as well as the difficulty of enforcing contracts in Mozambique, companies typically provide input credit (as opposed to shorter-term credit for collection and other marketing costs) to farmers only on monopolistic concessions, where the company is the only buyer for the crop in a given region. Leading agribusiness companies active in Mozambique are foreign-owned firms that purchase cotton, tobacco, and maize from small farmers. These companies do not necessarily own the land on which the crops are produced, but usually benefit from government-allocated land "concessions" which grant them exclusive rights to buy the crops produced by farmers in a certain area.

To increase the crop production and revenues of eligible farmers, and thereby make them more attractive for receiving input credit, CLUSA established or revived existing associations on cotton concessions and organized them into larger "forums," comprised of 5 to 15 associations. As with other associations, CLUSA trained them in organizational development, agricultural extension, crop management, and contracting (with an emphasis on the importance of adhering to contract terms and resisting offers for "side sales"). CLUSA also encouraged the forums to register with the government and assisted them in that process where possible. One year after its first interventions in support of contract farming, the number of farmer associations receiving cotton contracts from agri-businesses had increased fourfold, from 18 in 1997 to 79 in 1998. By 2000, a total of 362 farmers' associations (including those cultivating crops other than cotton) held such contracts and had collectively received more than US $300,000 in related agribusiness credit.

An example of CLUSA facilitating access to credit outside of concessions is the cooperation between CLUSA-supported farmers' associations and the European agricultural trading company, V&M Grain Co. V&M provides short-term, interest-free crop advances to farmers' associations at harvest time, in order to help secure its supply. These loans are made without collateral, but under a contract that specifies the amount, quality, price per kilo and total value of the crop to be delivered to V&M. The loan size is determined by crop value, with associations receiving 50 percent of the agreed value upfront, typically ranging from US $2,500 to $10,000 per association. The maximum loan term is 20 days. Associations often use these proceeds to arrange transport to V&M.

V&M has provided such credit to around 30 farmers' associations, which do not have to be legally registered with the government in order to participate. The company reports low credit losses of around 2 percent, and about 10 percent of crop value lost in side sales, and is generally satisfied with the arrangement and the associations' performance. But V&M cites side selling as the main obstacle to expanding the provision of crop advances and finds that the yields per association are still too low to make contracting with them truly efficient. The farmers' associations, for their part, remain uncomfortable with being locked into a buyer and price--commodity prices often rise in the weeks after harvest - and would also like to see wider availability of credits at the beginning of the season.

<u>Forging partnerships between Farmer Associations and Financial Institutions</u>

In 1999, CLUSA turned its attention toward finding more flexible credit alternatives for small farmers. CLUSA identified a financial institution, Gabinete de Consultoria e Apoio a Pequena Industria, S.A.R.L. (GAPIUnit for Consultancy and Assistance to Small Industries), as a potential partner. GAPI became one of Mozambique's first regulated, non-bank financial institutions in 1990. Based in Maputo, it provides loans, venture capital, and technical assistance to small- and medium-sized enterprises, cooperatives, and individual’s throughout Mozambique. As of early 2003, it had a total loan portfolio of US $8 million, consisting of 304 loans (including loans to associations) averaging $26,000 in value. Providing credit to farmer associations fit within GAPI's mission and existing portfolio, but the organization lacked the resources to administer small loans or undertake the significant training and capacity building required. CLUSA therefore assumed the task of training farmer associations and organizing them into larger forums. It then facilitated solidarity group loan agreements between the forums and GAPI, with the associations collectively guaranteeing one another's repayment.

With the help of CLUSA, the associations created an umbrella union of forums and a credit committee structure at the union and forum levels. These bodies are responsible for soliciting and evaluating business plans from the associations, liaising with GAPI to apply for group loans, receiving loan proceeds from GAPI, and distributing smaller credits to associations based on their plans, monitoring use of loan proceeds, collecting interest payments, and ensuring full principal repayment to GAPI at the end of the term. By March 2002, forum loan applications valued at US $168,000 had been approved under the CLUSA-GAPI agreement.

The GAPI loans are intended for the commercialisation of lower-input cash crops (maize, cashews, and beans) during two growing seasons each year. They carry terms of three to four months and monthly interest rates (3 percent in 2002, 2 percent in 2003) charged on a declining balance.[9] Whereas monthly interest payments are required, schedule. Forums are not obligated to draw down the full loan amount from GAPI, even after the contract has been signed.

Although promising, the CLUSA-GAPI lending arrangement faces several hurdles. First, forums must be legally registered with the government in order to qualify for GAPI loans, a requirement that currently excludes 60 percent of their number. CLUSA was assisting the forums with this onerous process, which in 2003 cost about US $350 and took between six months and two years. Second, side-selling also continues to pose problems, despite the fact that forums engaging in side-selling become ineligible for future GAPI loans. Third, loan monitoring by the forum credit committees needs to be greatly improved. An evaluation by CLUSA in early 2004 revealed that many forums had poor repayment records, engaged in little or no discussion of loans at credit committee meetings, and had experienced some mismanagement, as well as one theft.

Donors and Partners

The Rural Group Enterprise Program in Mozambique has received support from an array of international and local organizations, including US$8 million in grants from the U.S. Agency for International Development (USAID) between September 1995 and September 2004. It has also received over US $3 million from other donors, including CARE-European Union, Oxfam-Great Britain, and the government of Mozambique. A public-private partnership exists between CLUSA and the government's Directorate for Rural Extension, which links CLUSA-supported farmers with government-promoted technologies to improve agricultural output.

The primary source of funds for CLUSA-GAPI loans has been an EU food security grant. GAPI itself was established in 1984 by the German Friedrich Ebert Foundation and has subsequently received financial support from the German development bank KfW, Agence Francaise de Developpement (AFD), the Danish International Development Agency (DANIDA), and the formerly state-owned PeopleÕs Development Bank of Mozambique.

Lessons Learned

CLUSA and its numerous donor partners, including CARE and Oxfam, collaborated in northern Mozambique for almost a decade to develop active farmers' associations and connect them with commodity markets and sources of agricultural credit. Lessons from this experience include:

- Farmer associations can make small farmers more attractive borrowers from agribusinesses or financial institutions.

- The development of strong, self-managed producer organizations requires a substantial investment of money, time, and expertise. The first six years of CLUSA's work in Mozambique were heavily focused on creating a viable network of farmers' associations and forums.
- While a narrow cost-benefit ratio of initial increases in access to credit (over US $400,000 in loans received by farmer associations over two years compared to $2.5 million in funding to CLUSA) is unfavourable, the positive results of the CLUSA project include such long-term benefits as improved access to credit and markets for small farmers, enhanced skill levels, and improved incomes.
- Narrow and often non-transparent credit products, such as agribusiness credit, play an important role in agriculture in developing countries, particularly in the absence of rural financial institutions willing to offer services to small farmers.
- Financial institutions lack the client, market, and production knowledge of agribusinesses, but a broker such as CLUSA can compensate for those deficiencies and facilitate appropriate lending to small farmers.
- Rigorous and ongoing training in credit management and monitoring may be necessary to ensure that farmer associations can effectively manage group loans. Structures may need to be put in place to ensure that such training continues after an international implementer such as CLUSA departs.
- The broker role played by CLUSA will need to be covered by fees (e.g., from agribusinesses or the farmers) or a percentage of sales, in order to ensure the sustainability of links between small farmer associations and financial institutions and agribusiness companies.

Conclusion

Between 1996 and 2003, more than 700 farmer associations and 100 forums were established in northern Mozambique under the auspices of the CLUSA program, connecting farmers with commodity buyers and agricultural credit. A greater number of northern Mozambican farmers contracted with agribusiness companies during this period than ever before, contributing to a growth in sales and an increase in their average annual revenues. Moreover, 28 forums representing approximately 10,000 farmers benefited from appropriate, flexible credit products provided by GAPI in 2003.

Although the total increase in credit extended to farmer associations (US $400,000) was not very large over the nine-year program, it should be noted that as of 2003, the GAPI solidarity loans had only been in existence for two years. Less quantifiable results of the CLUSA program included structural, long-term changes in farmers' access to finance, markets, and negotiating position, as well as enhanced agricultural skills, market knowledge, organizational development, literacy, and community lobbying power.

CLUSA has taken deliberate measures to build sustainability into the forums and associations at many levels, grooming at least one trainer ("animator") in each association to gradually assume the facilitative role that CLUSA trainers play. Thousands of association and forum members have also received training to serve as marketing managers, fiscal committee and institutional board members, and forum managers. CLUSA also worked with CARE International to establish a local NGO, called OLIPA-ODES, to support the associations and forums in western Nampula province upon conclusion of the CLUSA program.

4.8.2 Contract Farming Programme Ventures in India: A Successful PepsiCo story

Farming is an age-old means of livelihood for millions of Indians. However, there have been few systems/models in which farmers are assured of a market for their produce, leave alone a remunerative price. Farmers have on occasion had to throw their produce away for want of buyers. This is one side of the coin. On the other is the agro-based and food industry, which requires timely and adequate inputs of good quality agricultural produce. This underlying paradox of the Indian agricultural scenario has given birth to the concept of Contract Farming, which promises to provide a proper linkage between the 'farm and market.'

<u>The Classic Case of Pepsi Foods Ltd.</u>

Launching its agro-business in India with special focus on exports of value-added processed foods, Pepsi Foods Ltd. ('PepsiCo' hereafter) entered India in 1989 by installing an Rs 22 crore state of the art tomato processing plant at Zahura in Hoshiarpur district of Punjab. The company intended to produce aseptically packed pastes and purees for the international market. However, before long, the company recognised that investment in agro-processing plants would not be viable unless the yields and quality of agricultural produce to be processed were up to international standards. At that point of time, tomato had never been cultivated in Punjab for its solid content, with a focus on high yields and other desirable processing characteristics such as colour, viscosity and water binding properties. Furthermore, little effort had been made to create a database on the performance of various varieties and hybrids, or to introduce modern farming practices. There were no logistically efficient procurement models for fruits and vegetables that could be built on by the company. These apart, there were simply not enough quantities of tomato available even if the grown varieties/hybrids were procured from the open market.

The total Punjab tomato crop was 28,000 tonnes, available over a 25 - 28 days period, while PepsiCo required at least 40,000 tonnes of tomato to operate its factory, which had a gigantic capacity of 39 tonnes fresh fruit per hour. The company required this intake over a minimum 55-day time frame, and in 1989, the season in Punjab did not last beyond 28 days. Sceptics had expressed doubts over the feasibility of the Zahura tomato processing plant, and had said that it would remain a museum piece! There were formidable challenges before the company and nothing short of a horticultural revolution was required to solve the problem. There was no choice but to alter the tomato production and logistics situation in Punjab. This led to the birth of PepsiCo's backward linkage with farmers of Punjab. PepsiCo follows the contract farming method, where the grower plants the company's crops on his land, and the company provides selected inputs like seeds/saplings, agricultural practices, and regular inspection of the crop and advisory services on crop management.

The PepsiCo model of contract farming, measured in terms of new options for farmers, productivity increases, and the introduction of modern technology, has been an unparalleled success. The company focused on developing region and desired produce-specific research, and extensive extension services. It was thus successful in bringing about a drastic change in the Punjab farmers' production system towards its objective of ensuring supply of right produce at the right time in required quantities to its processing plant. Another important factor in PepsiCo's success is the strategic partnership of the company with local bodies like the Punjab Agricultural University (PAU) and Punjab Agro Industries Corporation Ltd. (PAIC). Right from the beginning, PepsiCo knew that changing the mindset and winning the confidence of farmers would not be an easy task for outsiders. The company's unique partnership with PAU and PAIC fuelled its growth in Punjab.

Encouraged by the sweeping success of contract farming in tomato in several districts of Punjab, PepsiCo has been successfully emulating the model in food grains (Basmati rice), spices (chillies) and oilseeds (groundnut) as well, apart from other vegetable crops like potato. The company, which had been involved in the export of Basmati rice since 1990, was the first processor in India to invest and strengthen backward linkages for Basmati rice. After extensive multi-locational field trials at its 27-acre R&D farm at Jallowal near Jalandhar, PepsiCo ventured into contract farming in Basmati rice on a commercial scale four years ago. The company invested over Rs 5 crore in a modern processing plant at Sonepat in Punjab. It is involved right from the stage of selecting varieties of Basmati (based on customer preference), seed multiplication and development of a package of practices for farmers. PepsiCo's scientists, who ensure successful transfer of technology from the trial to the commercial field levels, closely monitor the performance of the crop. At the time of harvest, the company procures the entire pre-agreed quantum of the harvested produce at the farm gates, at the pre-agreed price. The raw material so procured is transferred to PepsiCo's ISO 9002 and Hazard Analysis Critical Control Point (HACCP) certified Rice Mill located at Sonepat for processing, packing and export, ensuring that the product remains completely traceable from field to consumers.

During 2002-03 crop year, farmers from Jalandhar, Amritsar, Hoshiarpur and Sangrur districts of Punjab, and parts of Western Uttar Pradesh were contracted for Basmati rice cultivation. The season's acreage for the crop stood at 800 hectares. In 2001-02, contracted farmers reaped yields of 2.5 tonnes/hectare. By the end of 2004, the company planned to increase the acreage under Basmati rice to 4,000 hectares to meet the complete requirement of its manufacturing plant. Similarly, PepsiCo planned a foray into contract farming in groundnut with the farmers of Punjab with the objective of producing export-quality, value-added groundnut such as roasted and salted peanuts, flavoured and coated peanuts, and peanut butter. Using plastic mulch groundnut (PMG) technology sourced from China has enabled PepsiCo to take up two crops in a year - one in the *kharif* and the other in the *rabi* season. The company has demonstrated yields of 3.0 and 4.0 tonnes per hectare on field trials for *kharif* and *rabi* crops respectively, much above the national average of 1.0 ton/ha.

Till now, there have been no serious defaults; PepsiCo has continue offering technology that offers predictable results that are in line with the expectations of the farmers, and thus defaults had remained minimal. The company proposes to extend its contract farming in groundnut to farmers in Rajasthan and Uttar Pradesh, who have shown great interest. A sound R&D program backed by committed extension personnel to transfer the resulting technologies has been the intrinsic strength of PepsiCo. Its focused research on increasing yield levels, to the advantage of farmers (which in turn brings down the cost of raw material to the company) has resulted in their increased trust and loyalty towards the company. Post-PepsiCo entry has seen the tripling of yield levels in chilli (from 6.0 tonnes/ha to 20 tonnes/ha) and tomato (from 14-16 tonnes/ha to 52 tonnes/ha).

As part of its expansion plans, the company has been conducting initial trials at Neelamangala in Karnataka to evaluate varieties/hybrids of chilli for their yield, colour, total solids, pungency and other traits/parameters. PepsiCo plan to go commercial with chilli farmers of Karnataka next year and its immediate focus would be to consolidate and strengthen the existing activities. With this kind of a backward linkage with farmers of Punjab and Haryana, PepsiCo developed a perfect contract-farming model involving an enduring relationship with local agencies including the State Government.

Key elements of PepsiCo's success

- Core R&D team
- Unique partnership with local agencies including a public sector enterprise
- Execution of technology transfer through well-trained extension personnel
- Supply of all kinds of agricultural implements free of cost to contracted farmers
- Supply of timely and quality farm inputs on credit
- Prompt dispatch/delivery/procurement of the mature produce from every individual contracted farmer through the system of 'Quota Slips'
- Effective adoption/use of modern communication technology like pagers for communication with field executives
- Regular and timely payment to contracted farmers through computerised receipts and transparent system
- Maintenance of perfect logistics system and global marketing standards.

5 Conclusions and Recommendations

5.1 Conclusions

- Regarding the status of contract farming is that Tanzania has a number of contract farming programmes of different intensities; from ‘air-tight’ sole buyer formal contracts to the informal (verbal) contracts.
- Contract farming programmes provide entry point for private sector involvement in agricultural sector (crops, livestock, fisheries, and Mariculture) development.
- There is no comprehensive and harmonised regulatory and legal framework for promotion of contract farming in Tanzania.
- To a large extent, smallholder farmers have remained to be passive actors in the contract farming programmes. Nevertheless, the general impact on the economic gains at farm level is positive; however, the production and productivity at farm level are still very low compared to best agronomic practice.
- There is a significant capacity gap in spearheading effective participation of different actors in contract farming programmes.
- The roles and responsibilities of the public sector are not aligned and mutually reinforced to promote contract-farming programmes.
- Reference point in Tanzania is missing from which contract farming issues can be discussed and developed.
- There is abundance of good practices elsewhere from which Tanzania can draw useful lessons.

5.2 Key elements of successful CF

In this section we shall summarise the key elements which we consider as prerequisites for Tanzania in spearheading effective contract farming.

<u>Careful enterprise choice - Profitability and markets</u>
Markets are evolving and adaptation by market players is vital. For any CF program to succeed a prerequisite is to be sure that a market with knowledgeable and credible buyers has been identified. Facilitators and farmers alike need to undertake thorough market / industry and location surveys when choosing an enterprise for CF purposes. Due diligence analysis of potential buyers is also a critical prerequisite. The prospects of this market have to pass a test such that long-term profitable undertaking for all players is feasible. Reliable access to markets by SME and SHF, therefore; remains one of the critical challenges for small and medium scale producers in Africa and Tanzania in particular. Smallholder farmers have none or limited access to continuous changing information about these evolving markets and buyers for their produce. Consequently, they have remained passive actors in contract farming and this partially has affected the growth of market focused farming enterprises. Development practitioners and governments in most African countries have embarked on attempts to remedy the situation, but impact is yet to be felt and best practices in this field are not yet documented and shared sufficiently. Tracking market dynamics is a continuous function in any enterprise and all actors in CF program should have capacity to monitor and take appropriate decisions based on such developments.

Thinking beyond contractual documents - Mutual trust is key

Several of the case studies reported in chapter 2 stress the importance of mutual trust in the establishment and continuation of linkages. Most of transactions are undertaken under informal or 'verbal' contracts. This seems to have been achieved primarily through linkages involving relatively small private sector operators (SMEs). Interestingly, several of these linkages involve cross-border trade (round potatoes, oranges, chickpea, paprika, livestock, Nile Perch, etc).

A significant proportion of agricultural marketing transactions between farmers and traders are based on trust; traders trust farmers to repay loans while farmers trust traders to pay for the products they sell to them, deferred payment being a common practice. The question then arises as to why, in a trading environment where mutual trust can be considered almost the norm, some transactions, including many developed by activities to link farmers to markets, are characterised by considerable mutual mistrust?

What is also key for the success of CF in Tanzania is the cultural and attitude change in adhering to contract terms. Cheating / side selling seems to be acceptable norm in Tanzania which ought to change if CF have to became a reality for transforming agriculture..

Clear role definition and governance

CF program framework presented in chapter four is supposed to define roles and responsibilities in in CF program. Contracts should define these areas and set a monitoring framework to assist self-regulation among key actors in the CF arrangement. The CF is built on the premises of value chain elements. One of those elements for success is good governance that should set standards; a support mechanism to help conform to those standards and punitive measures in case of non-conformance. A good CF program should spell out the governance structure and this can be included in the aspects concluded in the contract.

The right enabling environment

Supportive legal and regulatory framework to guide CF is prerequisite for success. CF programs just like many other businesses are highly sensitive to bureaucratic and counter productive environment. The issues of land rights, business registrations and licenses, levies and taxes should be transparent and enforceable. Public sector has this duty to fulfill as analyzed in the study. The regulations and by laws set by LGAs should provide room for ethical business principles to be applied.

Physical and social infrastructure

Part of enabling environment is to provide for appropriate infrastructure for CF to be able to start up and thrive. Private sector has a limit beyond which they cannot invest. Transaction costs are highly pushed up by lack of appropriate infrastructure. Social infrastructure includes availability of skilled personnel who are required to offer services in CF programs. The public sector should create a framework for collaborating with private sector in improving infrastructure.

Capacity of the linking organization

Facilitating contract farming is a professional undertaking. It concerns having proven capacity to mediate the different actors with an added value. It is clear that many organizations that venture in CF lack the necessary business approach to enable them to effectively advise farmers. NGOs, themselves, usually acknowledge this fact and they always find it difficulty in attracting staff with the right orientation. There should be a deliberate need for NGOs, which are active in market linkage facilitation to build their internal capacity/human resource development through training and recruitment of marketing experts. Potential areas for NGOs training could include but not limited to management, contract negotiation, market research, value chain analysis, use of basic business documentation, such as delivery and consignment notes, and farm enterprise decision tools such as crop budgets. Market linkage facilitating organizations therefore, need to assess their own skill levels in agro-enterprise development and identify training and new staff requirements. New staff should have a more positive approach to the private sector and to get away from the past philosophy that entrepreneurs were to be mistrusted. Understanding the way the private sector functions and the problems it faces is essential if NGOs are to successfully link farmers to the markets.

<u>Do not create dependence on subsidized assistance</u>

There is now a clear understanding among most of those seeking to promote improved linkages that there should be no handouts to farmers. Projects that involve subsidized assistance have a very low chance of success as problems arise when farmers have to meet the full costs after the end of the project. Farmers should not be encouraged to take free inputs if they are capable of entering into a profitable business arrangement and CF programs should not be promoted if they cannot be profitable for farmers. Where subsidies are applied, ownership of an activity by farmers is generally weak. Subsidies tend to reduce responsibility and reward failure. Linking organizations should, instead, develop a business plan that can enable farmers to buy inputs on commercial credit terms. During this study, it was prevalent in many places that most smallholder farmers and SMEs highlighted loans and grants as a way to help them go into successful enterprise. Most of them have capacity to develop their own savings and credit schemes (SACCOS) but have not done so. Enterprise development is inherently risky and farmer groups need assistance to make decisions about whether to accept a risk or not. Thus use of external resources can legitimately be considered for facilitating the process of business development. Grants to enable groups to carry out local market assessment, prepare business plans, experiment on a particular product, and strengthen skills in areas such as group management and bookkeeping and post harvest handling can be considered legitimate use of development funds.

<u>Group formation, structure and legislation</u>

The failure of cooperative movement in 1990s has traumatised smallholder farmers and SMEs significantly; however, it has been experienced that development of groups is necessary to enable farmers to make the transition from a production to a market orientation, as it enables farmers to more easily access extension and inputs, to improve produce quality, quantity and economies of scale, and to increase bargaining power with buyers. During this study is was established that agricultural marketing group of round potatoes farmers in Simambwe in Mbeya Rural District bulk together and sell directly to one buyer in Kariakoo market Dar es Salaam. In return, the buyer deposits payment to farmers' SACCO.

From the point of view of the buying companies, provision of credit and inputs through groups can reinforce peer pressure and can discourage non-compliance with contractual obligations assumed individually.

<u>Financing arrangements (innovative)</u>

The availability of suitable financing arrangements must be considered at an early stage. Companies seeking to develop contract-farming arrangements with farmers need to address how best those farmers can fund their start-up and ongoing costs. In the case of some tree crops, such as tea and sisal, the investment can be considerable and there is no production for several years. Ways of meeting start-up costs, in particular, need to be carefully planned. In practice, large-scale investments tend to be financed by governments and international development banks and few companies make large up-front investments in contracted farmers. Tripartite arrangements are often involved with contractual arrangements. As noted in chapter 2, a sisal development in Tanga worked with the Arabic Bank for Economic Development in Africa (BADEA) and CFC, which disbursed money for feasibility of producing sisal in the Lake Zone.

The provision of credit requires specialist skills. Therefore, wherever there is an option the linking organisation should try to link farmers to an experienced financial institution. Indeed, facilitators have now generally moved away from direct provision of credit to farmers, preferring to involve microfinance organizations.

In India, contract farming in wheat is being practised in Madhya Pradesh by Hindustan Lever Ltd (HLL), Rallis and ICICI. Under the system, Rallis supplies agro-inputs and know-how, and the bank - ICICI finances (farm credit) the farmers. HLL, the processing company, which requires the farm produce as raw material for its food processing industry, provides the buyback arrangement for the farm output. The consortium is also planning to rope in other specialist partners including insurance, equipment and storage companies.

Assessment and development of farmer's assets (financial, entrepreneurial and group cohesion)

The choice of product must, of course, be based on market demand. But market demand is not in itself sufficient to make the product suitable for all farmers. The choice must take into account farmer location, social structure, available infrastructure, farm size, agronomic suitability of the land, the land tenure situation, farmers' assets, capacity to establish new enterprises, access to finance and capacity to use that finance profitability, technological requirements and access to extension advice. It also needs to take into account the capacity of farmers to adapt to new systems. Furthermore, CF development is often obstructed by the difficulties small farmers face to meet stringent food safety requirements and delivery schedules required by processors and supermarkets, as well as the by the lack of institutional support. It is there critical to assess before hand the farmer's assets that are required in any CF to be successful.

Scaling up and scaling out

CF programs should be able to create a critical mass in time. Success cases should be scaled up. This could be in terms of farmers in the contracts farming arrangements being able to expand both of production and productivity areas. To be able to reach certain viability threshold certain scale of production should be worked out and farmers should be challenged to reach those thresholds. This is what farming as business entails. Another aspect is to scale out in terms of replicating lessons to reach out other geographical areas but also diversification to other profitable commodities.

Risk management and exit strategies

Over exposure to farmers should be avoided. The same counts on making farmers a pilot ground. The risks in agriculture are enormous in Tanzania. Risks should be identified and measures to limit them be adopted. Experience suggests that CF programs should employ a gradual growth approach. The other area is to plan for a comprehensive approach as highlighted in the CF program framework, whereby all critical services and providers will be identified, farmers and buyers will have an intention to build long term business relationship and that facilitators are committed to supporting the linkage.

5.3 The Do's and Don'ts of Facilitating Contract farming

In facilitating market linkages (contract farming) the three key actors (farmers, buyers and facilitators / services providers) ought to observe a number of principles that would very well embrace the prerequisites proposed and discussed in section 5.2 above. . Below is a checklist not in any order of importance. These are based on lessons emerging from best practices[7]:

<u>Do and Don'ts for facilitators</u>

- Start small, grow gradually don't be too ambitious
- Moderate linkages but don't become agents
- Be involved but don't make yourself indispensable
- Be complementary to the Private Sector, don't create parallel structures
- Be business like, don't act as an NGO
- Promote high value commodities but not as the only crop
- Facilitate (input) credits, do not give out loans
- Finance capacity building but don't subsidize transaction costs
- Undertake market intelligence
- Work in partnership but don't dictate terms
- Monitor the contract, don't take over roles
- Be firm but not rigid
- Promote farming as a business but don't over expose farmers
- Foster commitment, not a donor syndrome

<u>Do and Don'ts for farmers</u>

- Use the inputs as agreed, don't divert from the intended use
- Follow the instructions, don't improvise
- Organise yourself, don't work in isolation
- Comply to the contract, don't engage in side marketing
- Prove your credibility, don't spoil if for others
- Deliver the right quality and quantity, don't add spoil quality criteria
- Invest in your farm, don't depend on external aid
- Become independent, not dependent
- Take risks but be realistic
- Monitor your costs, don't trust other figures

<u>Do and Don'ts for Companies</u>

- Be transparent (prices, quality, procedures, etc), don't hide issues
- Communicate adequately, don't raise false expectations
- Supply farmers with quality inputs, not sub standards
- Deliver timely, not after planting time
- Train farmers about the agronomy, don't assume they know
- Visit farmers at the critical times, not too late
- Enter into a contract, don't only agree verbally

[7] Notes adapted from workshop deliberation of ML practitioners- Harare October 1999

- Pay cash on delivery, don't delay
- Provide incentives, don't frustrate the fast growers
- Stick to the contract, don't impose terms not agreed upon
- Trust farmers but don't take nothing for granted

5.3 The role of public sector

5.3.1 Policy enabling and regulatory

Good policies are not good enough if their impact is not positive towards enhancing smallholder access to markets. Tanzania is not short of policies. It has a number of supportive policies (agricultural marketing policy, SME Development policy, agricultural policy, etc.), the challenge is how effective they can be enforced.

What is clear is that the private sector, including micro, small and medium-sized enterprises and family farms, has a central role in driving growth and poverty reduction. The challenge for Tanzania is to unleash its entrepreneurial potential by improving its investment climate. This is how China and India have started growing faster, and there is no reason why African could not follow the same path. However, it is also clear that it is the public sector that creates the enabling environment for this growth by ensuring that the **governance and infrastructure** that underpin the investment climate are in place. Thus, the promotion of growth is not a question of the state versus the private sector but a question of how they combine to generate growth.

If growth is to be fostered, it must be recognised that the role for the state is substantial and demands resources, including for health, education and infrastructure. A priority must be strengthening the capacity of governments to promote long-term growth; to encourage economic restructuring, diversification and technological dynamism; to develop enabling investment climates; to put in place and maintain – directly or **in partnership with the private sector** – the needed infrastructure; to deliver public services; and to implement integrated rural and urban planning.
The public sector should be ready to **facilitate sharing of lessons** from the public sector itself and development practitioners in the CF. There are various non-state actors in Tanzania who have tremendous experiences (FAIDA MALI, TECHNOSERVE, DAI PESA, SNV, VECO, etc) but have no mandate sharing lessons across the board. The public sector should provide such sharing opportunities as a public good.

5.3.2 Developmental agenda

- Contract farming requires changing of approach by both public and private sector. **Capacity building is therefore a key requirement** in Tanzania. Key ministries staff to be involved in spearheading contract farming should be exposed and trained on contract farming and value chain approach.
- The public sector as a facilitator has a duty to support **market development of business services.** Capacity building of service providers in contract farming facilitation is therefore a key requirement for developing the relevant and appropriate services.
- Facilitating **Research and Development in partnership** with private sector.
- **Extension services by fostering market development** principles (cost sharing and use of private services providers whenever feasible).

5.4 Recommended Next Steps

The TOR of this study could cover all operational and institutional aspects of CF. But more crucial it is important to generate and maintain momentum of promoting contract farming principles in Tanzania. This study may have aroused the enthusiasm for follow up and action by various actors as indicated during the validation workshop in Dar es Salaam. Below are suggestions for the next steps.

- Development of TOR for dedicated desk as a **reference point in the key Ministry** for initiation, coordination and keeping momentum of the CF agenda. This reference point could have the duty to see to it that the government policy intentions in CF are put into practice.

- It is suggested that **a CF learning alliance is facilitated in Tanzania** to bring together all actors currently active in CF into contact with each other. The study has established that CF programs inherently bring together the interests of private sector, public sector and civil society organisations. These actors need to learn together from practice in order to inform future modalities of their collaboration. This could also be the forum to promote best practices in CF. Actors once in touch with each other under the reference point may decide to develop their own operational modalities.

- **Incorporation of explicit statements on Contract Farming in the ongoing policy formulations and agricultural development programs.** Agricultural Marketing Policy is in the final stage whilst the Livestock Development is at advanced stage. On the other hand Agricultural Sector Development Strategy and Program (ASDS & ASDP) has just been launched and AMSDP and PADEP among others are yet to be replicated nationwide. In this respect there is no justification for yet another specific policy on contract farming. What is strongly recommended in this study is that contract farming should be viewed as a comprehensive access to market program as applauded in the figure 9.

- **Development of specific legislation and guidelines for contract farming** practices in Tanzania. There is strong case requiring that a separate legislation is required to pull together the scattered regulations affecting CF in Tanzania In this study suggestions have been made on the minimum essential elements to be covered in any contract farming arrangement, moreover it has been suggested to facilitate registration and monitoring of contracts at district level.

- As a short-term intervention, **a review and registration of existing formal and verbal contract farming programmes** in Tanzania should be looked into in order to provide a base for further interventions. It is suggested as a practical measure that district levels should be custodian of CF contractual documents in their respective districts. Modalities for effecting this change need to be examined.

- Furthermore is has been suggested that **feasibility of initiating "Farming Business Advisory Centres" at district or sub district levels** should be investigated. The centres should bring together public and private sector actors / services providers. This should be the focus point for capacity building on mindset and attitude building in support of farming as business in Tanzania. These could be the centres where contract farming could be championed and knowledge management in the field take place.

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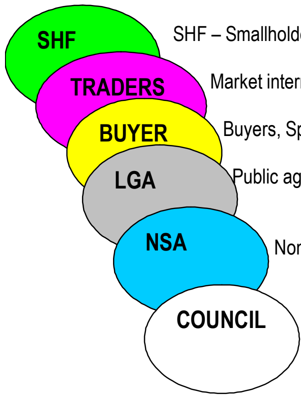
Appendices

Appendix 1: Categories of Contract Farming Schemes In Tanzania

KEY FOR ACTORS



SHF – Smallholder farmer, producer, livestock keeper, smallholder fisherman, etc.

Market intermediaries, middlemen, traders, etc.

Buyers, Sponsors, processors, exporters, etc

Public agency i.e. Local Government Agencies (LGAs), Research Institutes, Institutes of Higher Education, Crop Boards

Non State Actors (NSA) i.e. NGOs, development agencies, CBOs, etc

Stakeholders' forums e.g. Councils, Networks, etc.

MAIN INTERRELATIONSHIPS OF ACTORS

Imbedded services i.e. services which are offered to seller by buyer directly or indirectly

Mainly technical extension services i.e. agronomy practice, post harvest handling, etc

Presence of formal Contract regardless seller was involved in preparing it.

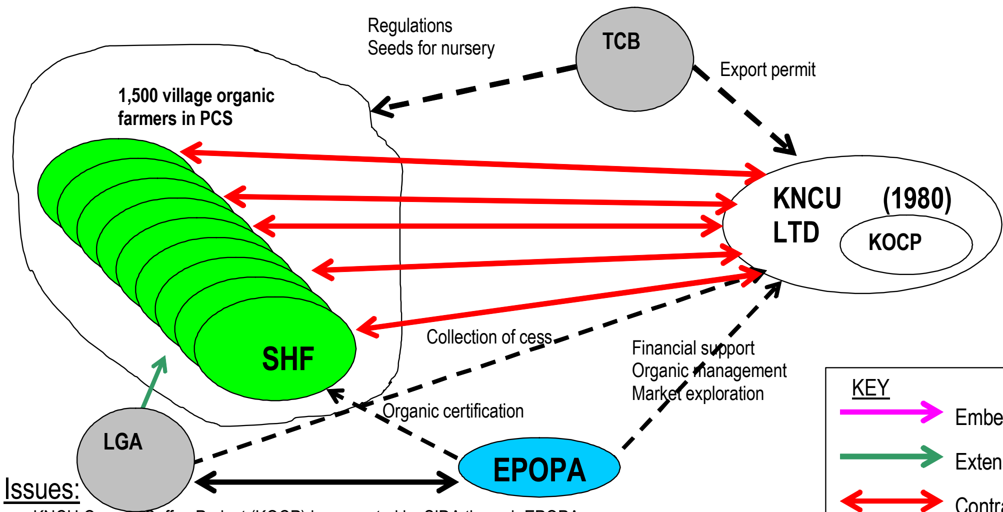
No formal contract in place, though there might be repeated selling to same buyer

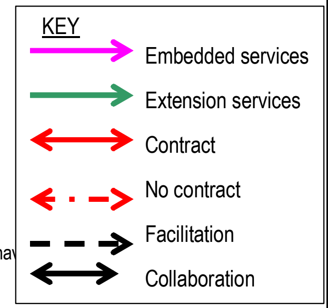
Facilitation of key services to smallholder farmers and buyers, regulations, etc

Collaboration among key actors who facilitates the access to market

CATEGORY A: PUBLIC SECTOR LED SCHEMES

A1. ORGANIC COFFEE FARMING – EPOPA – KNCU MODEL KILIMANJARO REGION

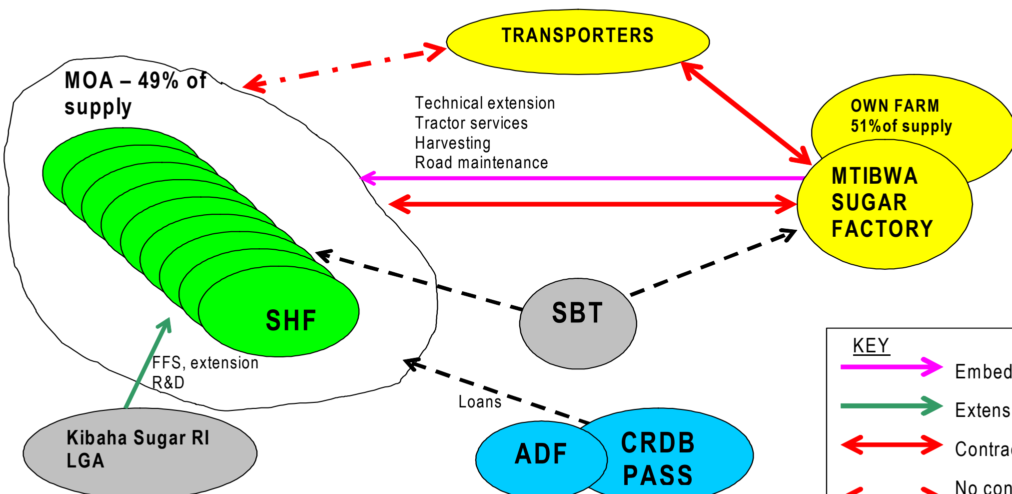


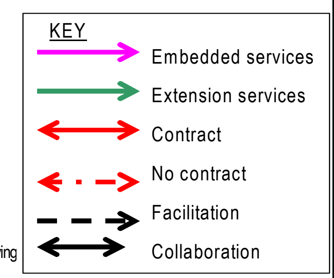


Issues:

- KNCU Organic Coffee Project (KOCP) is supported by SIDA through EPOPA
- KNCU coffee is 'columbian milds' which is popular in the world market
- Tanzania produces less than 1% (0.7%) of world coffee and consumes only 2% locally.
- Ethiopia produces five times than Tanzania and consumes 50% locally.
- KCOP coffee goes through coffee curing and KNCU warehouse similar to conventional coffee but KOCP hav buyer.
- 90% of coffee in Tanzania is produced by SHF

A2. SUGARCANE FARMING – MTIBWA OUTGROWERS MODEL MOROGORO REGION



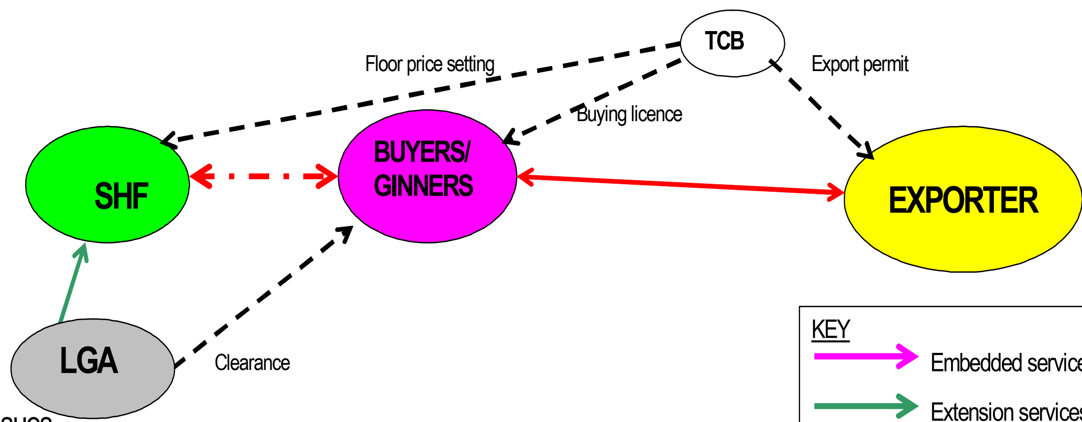


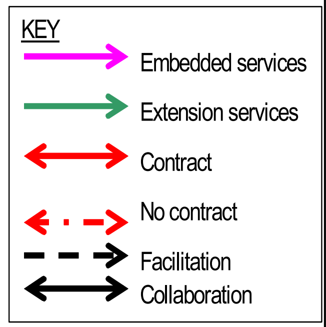
Issues

- Mtibwa Outgrowers' Association (MOA) has increased from 1,200 in 1996 to 3,800 members by 2006 – i.e. MOA is a strong lobbying organisation but over reliance on a single buyer limits their capacity to lobby
- The contract between MOA and Mtibwa Sugar Factory is still under negotiation
  - MOA think the efficient of the factory is low e.g. Mtibwa needs 12.6 tonnes of canes to get 1 tonne of sugar whereas Kilombero needs 8.3 tonnes of canes to get 1 tonne of sugar.
  - Mtibwa sugar contents is 8% whereas same sample tested in Kilombero indicated 11% and this affects the price offer to the farmer
  - Mtibwa sugar determination procedures are not transparent – MOA want to have independent tester for sugar content.
  - Mtibwa delay payments to MOA
- Efficiency of the factory is the key factor on how much farmers will gain financially.
- Members of MOA who had minimum income/wage in 1998 were 43% and in 2004 the number has gone down to 22%
- Members of MOA who had income above TShs 5mil per annum in 1998 were 4% and in 2004 the number has gone up to 47%
- However; Mtibwa factory is reducing reliance of MOA as sole supplier, from 60% and now only 49% and factory own farm supply 51%.

CATEGORY A: PUBLIC SECTOR LED SCHEMES

A3. COTTON FARMING – BUNDA DISTRICT – MARA REGION



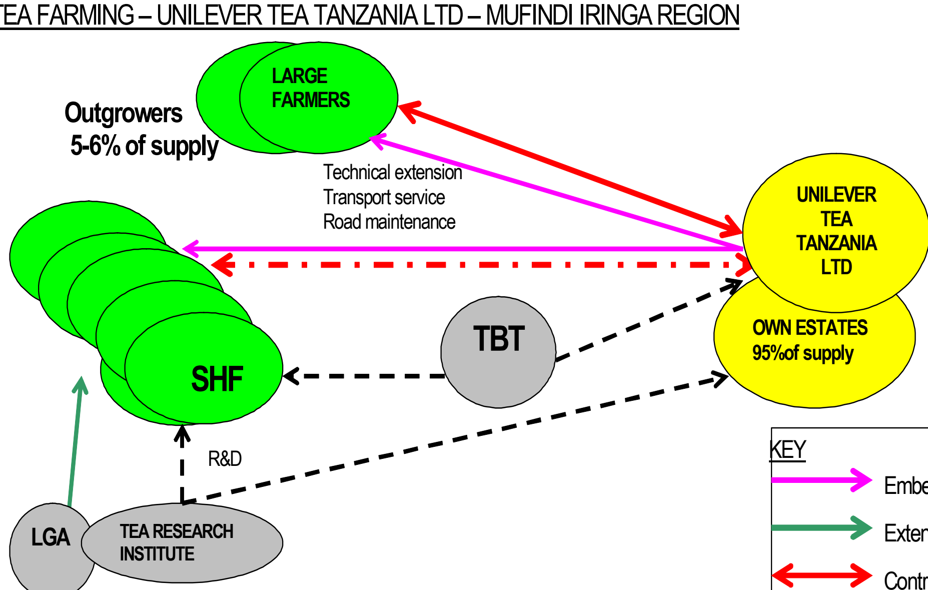


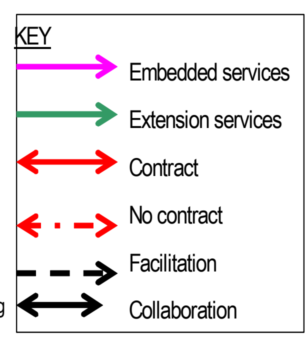
Issues

- Ginners are sometimes exporters
- Improved seeds are produced by selected farmers who are contracted by TCB
- One ginner (S & C Ginning Company in Bunda district) is ploughing farmers' land (imbedded service)
- In Bunda 70 farmers are organised in 4 groups (informal), but are still relative weak
- Financial services e.g. SACCOs are missing
- S&C Ginning is exploring leasing option – encourage public participation.
- Generally ginners are aware of CF but sceptical but SHF are not aware of CF
- Generally, production and productivity of quality cotton are very low (as low as 100kg/acre whereas average could be 700kg/acre)

There is emergence of organic cotton farming

A4. TEA FARMING – UNILEVER TEA TANZANIA LTD – MUFINDI IRINGA REGION



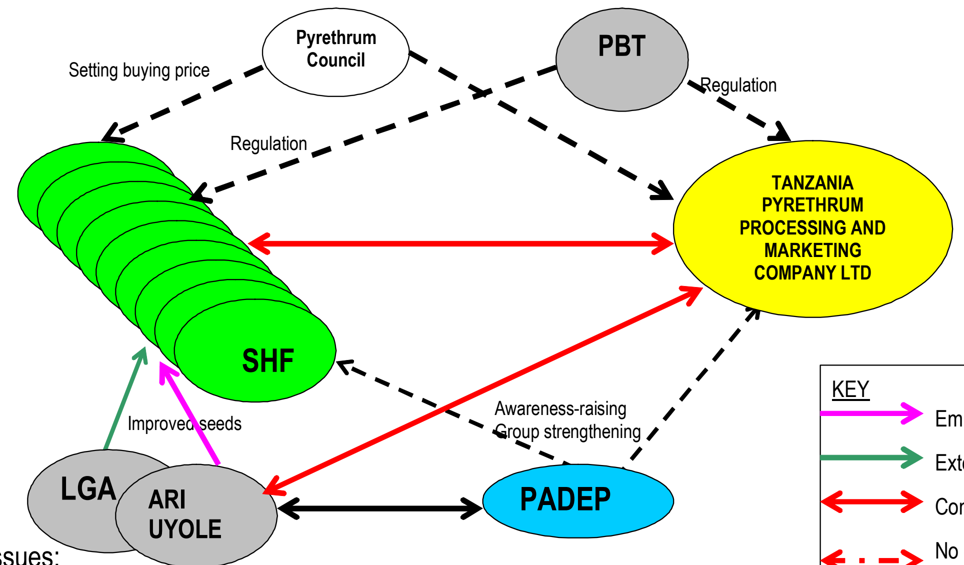


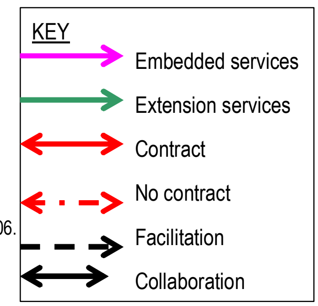
Issues:

- Unilever Tea Tanzania Ltd (UTT) is 95% self sufficient in tea production. Only 5 to 6% comes from outgrowers.
- Contracted farmers are only large farmers, smallholders don't have formal contract with UTT.
- Tanzania tea quality and volumes (max 30 mil kg) are low compared to world average.
- Kenya tea quality is much higher and last year volume was (300 mil kg), Uganda 35-40 mil kg, Rwanda 20mil kg

CATEGORY A: PUBLIC SECTOR LED SCHEMES

A5. PYRETHRUM FARMING – TPPMCL FUTURE MODEL MUFINDI – IRINGA REGION

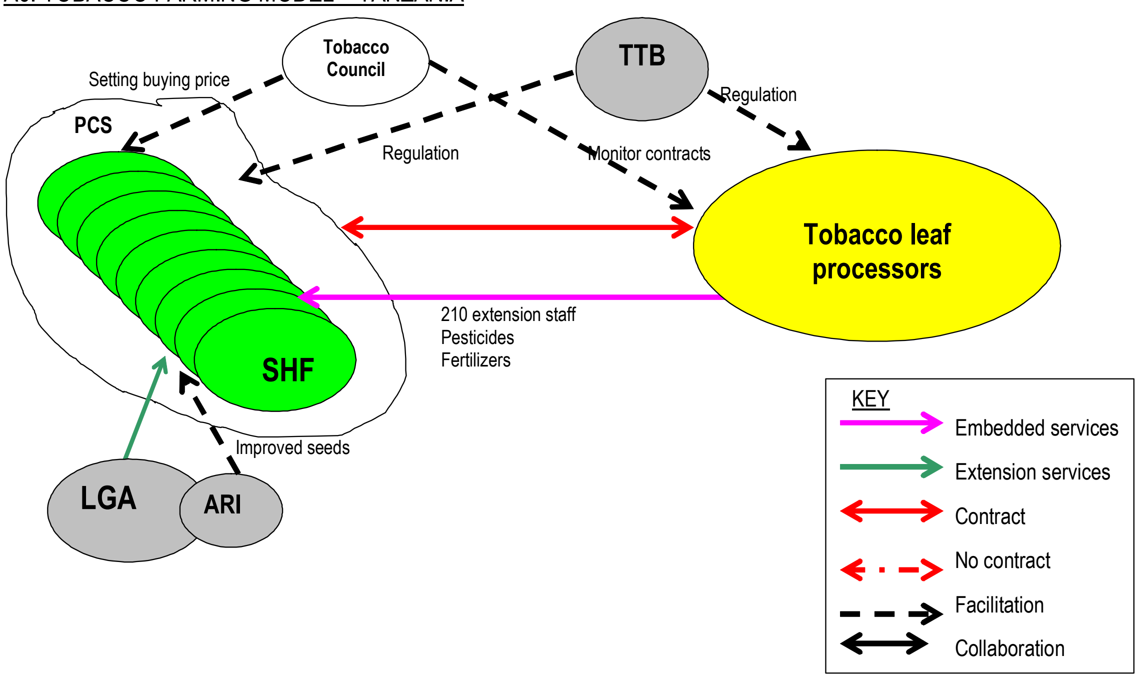




Issues:

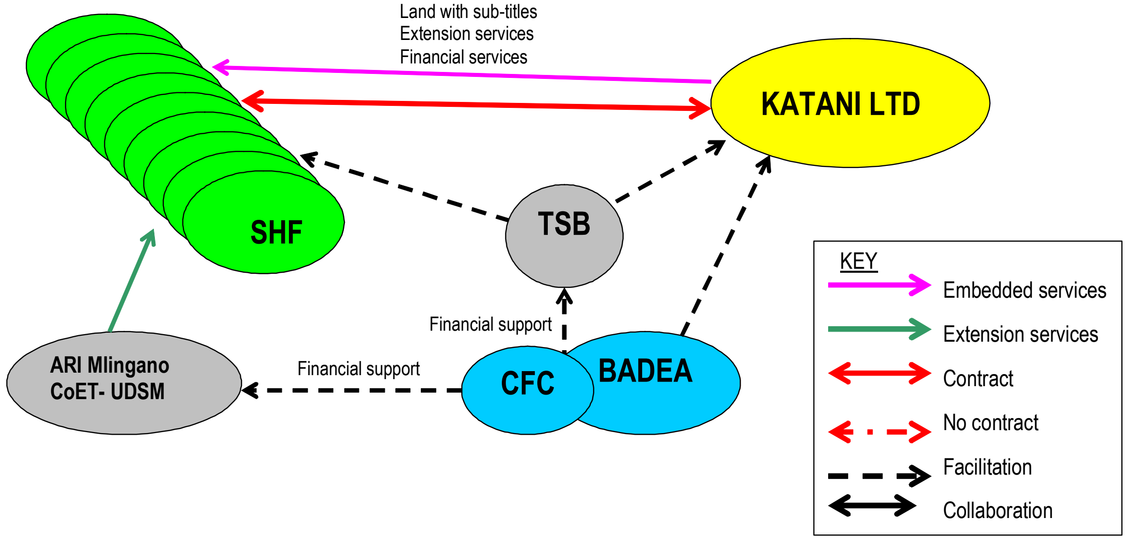
- New contractual model after McLaughlin Gormley King Co. (MGK) acquired TPPMCL 51% of shares in Jan 2006.
- Contracted farmers will be scattered in Iringa and Mbeya regions in about 6 districts.
- Tanzania pyrethrum quality (1.1%) and volumes (max 6,000 tonnes) are low compared to world average.
- Kenya pyrethrum quality (1.8 – 2.0%) and last year volume was (18,000 tonnes)

A6. TOBACCO FARMING MODEL – TANZANIA



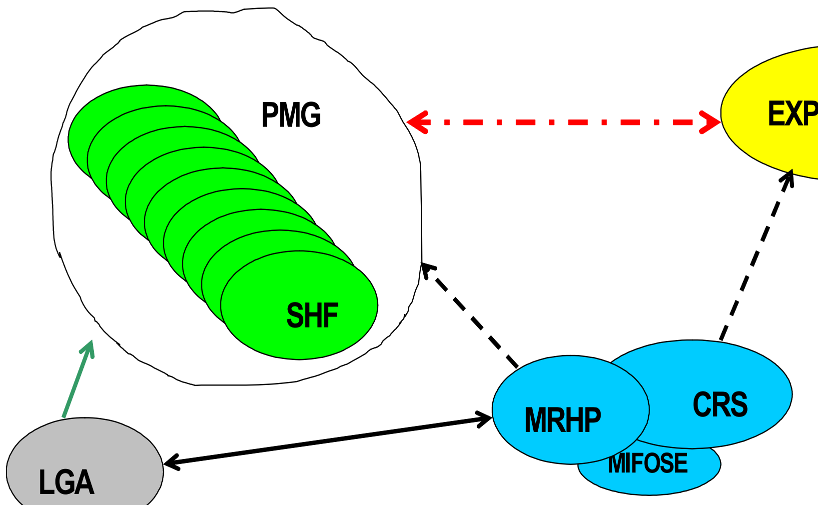
CATEGORY A: PUBLIC SECTOR LED SCHEMES

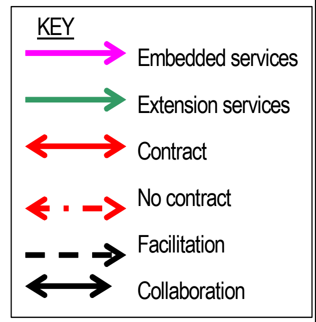
A7. SISAL CONTRACT FARMING – TANGA REGION



CATEGORY B: NON STATE ACTOR LED SCHEMES

B1. CHICKPEA FARMING: MRHP – CRS – LGA FACILITATION

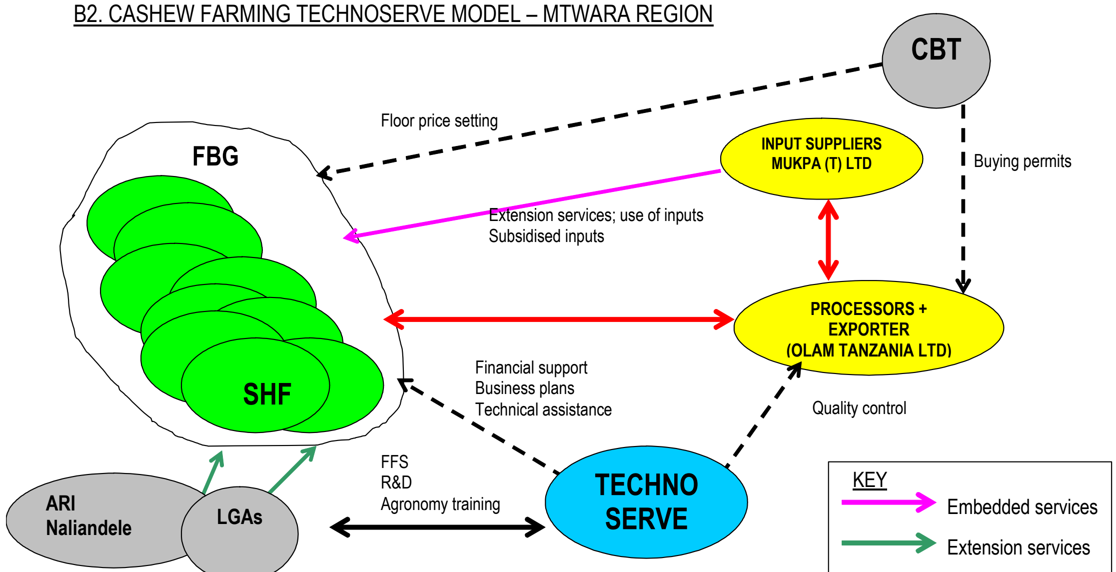


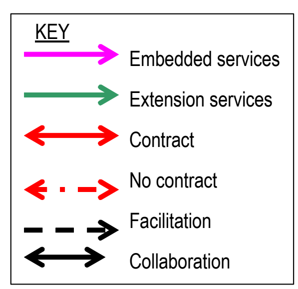


Issues:

- Chickpea is labour intensive but highly valuable crop – exported almost 95%.
- Producer Marketing Groups (PMG) have main focus of bulking together to avoiding traders/exporter agents.
- Tanzania is among the top ten producers of chickpea worldwide.

B2. CASHEW FARMING TECHNOSERVE MODEL – MTWARA REGION



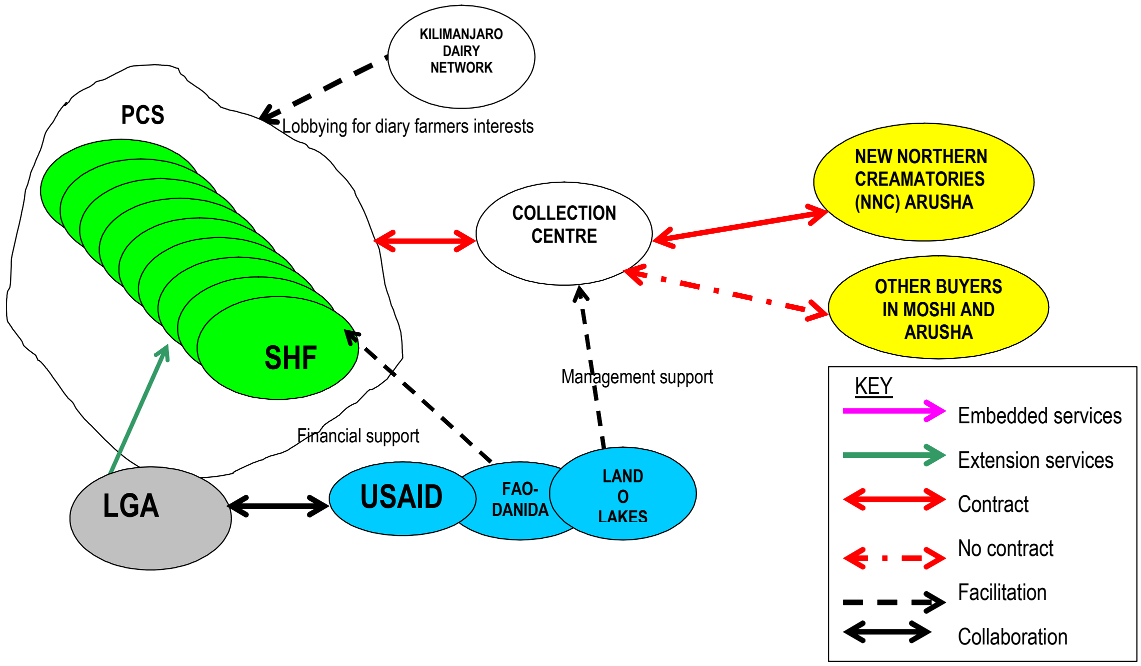


Issues

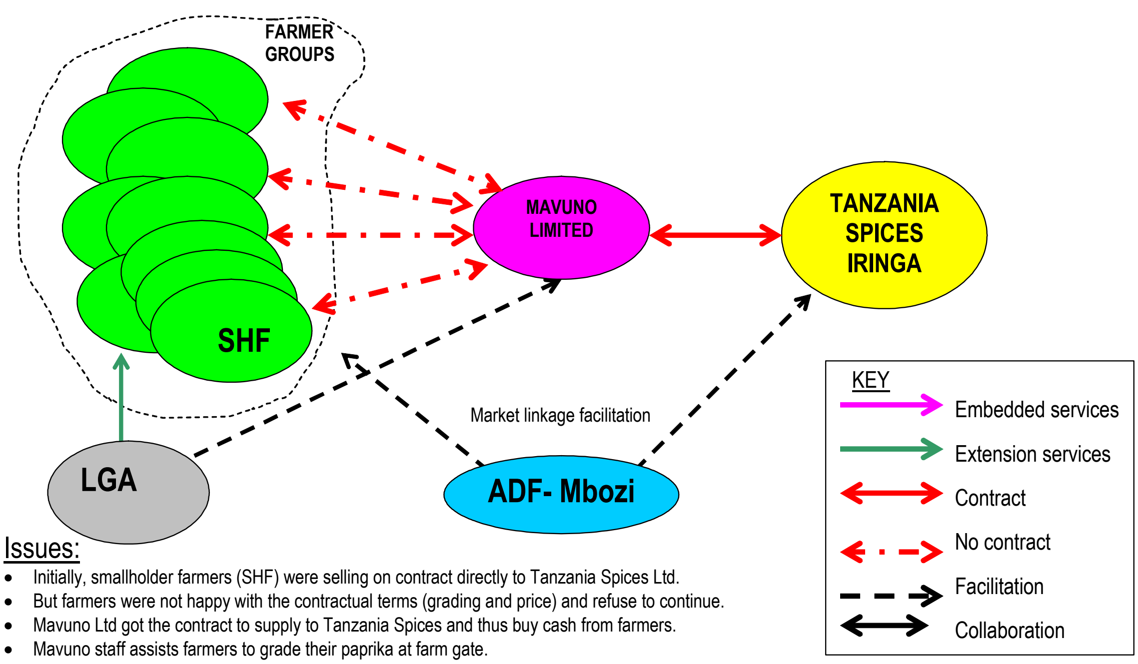
- It a model in inception phase based on success experiences of Technoserve in Mozambique and West Africa.
- This model is part of Africa Cashew Development Programme aiming at branding cashew from Africa (African Cashew Alliance).
- Productivity is the focus to increase farmer benefits, for instance

CATEGORY B: NON STATE ACTOR LED SCHEMES

B3. NRONGA WOMEN DIARY COOPERAVIVE SOCIETY LTD – KILIMANJARO REGION



B4. PAPRIKA FARMING – MAVUNO LTD - MBEYA REGION

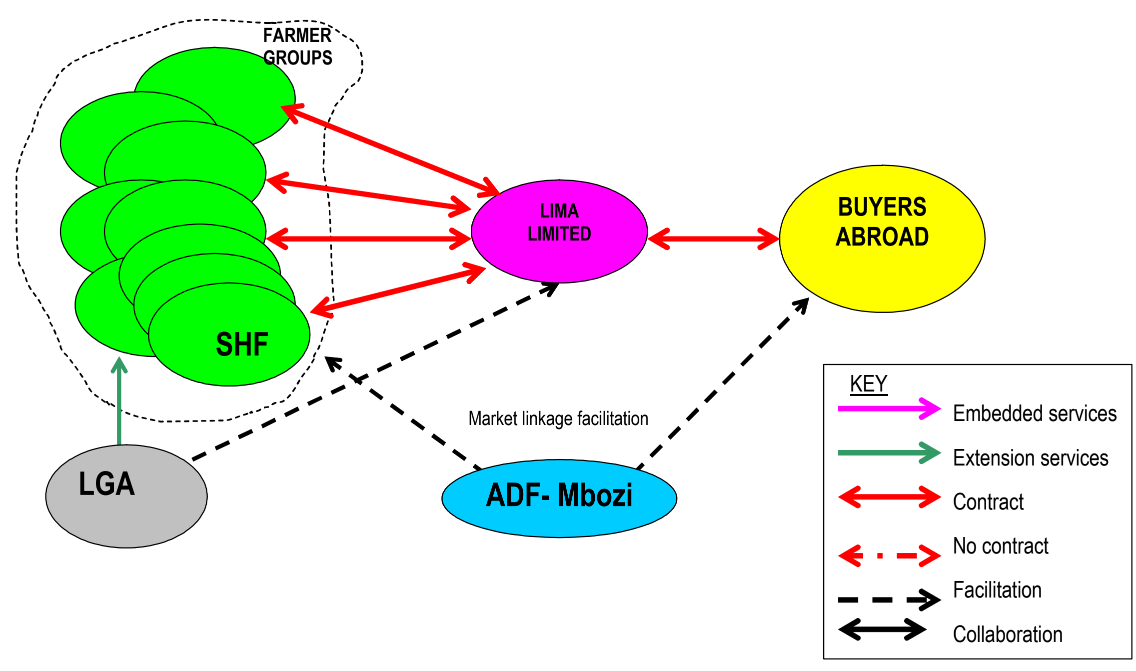


Issues:

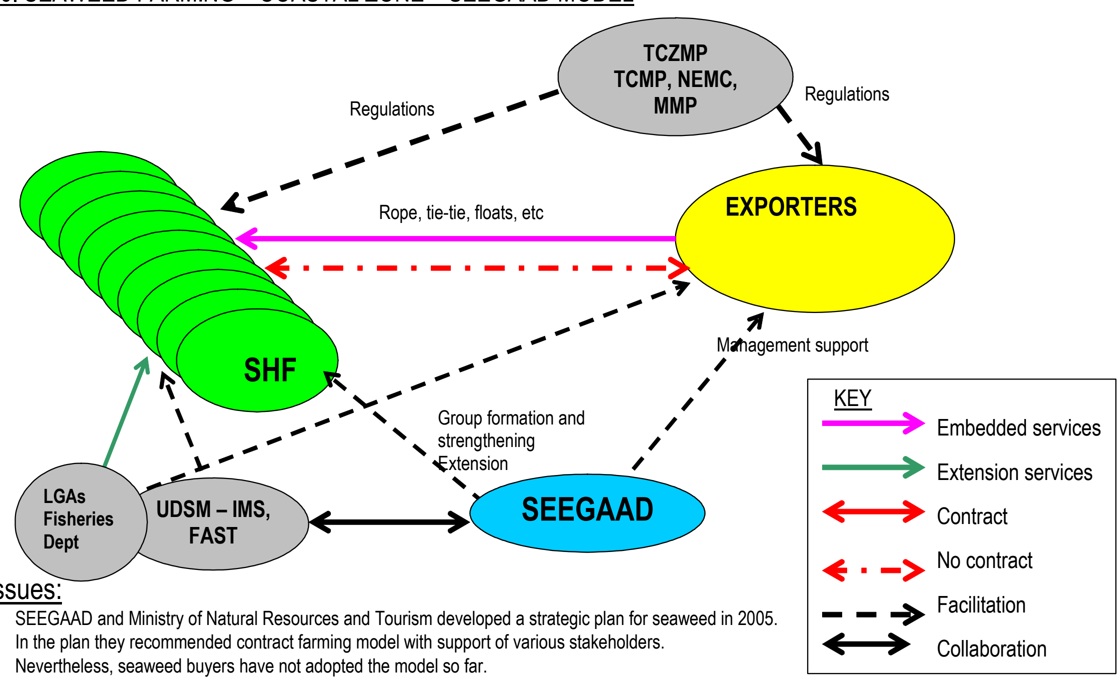
- Initially, smallholder farmers (SHF) were selling on contract directly to Tanzania Spices Ltd.
- But farmers were not happy with the contractual terms (grading and price) and refuse to continue.
- Mavuno Ltd got the contract to supply to Tanzania Spices and thus buy cash from farmers.
- Mavuno staff assists farmers to grade their paprika at farm gate.

CATEGORY B: NON STATE ACTOR LED SCHEMES

B5. ARTEMISIA FARMING – LIMA LTD - MBEYA REGION



B6. SEAWEED FARMING – COASTAL ZONE – SEEGAAD MODEL

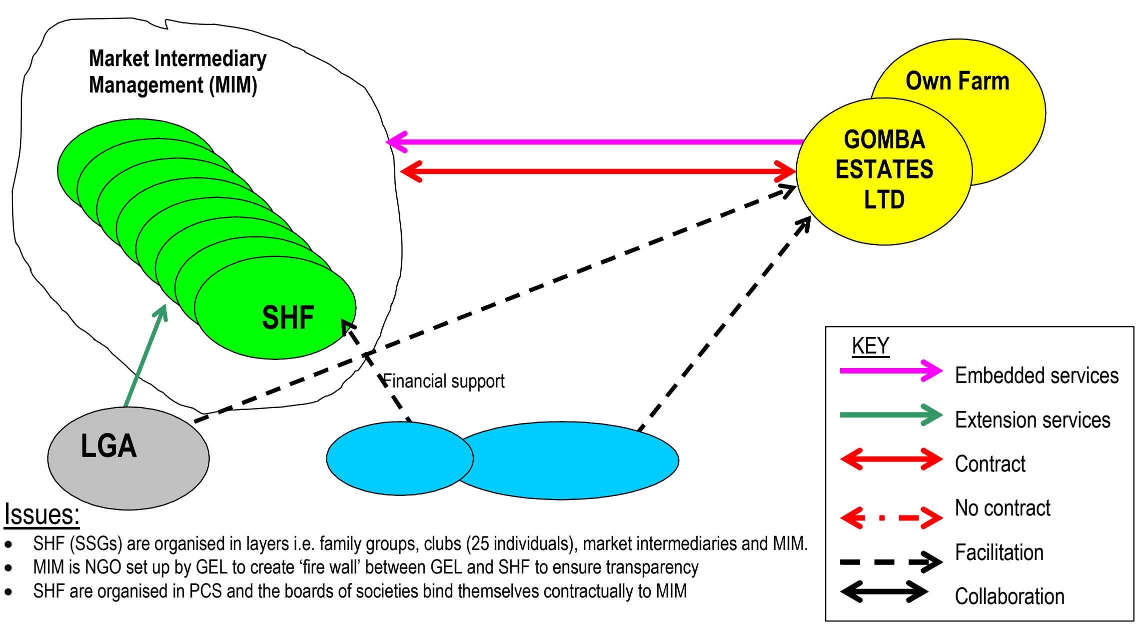


Issues:

- SEEGAAD and Ministry of Natural Resources and Tourism developed a strategic plan for seaweed in 2005.
- In the plan they recommended contract farming model with support of various stakeholders.
- Nevertheless, seaweed buyers have not adopted the model so far.

CATEGORY B: NON STATE ACTOR LED SCHEMES

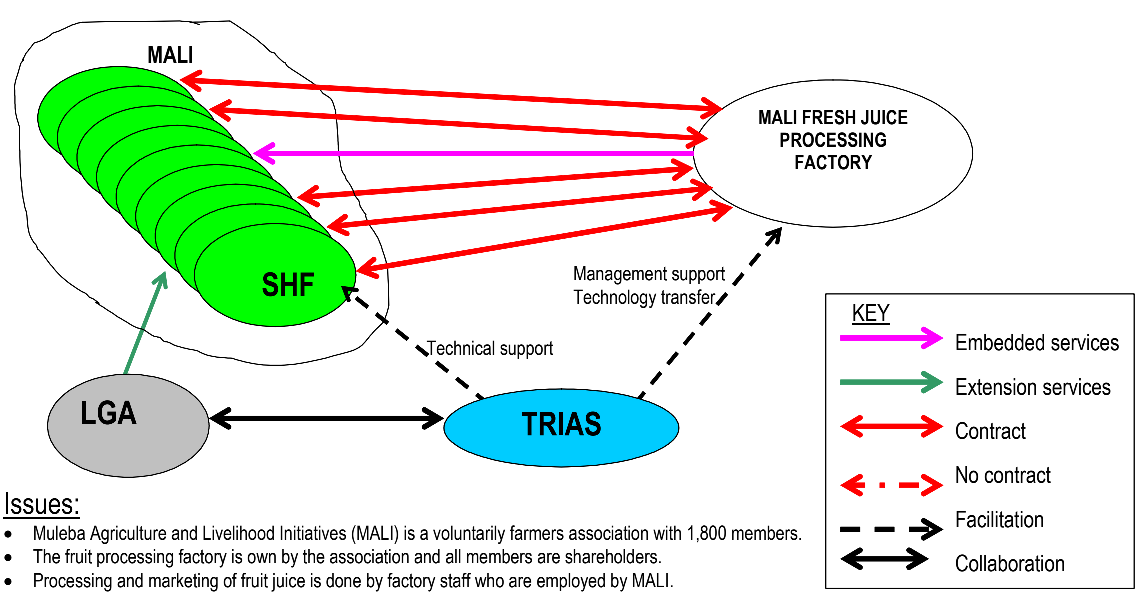
B7. VEGETABLE FARMING – GOMBA ESTATE MIM MODEL ARUSHA REGION



Issues:

- SHF (SSGs) are organised in layers i.e. family groups, clubs (25 individuals), market intermediaries and MIM.
- MIM is NGO set up by GEL to create 'fire wall' between GEL and SHF to ensure transparency
- SHF are organised in PCS and the boards of societies bind themselves contractually to MIM

B8. FRUITS FARMING – MALI MULEBA MODEL – MULEBA KAGERA REGION

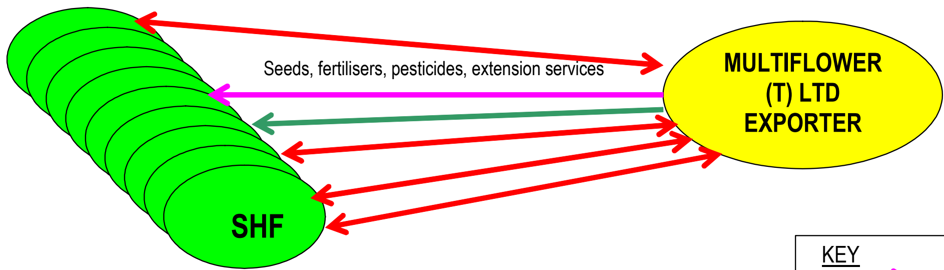


Issues:

- Muleba Agriculture and Livelihood Initiatives (MALI) is a voluntarily farmers association with 1,800 members.
- The fruit processing factory is own by the association and all members are shareholders.
- Processing and marketing of fruit juice is done by factory staff who are employed by MALI.

CATEGORY B: NON STATE ACTOR LED SCHEMES

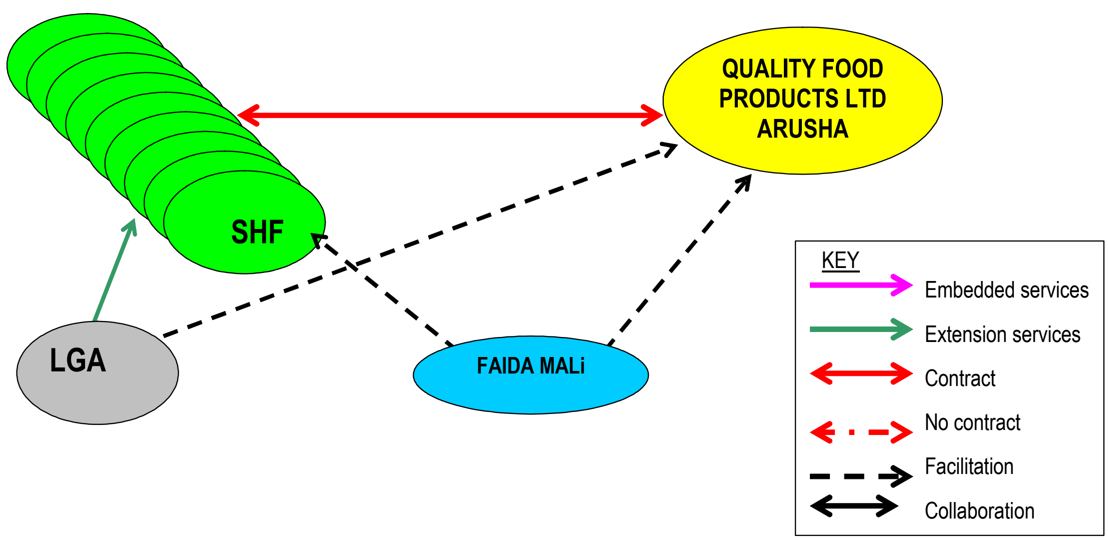
B9. FLOWER SEEDS FARMING – MULTIFLOWER MODEL ARUSHA REGION



KEY
- Embedded services
- Extension services
- Contract
- No contract
- Facilitation
- Collaboration

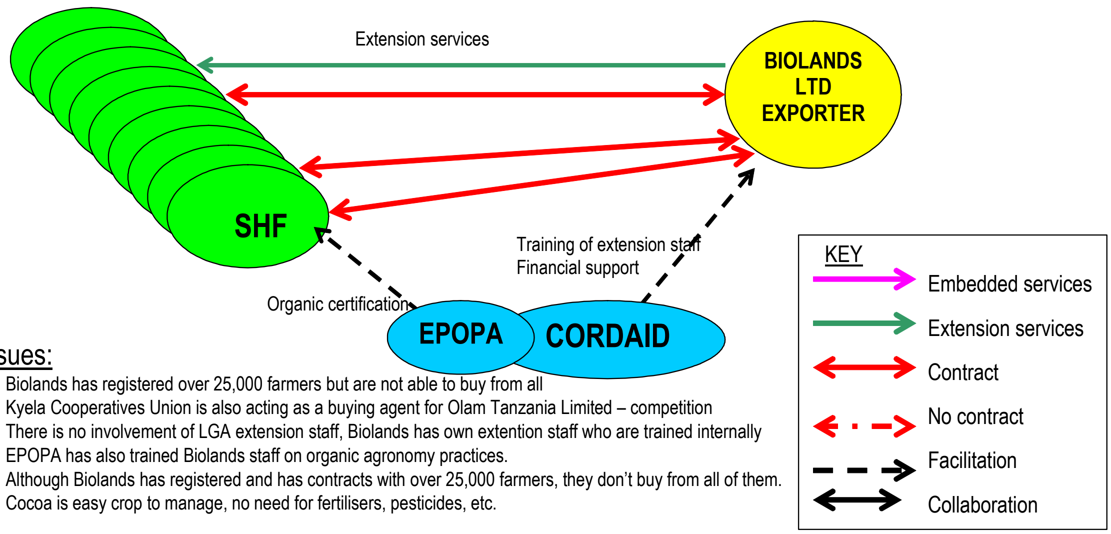
Issues:
- High value flower seeds are suitable for micro climate i.e. suitable through smallholder farmers farming system
- Individual contracts between SHF and company - depending on the level of relationship and seed type.
- Company offering inputs and extension service – prerequisite for high valued flower seed farming.

B10. SAFFLOWER FARMING – TANZANIA FOOD MODEL ARUSHA-MANYARA REGIONS



CATEGORY B: NON STATE ACTOR LED SCHEMES

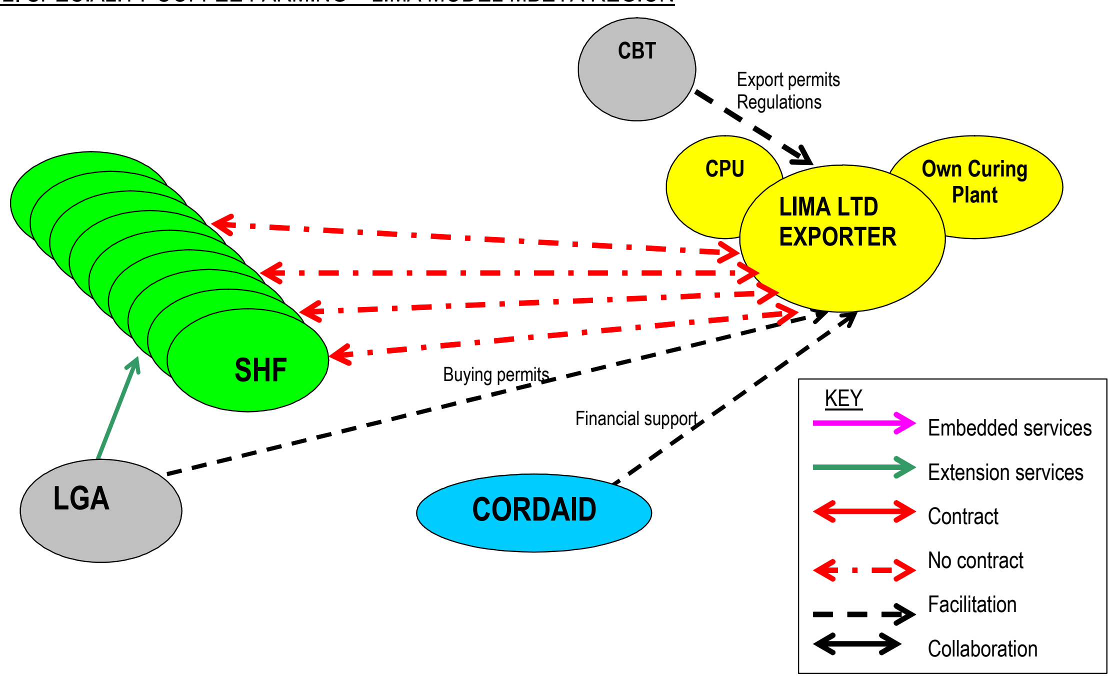
B11. ORGANIC COCOA FARMING – BIOLANDS LTD MODEL KYELA MBEYA REGION



Issues:

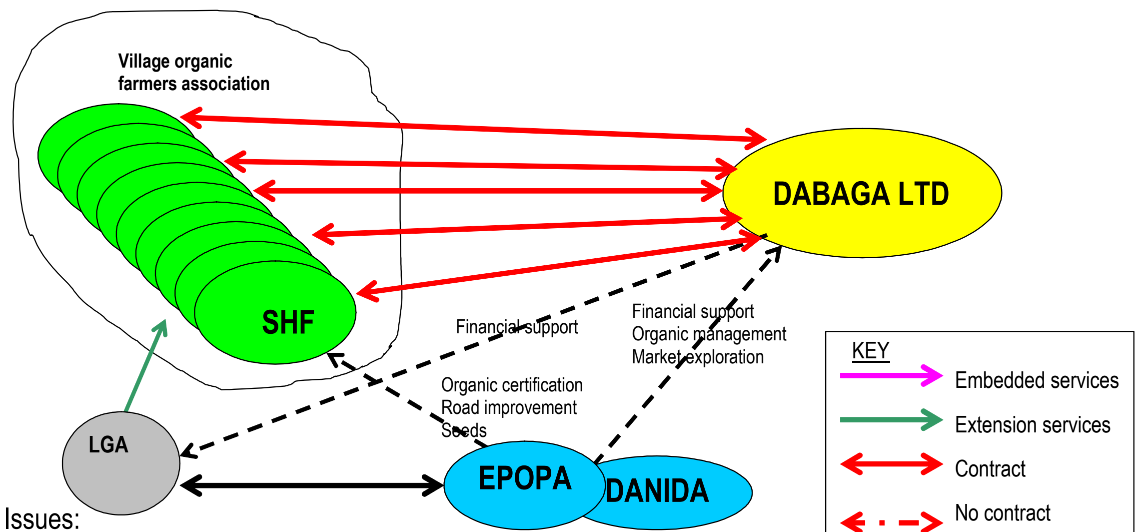
- Biolands has registered over 25,000 farmers but are not able to buy from all
- Kyela Cooperatives Union is also acting as a buying agent for Olam Tanzania Limited – competition
- There is no involvement of LGA extension staff, Biolands has own extention staff who are trained internally
- EPOPA has also trained Biolands staff on organic agronomy practices.
- Although Biolands has registered and has contracts with over 25,000 farmers, they don't buy from all of them.
- Cocoa is easy crop to manage, no need for fertilisers, pesticides, etc.

B12. SPECIALITY COFFEE FARMING – LIMA MODEL MBEYA REGION



CATEGORY B: NON STATE ACTOR LED SCHEMES

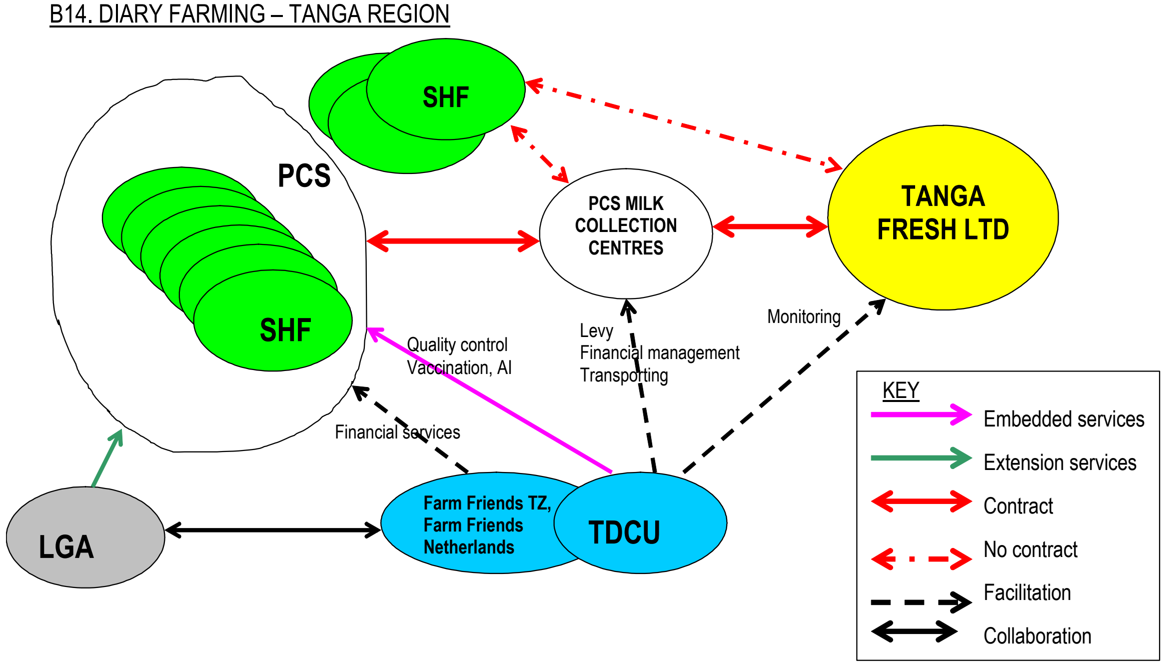
B13. ORGANIC PINEAPPLE FARMING – EPOPA – DABAGA MODEL NJOMBE IRINGA REGION



Issues:

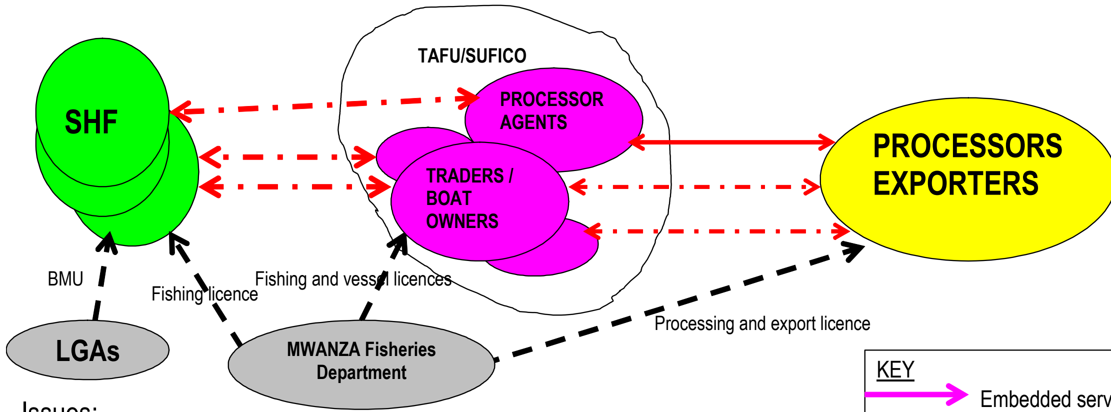
- About 88 farmers in Madeke village in Njombe district organised in an association – but weak
- DABAGA also work with conventional farmers but not in a structured way like organic farmers
- Farmers have managed to lobby for road improvement – funds from DANIDA.
- This is small project for DABAGA whose product portfolio has over 40 items.

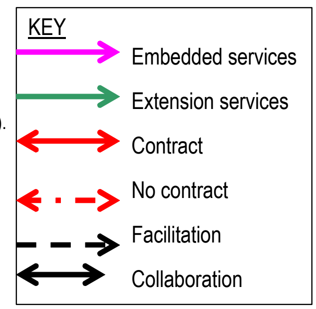
B14. DIARY FARMING – TANGA REGION



CATEGORY C: PRIVATE SECTOR EXPORT LED SCHEMES

C1. NILE PERCH LAKE ZONE



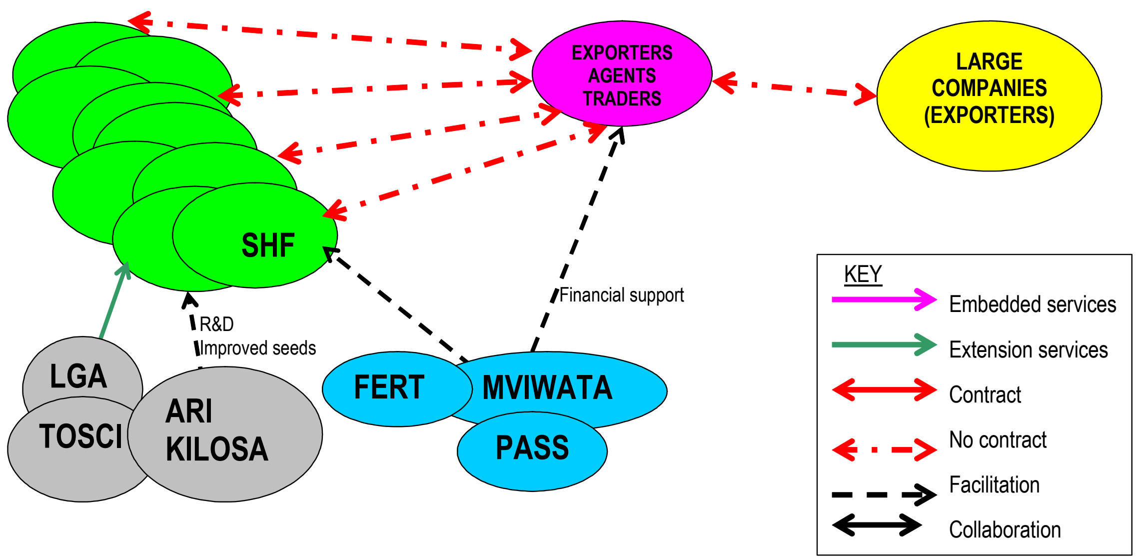


Issues:

- There is high level of mistrust in the supply chain, particularly between the traders and the processors.
- The major complaint of the fishermen is the high percentage of rejects by the processors (up to 7kg out of 15kg).
- Weak fishermen associations like TAFU and SUFICO (low bargaining power).
- Some traders have formal contracts though not very transparent, but majority don't have contracts
- NICO is investing in fish processing plant and have approached TAFU requesting them to be strategic partner
- There are over 90,000 fishermen mostly small scale;
- Only 213 medium and large fishermen/traders are currently members of TAFU
- Almost 75% of traders are members of TAFU
- Most SHF are employed by traders/boat owners at a very low wage – as low as TShs 100 -120 per kg catch
- Traders and boat owners have much more benefits compared to smallholder fishermen (SHF)

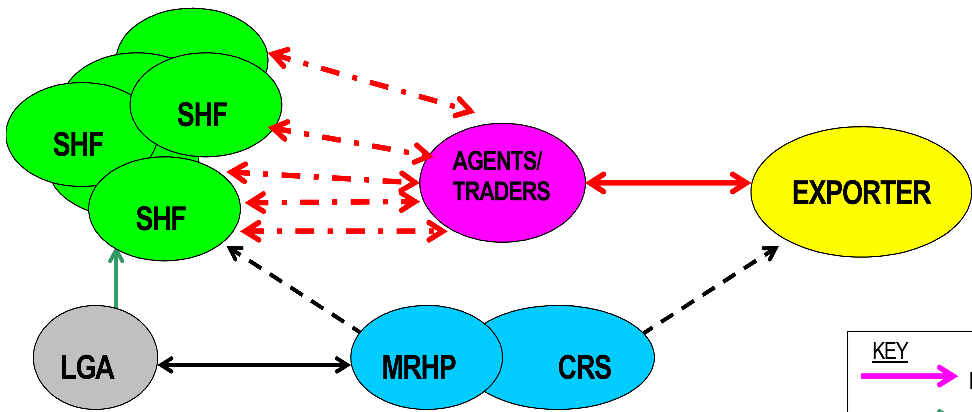
- The 90,000+ traders and smallholder fishermen (SHF) in lake zone are in 3 regions, 14 districts and 634 beaches
- Needed public departments – Cooperatives, Weights and measures, Labour, LGAs and Fisheries
- Beach Management Units (BMU) are currently managed by LGAs and supported by Fisheries Department.
- Processors' agents have no legally binding contracts but rather the processor give agent an ID and request him to submit TRA TIN number.

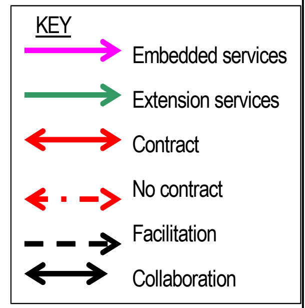
C2. SESAME FARMING – MOROGORO/DODOMA/RUVUMA/MTWARA REGIONS



CATEGORY C: PRIVATE SECTOR EXPORT LED SCHEMES

C3. CHICKPEA FARMING – MISUNGWI DISTRICT – MWANZA REGION

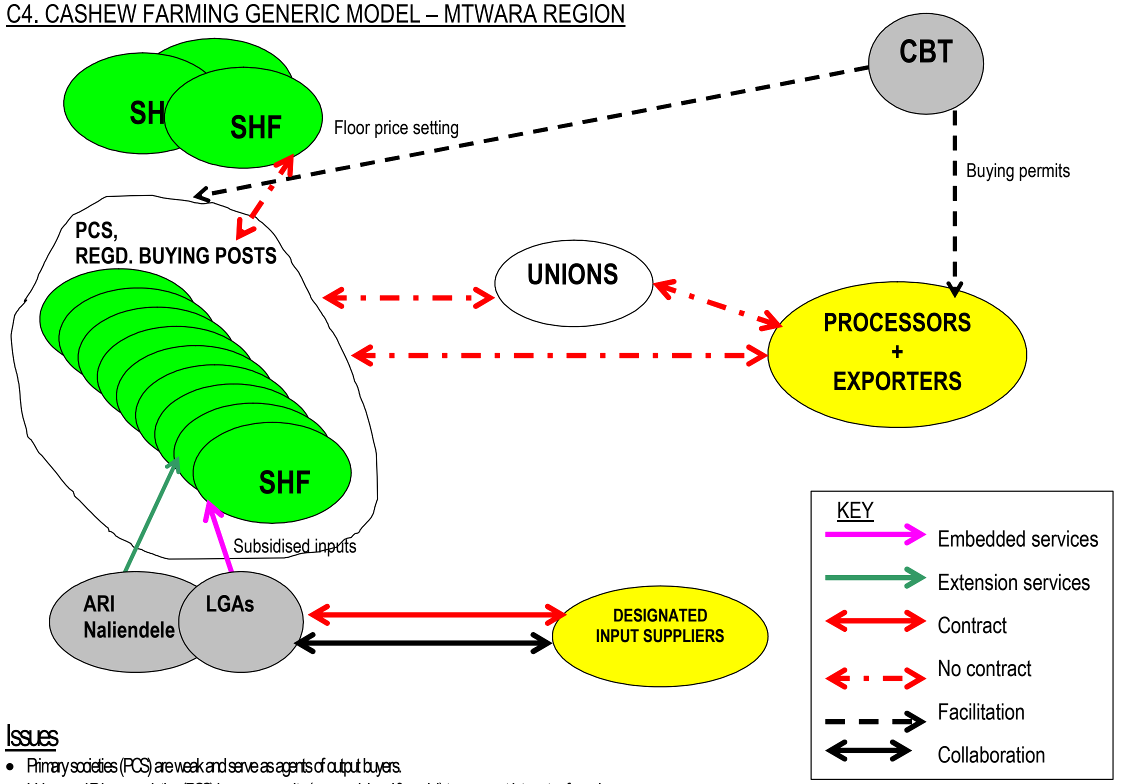




Issues:

- Chickpea is labour intensive but highly valuable crop – exported almost 95%.
- Traders/exporter agents in most cases have formal contract with exporters (employment/sale agreement).
- Traders and exporter agents tend to get higher margins by offering smallholder farmers very low prices.
- In order to empower smallholder farmers (SHF) MRHP and CRS are helping them to be more organised
- SHF to have cereal banks, SACCOs, marketing groups, proper inputs and agronomy practice and yield.
- Tanzania is among the top ten producers of chickpea worldwide.

C4. CASHEW FARMING GENERIC MODEL – MTWARA REGION

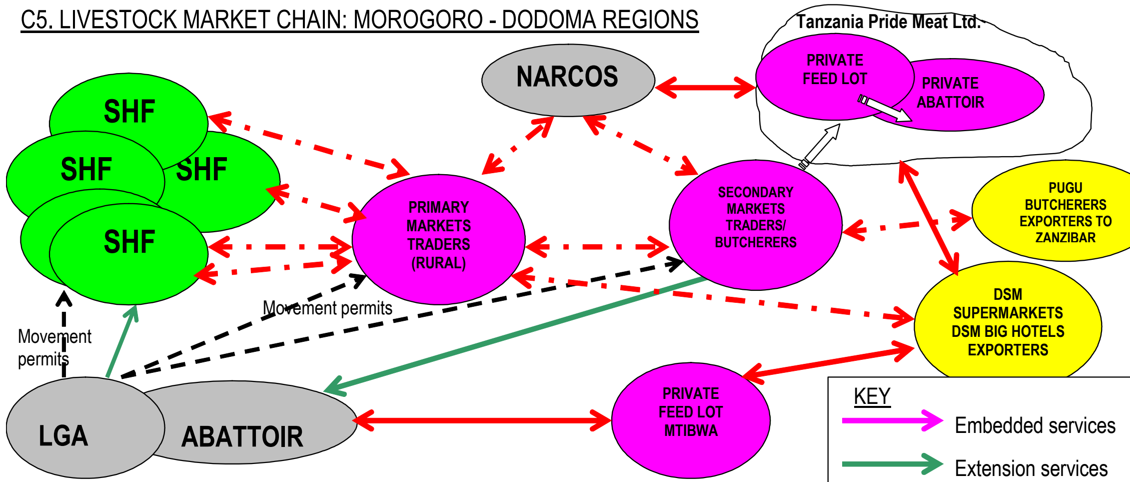


Issues

- Primary societies (PCS) are weak and serve as agents of output buyers.
- Unions and Primary societies (PCS) have no capacity (managerial and financial) to represent interests of members.
- Liberalised market for cashew gives no room for contracts.
- Government is ploughing back export levy on raw cashew to finance critical inputs which are distributed through LGAs and PCS.
- Farmers registration is missing – bring all the issues of traceability and distribution of critical inputs.

CATEGORY C: PRIVATE SECTOR EXPORT LED SCHEMES

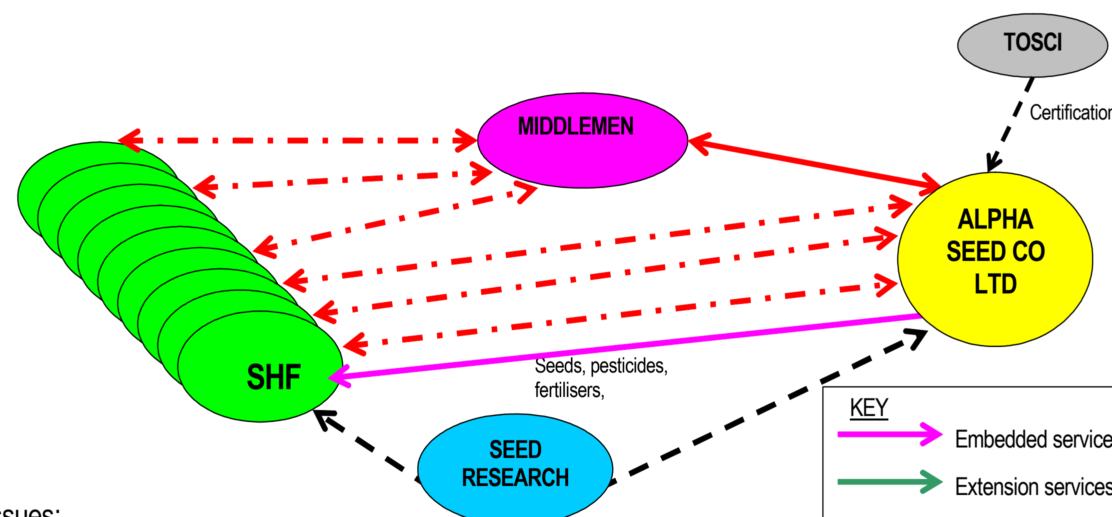
C5. LIVESTOCK MARKET CHAIN: MOROGORO - DODOMA REGIONS



Issues:

- Feed lots improve the quality of beef to export standards.
- Most of the cattle going through this route are destine for export and up market
- Smallholder farmers (SHF) are selling their cattle at primary markets – no contracts, no auctions.

C6. VEGETABLE SEED FARMING – ALPHA SEED MODEL – ARUMERU ARUSHA REGION

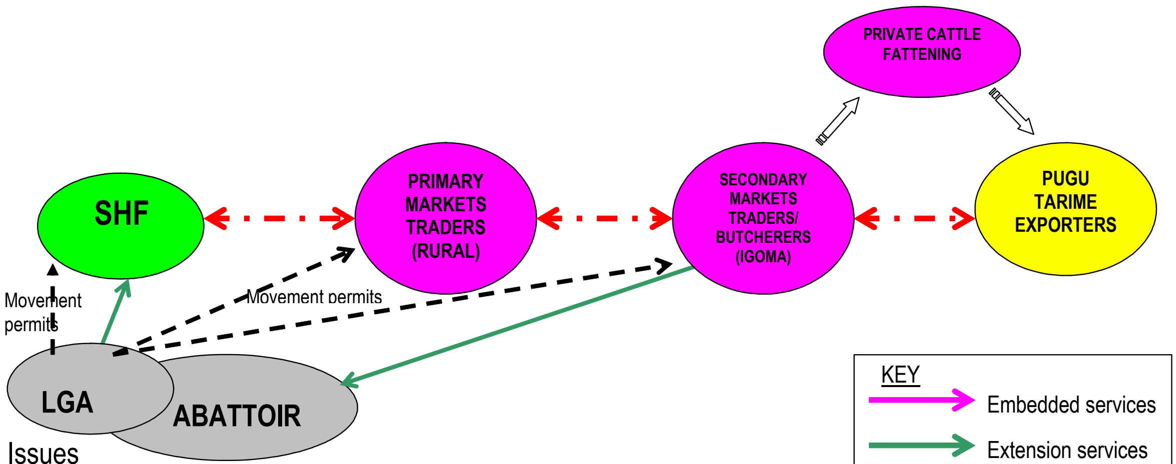


Issues:

- Alpha Seed Co Ltd active in Kikwe Ward Maweni village since 1994.
- Farmers decided to form groups but were not successful – price is set by Alpha Seed.
- Sale agreements are fairly informal but both parties keep records and Alpha Seed pay farmers by cheques.
- During payment, Alpha Seed deducts all services charges (seeds, pesticides, fertilisers, etc).
- Some traders have formal contracts with Alpha Seed but because they are not farmers they subcontract
- Neighbouring village (Manyire) farmers are better organised but seed companies don't work there.

CATEGORY D: SMES LOCAL-REGIONAL MARKET LED SCHEMES

D1. LIVESTOCK MARKET CHAIN: MWANZA REGION

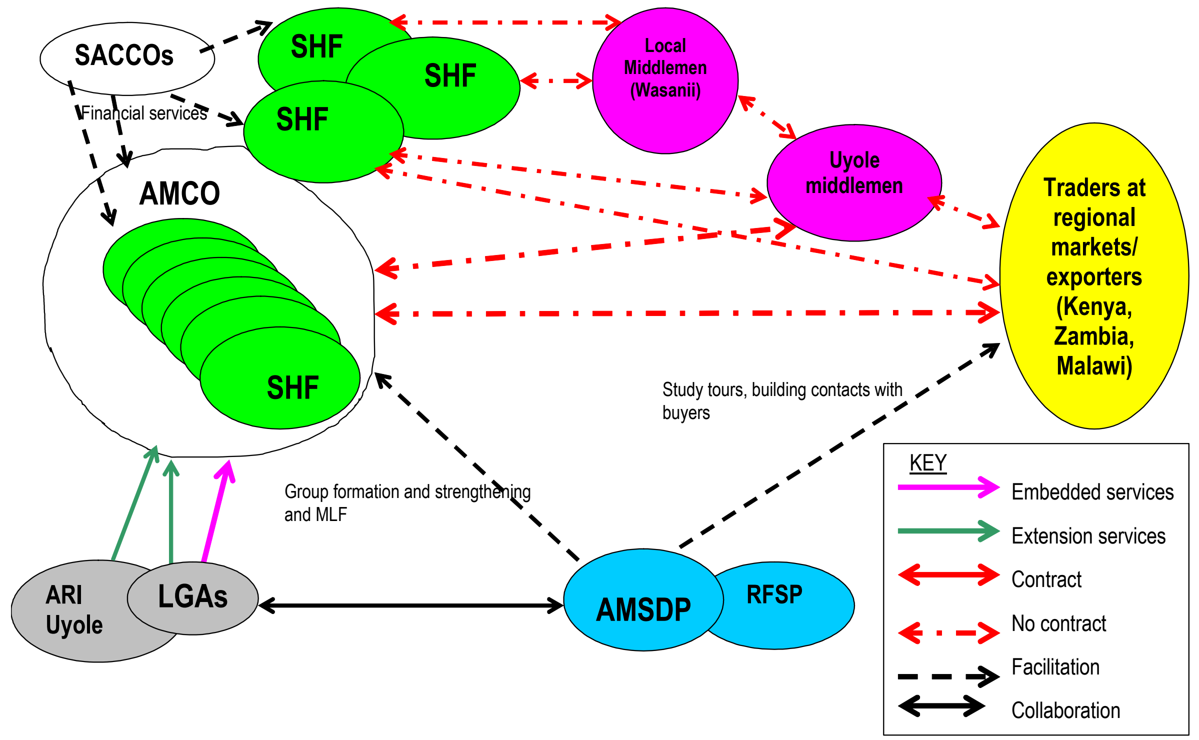


Issues

- Cattle fattening facilities located in residential areas (inappropriately located)
- Absence of grazing areas, adequate water supply and adequate extension service
- Feed regime (use of cotton seed cake and cotton husk only) – available raw materials
- Lack of reliable transport to DSM (Pugu) and export market
- Verbal/sales agreements exist but no 'repeat selling' to one client.
- SHF selling poor quality animals at very low prices i.e. buying say at TShs 100,000 and after 4 months selling
- At TShs 200,000 – TShs 400,000 (Zibu up TShs 300,000 Ankole up to TShs 400,000 ex-Mwanza); but cost 80,000.
- Markets Pugu - 75% (DSM, Zanzibar and Comoro), Tarime (Magina, Kenya) – 15%, Local (Mwanza city) - 10%
- Local market absorbs inferior quality cattle and those which go through feed lots are targeting Pugu and export markets.
- Traders associations are weak (UWAMI – Umoja wa Wanenepeshaji wa Mifugo Mwanza and MWACIBA – Mwanza City Butcherers' Association)
- Abattoir incomplete and missing key equipment i.e. stunning equipment, processing equipment of cattle by-products, etc
- If completed and equipped, Mwanza city abattoir could process beef for export market (currently, the abattoir is idle after 8.00am after finished slaughtering cattle for local market
- No auctions – fear of taxation, robbery, chances of curtail deals, dominance of the middlemen/brokers

CATEGORY D: SMES LOCAL-REGIONAL MARKET LED SCHEMES

D2. ROUND POTATOES – MBEYA URBAN + RURAL

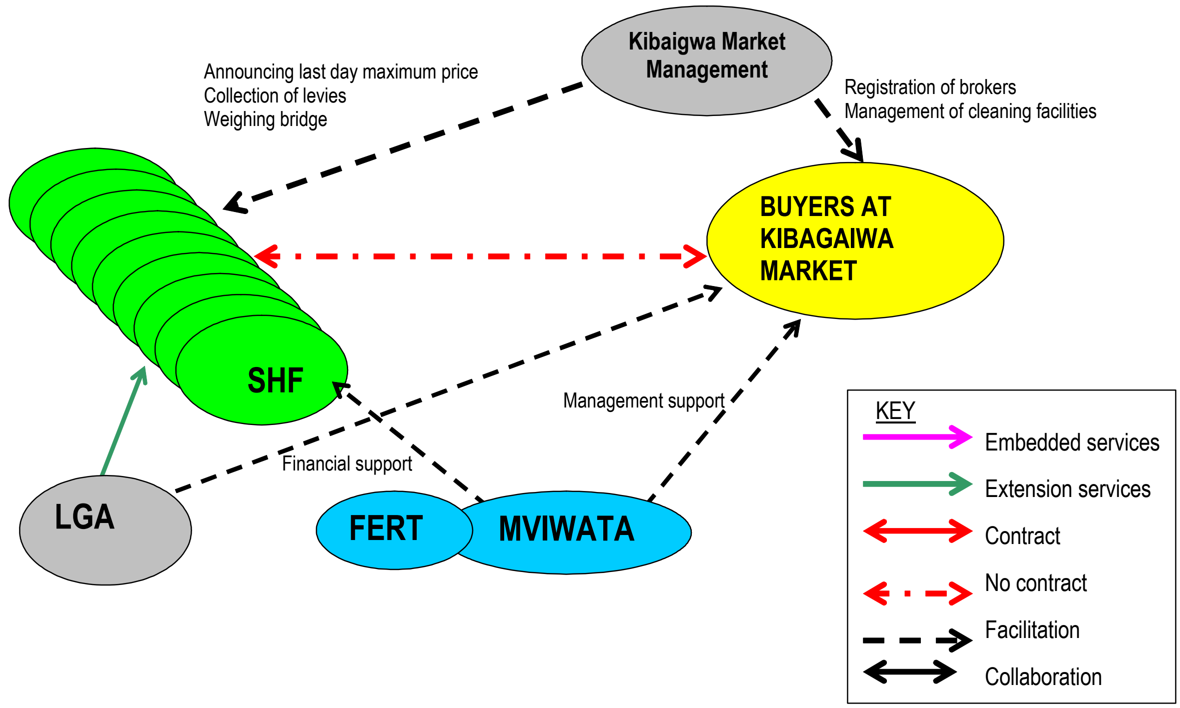


Issues

- When round potatoes yield is low during dry season other regions harvests flood markets and Mbeya potatoes get very low price and SHF sell to wasanii or Uyole middlemen; during this dry season cabbage is the lead crop and farmers put less efforts to look for markets for their round potatoes
- When round potatoes yield is very high this coincides with high demand in regional markets especially Dar es Salaam because other regions (Iringa and Arusha) who depends on rain fed agriculture don't have water; during this season farmers have enough volumes to contact regional buyers directly especially Dar es Salaam, Zambia, Kenya and Malawi.
- Organised farmers (Urafiki, Umoja ni Nguvu in Mbeya Rural and Uyole Irrigation groups of Mbeya city council, etc.) are getting better deals compared to individuals.
- AMSDP and RFSP support Mbeya rural farmers and farmers groups and not Mbeya city council
- Presence of strong SACCOs has improved SHF access to financial services. SACCOs give loans to individual farmer members and farmers' organisations. UWAMU is one of the strongest SACCO in Mbeya regions, registered in 2003 but now with 610 members and 635 client base i.e. non members with saving accounts. Last year UWAMU issued over TShs 870 millions with repayment rate of over 95%.
- This model could give better results if farmer organisations (AMCOs) should work backward from market demand analysis and even go for strategic collaboration with processors.

CATEGORY D: SMES LOCAL-REGIONAL MARKET LED SCHEMES

D3. MAIZE FARMING – KIBAIGWA INTERNATIONAL MARKET MODEL DODOMA REGION

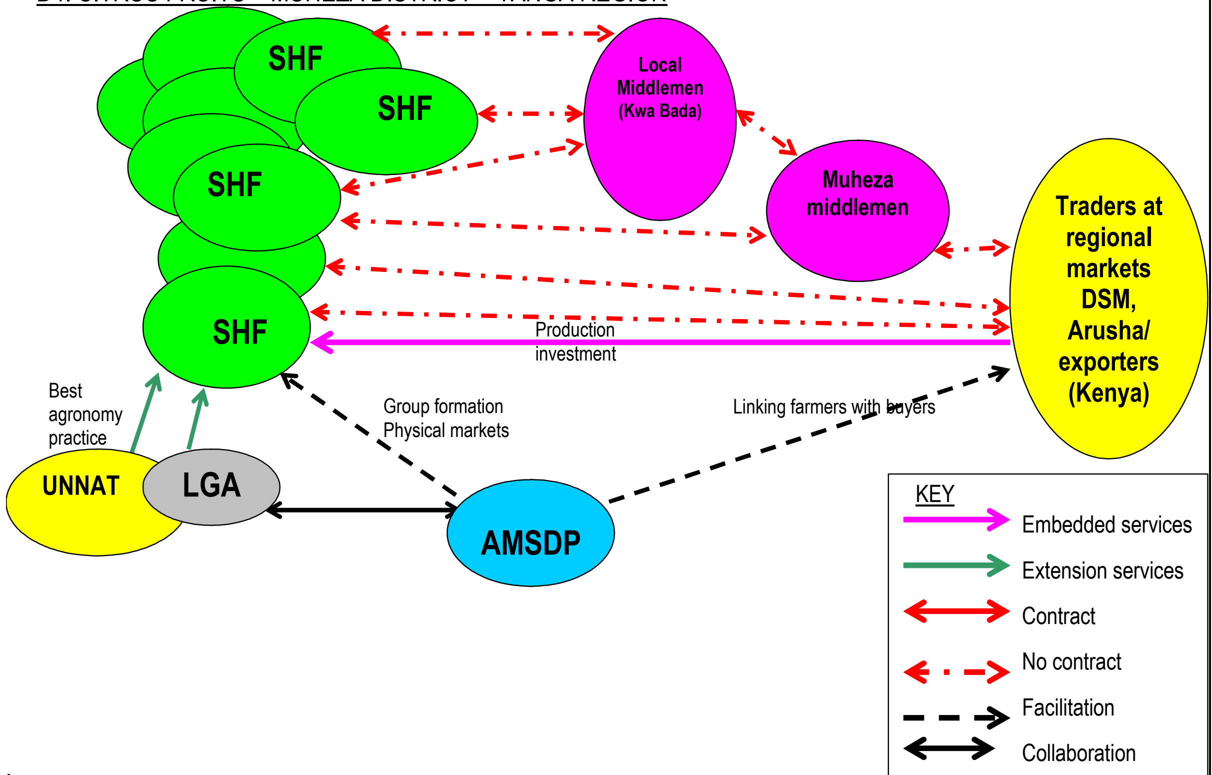


Issues

- No contractual arrangements exist – only spot transaction activities; however, there is pricing information dissemination.
- Kibaigwa plans to start warehousing receipting facility – grain bank if funding will be available
- Broker is paid by buyers per kilograms sold
- Farmers are not organised in groups/organisations despite presence of a strong trader dominated SACCO at Kibaigwa
- Kibaigwa has limited processing and post harvest handling (absence of drying facility, de-stoner, cleaning machines, moisture contents measuring equipment, etc)
- Economic vibrancy of Kibaigwa is triggered by presence of Kibaigwa market

CATEGORY D: SMES LOCAL-REGIONAL MARKET LED SCHEMES

D4. CITRUS FRUITS – MUHEZA DISTRICT – TANGA REGION



Issues

- Smallholder farmers (SHF) know local middlemen most and thus they trust them. They find it difficult to work with Muheza or Dar es Salaam middlemen.
- Some farmers have however managed to bypass local middlemen and sell directly to Muheza based middlemen. Others have even sold directly to Dar es Salaam buyers and exporters to Kenya.
- Most farmers who sell directly to Dar es Salaam buyers are sometimes receiving financial support during production (production investment).
- Typically at the beginning of the season local middlemen pay TShs 12 per orange, at Muheza at TShs 15 and in Dar es Salaam TShs 20.
- AMSDP support Muheza district farmers by building physical market at Mtindiro and strengthening farmers organisations.
- UNNAT is fruit processing establishment due to operate from Morogoro and currently identifying collection centres in Muheza district. UNNAT also is currently raising awareness to farmers on proper harvesting and post harvest handling of citrus fruits. The intention of UNNAT is to source its fruit from the district once it starts operations.
- Farmers at Kwa Bada are trying to get organised Kwa Bada Farmers Association (KFA) but their association is weak and they don't have SACCO.

Appendix 2: List of validation workshop participants

CONTRACT FARMING STUDY – VALIDATION DISCUSSION

COURTYARD HOTEL, DAR ES SALAAM – 27 TH JULY 2006.

LIST OF PARTICIPANTS

NO.	FULL NAME	TITLE/ DESIGNATION	ORGAZANIZATION	ADDRESS	TELEPHONE NO.	FAX NO.	E-MAIL
1	Maria Ijumba	General Manager	Faida Mali (Market Link Company)	P.O. Box 13869, Arusha	077 - 2503549; 027 254 4459	027 2504080	maria.ijumba@faidamarketlink.or.tz
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3	Geoffrey Kirenga	Assistant Director, - Crop Promotion	Ministry of Agriculture Food & Coop.	P.O. Box 9192, Dar es Saalam	022 286 4899 0744 30781	022 286 4899	cps@kilimo.go.tz; geofrey.kirenga@kilimo.go.tz
4	Edward D. Ulicy	EXTENSION S.P	Private Sector	P.O. 150, Hai	0784 273265	027 2756125	ulicy@elect.org
5	Abbas A. Rehani	For DALDO - Morogoro	Morogoro District Copuncil	P.O. Box 747, MOROGORO	0755 - 861150		abbasirehani@yahoo.com
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